

**STADIUM AUTHORITY OF THE CITY OF PITTSBURGH
Pittsburgh, Pennsylvania**

Financial Statements and Supplementary Information

For the Year Ended March 31, 2017

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

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Independent Auditor's Report

To the Members of the Board of the
Stadium Authority of the City of Pittsburgh
Pittsburgh, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Stadium Authority of the City of Pittsburgh, which comprise the statement of net position as of March 31, 2017 and the related statements of revenues, expenses, and change in net position and cash flow for the year ended, and the related notes to the financial statements, which collectively comprise Stadium Authority of the City of Pittsburgh's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Stadium Authority of the City of Pittsburgh's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Stadium Authority of the City of Pittsburgh as of March 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 audit 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.

Cameron Professional Services Group, LLC
Pittsburgh, Pennsylvania

August 1, 2017

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARCH 31, 2017

As management of the Stadium Authority of the City of Pittsburgh (**Authority**), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the fiscal years ended March 31, 2017 and 2016. This Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues and activities. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- Net position as of March 31, 2017 is better than the prior year by \$3.3 million. Net investment in capital asset increased \$4.8 million due to the construction of the Gold 1 Garage, and issuance of a construction loan for that project while restricted for capital activity decreased \$1.3 million. The Authority's total cash and cash equivalents balance (Note 3) at the close of the 2017 fiscal year was \$14.9 million, representing a \$3.6 million increase over the prior year-end. The liabilities of the Authority increased \$17.4 million due primarily to the issuance of the \$15 million construction note.
- The Authority recognized \$7.6 million in restricted and unrestricted operating revenues for the calendar year 2017, generated mostly from parking revenues from the West General Robinson Street (WGRS) garage and the Authority's North Shore lots.
- As shown on the Statements of Revenues, Expenses, and Changes in Net Position, total Authority operating revenues (\$7.6 million), net of operating expenses (\$4.1 million), resulted in a \$3.5 million operating surplus. This amount includes depreciation and amortization expenses of \$861,000.

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Management's Discussion and Analysis

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial report, which is comprised of a single enterprise fund. The following is a brief history of the Stadium Authority of the City of Pittsburgh and its role today in the development of the North Shore.

The Authority was formed by the City of Pittsburgh (**City**) on March 9, 1964 pursuant to the provisions of the Public Auditorium Authorities Law of the Commonwealth of Pennsylvania approved July 29, 1953, P.L. 1034, as amended (recodified as the Sports and Exhibition Authority Act 16 P.S. Section 5502-A et seq.). The Authority was originally responsible for the construction and management of Three Rivers Stadium and related parking facilities. Three Rivers Stadium, which was used for baseball, football and various concert events, opened on July 16, 1970 and was demolished in February 2001. The Sports & Exhibition Authority of Pittsburgh and Allegheny County (**SEA**) constructed Heinz Field, which is leased to the Pittsburgh Steelers, and PNC Park, which is leased to the Pittsburgh Pirates, to replace Three Rivers Stadium. The Authority remains responsible for the development of the land between the football stadium and the baseball park (which area is generally called the **Option Area**).

In 2003 the Authority entered into an agreement with the North Shore Developers, L.P., a joint venture of the Steelers and Pirates, for the development of the Option Area. The Option Agreement has been amended over time including but not limited to, by documents dated December 2008, March 2009 and November 2011 (as amended, the "**Option Agreement**"). The Authority oversees this development according to the terms of the Option Agreement. The Option Area contains 12 development parcels of various sizes. The North Shore Developers, L.P. have taken down six parcels; the Equitable Resources building, the Del Monte building (2 parcels), the Hyatt Place Hotel, North Shore Place I and North Shore Place II. Six development parcels remain.

As part of the Option Area development, the Authority built the West General Robinson Street garage which opened in 2006, to provide parking for the stadium and ballpark and to replace parking that was or will be

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Management's Discussion and Analysis

eliminated with the development. The Authority also sold land for the development of Stage AE pursuant to the Steelers lease. Until all development is completed, the remaining development parcels are used as surface parking lots.

Pursuant to the team leases for Heinz Field and PNC Park and the Option Agreement, the teams earn certain surface parking lot revenue related to Heinz Field and PNC Park events. The teams receive certain event day revenues annually and certain of the event day parking revenues are placed in development funds and paid to the teams as development of the Option Area occurs.

The Authority leases additional land from the Commonwealth of Pennsylvania that is also used for surface parking. The WGRS garage and all surface lots are managed by or leased to ALCO Parking Corporation (ALCO). The lease and management agreements with ALCO with respect to the parking lots run through 2050. The management agreement for WGRS garage runs through December 31, 2026.

The SEA provides staffing and administrative services for the Authority.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statements of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash

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Management's Discussion and Analysis

flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. accrued receivables).

The *statements of cash flows* report cash and cash equivalent activities for the year resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

The net result of these activities added to the beginning of the year cash and cash equivalents balance reconciles to the cash and cash equivalents balance at the end of the year.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

Below is a summary of the net position of the Authority as of March 31, 2017.

Condensed Summary of Net Position at March 31 (in thousands)

	2017	2016
Current assets	\$ 11,512	\$ 10,744
Capital assets	23,518	23,981
Other assets	6,547	5,376
Construction in Progress	19,617	418
Total Assets	<u>\$ 61,195</u>	<u>\$ 40,519</u>
Current liabilities	\$ 31,298	\$ 1,362
Other long-term liabilities	816	13,374
Grants from the City of Pittsburgh	22,775	22,775
Total Liabilities	<u>\$ 54,889</u>	<u>\$ 37,511</u>
Net investment in capital assets	\$ 15,134	\$ 9,929
Restricted for capital activity/debt service	11,979	13,208
Unrestricted	(20,808)	(20,129)
Total Net Position	<u>\$ 6,305</u>	<u>\$ 3,008</u>

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Current assets include cash, investments, and receivables from parking operations. Current assets increased \$769,000 over 2016. Other assets include \$1.3 million in development funds for the Steelers, Pirates and Stadium Authority. Steelers and Pirates development funds are held and paid upon the development of parcels in the Option Area. An Authority development fund is held to facilitate the construction and financing of parking garages on the North Shore. (All development funds collectively referred to herein as the **development funds**.) Other assets also include \$5.2 million in the debt service reserve account for the 2012 garage financing, and in loan proceeds for the construction of the Gold 1 garage.

Liabilities increased \$17.4 million in 2017. Current liabilities include accounts payables on capital projects including the WGRS garage and the Gold 1 garage. In April 2016 the Authority issued \$15 million in Long Term notes to fund the Gold 1 garage construction. This, along with a 2012 PNC/Dollar loan, comes due May 1, 2017 thereby all becoming the current portion of long-term debt. Other long-term liabilities include continued principal payments for the IDP loan.

Net Position increased from \$3 million in 2016 to \$6.3 million in 2017, a \$3.3 million increase. The Net Position reports the amount of discretionary assets that an organization has to meet its obligations and is composed of Net Investment in Capital Assets, Restricted for Capital Activity and Debt Service and Unrestricted (discretionary revenues).

- Net investment in capital assets reflects the Authority's capital assets net of related debt (\$15.1million). Investment in capital assets includes fixed assets net of depreciation, loans payable and construction in progress.

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- Restricted for capital activity/ debt service has decreased \$1.2 million over last year and includes pledged parking revenues for loans, debt service reserve for loans, and development funds for the Authority and teams.
- The unrestricted portion of net position has a deficit of \$20.8 million. This is a direct result of recording almost \$23 million in grants payable to the City from 1965 to 1994 for operation of Three Rivers Stadium. The City does not include this \$23 million as a receivable on its financial statements, a payable unlikely to ever be repaid.(see Note 9)

Condensed Summary of Revenues, Expenses and Changes in Net Position at March 31 (in thousands)

	2017	2016
Operating Revenue	\$ 7,591	\$ 7,532
Operating Expenses		
Operating and Maintenance	\$ 2,421	\$ 2,218
General and Administrative	788	752
Depreciation	861	821
Total Operating Expenses	<u>\$ 4,070</u>	<u>\$ 3,791</u>
Operating Income/(Loss)	\$ 3,521	\$ 3,741
Non-operating Revenues/(Expenses)		
Capital Transferred to the SEA	16	(16)
Development Fund Expense	(240)	(189)
Total Non-operating Revenues/(Expenses)	<u>\$ (225)</u>	<u>\$ (205)</u>
Increase/Decrease in Net Assets	\$ 3,297	\$ 3,536

The Authority's operating revenues are derived from parking revenues from the WGRS garage and various Authority parking lots which were \$59k greater than in 2016.

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The Sports & Exhibition Authority, a related entity of the Authority, holds outstanding debt on the North Shore Garage and the Convention Center Garage which are secured by, among other things, net revenues from the WGRS garage and various Authority lots. For the year end March 31, 2017, the SEA was able to cover the debt service on the SEA loans (reducing demand for the Authority parking revenues).

All parking revenues are fully restricted for purposes of repaying the 2010/2012/2016 SEA/Authority's PNC Bank/Dollar Bank loans described fully in Note 8.

Operating and administration expenses are primarily related to the parking operations, reimbursement to the SEA for administration expenses, insurance, consulting expenses relating to the take down of the Option Area parcels, amortization and depreciation and interest expense on the Authority's garage financings. Operating expenses are \$278k more than last year due to increased depreciation, increased interest expense related to the loans and increased parking tax, security and other parking expenses related to increased parking at WGRS garage and stadium lots.

Non-operating revenues (expenses) are primarily money transferred to/from the SEA in accordance with the pledge to support debt service per the PNC/Dollar loan agreements (none of which was needed in fiscal 2017 to actually pay debt) and payments to the teams from the development funds. The Authority's operating surplus was \$3.3 million in fiscal year 2017 (before debt service principal payment).

Debt Administration

Long-term debt of the Authority outstanding as of March 31, 2017 is comprised of various loans payable. The Authority issued the PNC Bank/Dollar Bank fixed and variable rate loans in February, 2012 to refinance the ERECT Fund and Strategic Investment Fund (SIF) loans originally obtained to fund the construction of the WGRS garage. At the time of the refinancing, the ERECT Fund loan interest rate was 7% and the SIF fund interest rate was 6.5%. The PNC/Dollar fixed rate loans have a 3.8% interest rate and the PNC Bank Variable Rate Loan

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interest was calculated at 70% of LIBOR plus 195 basis points which was 2.54 % as of March 1, 2017. The variable rate portion (\$2,462,500) was paid off in September 2015. These loans, by their terms, expired May 1, 2017. (Future Events that will Financially Impact the Authority describes the refinancing of these notes.)

The Authority entered into a credit agreement in April 2016 of up to \$15 million for construction of the Gold 1 Garage. \$14.6 million was drawn as of March 31, 2017. This loan also expires May 1, The Authority will refinance the loans expiring May 1, 2017 in a joint financing with the SEA. (See "Future Events that will Financially Impact The Authority" below.)

When construction of the WGRS garage began in 2005, the Authority received a \$1,250,000 Infrastructure Development Program loan with an interest rate of 2% from the Commonwealth of Pennsylvania, Department of Community and Economic Development (DCED) to be paid over 20 years. On March 31, 2017, \$83,378 of principal and interest was paid in debt service.

Economic Factors

Certain factors were considered in preparing the Authority's budget for the 2018 fiscal year ending March 31, 2018. North Shore LRT will continue to have a positive impact on North Shore parking. North Shore Developers, L.P are expected to close on an additional parcel of property by September 1, 2017 per a letter agreement regarding the Option Agreement dated November 22, 2016. Construction of Gold 1 parking garage will be completed and the facility will begin operations in May 2017.

Future Events that will Financially Impact the Authority

As stated previously, per the Option Agreement initially there were twelve parcels of property to be developed on the North Shore with six remaining to be developed. Per the Option Agreement one of the remaining parcels is to be taken down by September 1, 2017 and a second remaining parcel is to be taken down by May 31, 2018. Thereafter, the remaining parcels may be taken down for development until May 31, 2021. With each take down

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of property, the amount of surface parking will decrease which will have an impact on the amount of Authority parking revenues.

The Authority and the SEA's PNC Bank/Dollar Bank fixed rate loans have a 20 year amortization and a 63 month term that expires May 1, 2017. On May 1, 2017 (the end of the terms), the loans were refinanced and the Authority issued a \$17,299,100 PNC/Dollar Variable Rate Term Note, and a \$9,314,900 PNC/Dollar Variable Rate Term Note each with a one year term. The Authority and SEA plan on refinancing these notes with fixed rate bonds prior to the end of the one year term (see Note 8).

WGRS garage is in its 10th year of operations. ALCO has provided a 10 year capital project budget identifying \$2 million in capital projects over that time period. The Authority continues to plan for funding these future capital projects as the facility ages.

Contacting the Authority's Financial Management

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Sports & Exhibition Authority, 171 Tenth Street, 2nd Floor, Pittsburgh, PA 15222.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statements of Net Position

March 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$1,957,356	\$2,215,974
Restricted – cash and cash equivalents	7,724,039	6,520,416
Receivables:		
ALCO Parking	157,284	44,897
Other receivable	1,659,802	1,951,849
Interest receivable	4,235	898
Prepaid insurance	<u>10,113</u>	<u>9,937</u>
Total Current Assets	<u>11,512,828</u>	<u>10,743,971</u>
Noncurrent assets:		
Debt service reserve/loan collateral	5,217,468	2,565,354
Development fund	1,329,509	2,810,232
Capital assets, net	23,518,305	23,981,440
Construction in progress	<u>19,616,659</u>	<u>418,455</u>
Total Noncurrent Assets	<u>49,681,941</u>	<u>29,775,481</u>
Total Assets	<u>\$61,194,769</u>	<u>\$40,519,452</u>

See the accompanying notes to the financial statements

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Statements of Net Position, Continues

March 31, 2017 and 2016

Liabilities

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable and accrued expenses	\$4,041,071	\$635,176
Accrued interest payable	72,527	49,192
Current portion of long-term debt	<u>27,184,792</u>	<u>677,528</u>
Total Current Liabilities	31,298,389	1,361,896
Long-term loans payable	816,004	13,374,153
Three Rivers Stadium Grant – City of Pittsburgh	<u>22,775,168</u>	<u>22,775,168</u>
Total Liabilities	<u>54,889,561</u>	<u>37,511,217</u>
Net position:		
Net investment in capital assets	15,134,168	9,929,759
Restricted for capital activity and debt service	11,978,739	13,208,466
Unrestricted	(20,807,699)	(20,129,990)
Total Net Position	<u>6,305,208</u>	<u>3,008,235</u>
Total Liabilities and Net Position	<u>\$61,194,769</u>	<u>\$40,519,452</u>

See the accompanying notes to the financial statement

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH
 Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues - restricted:		
Parking	\$7,552,730	\$7,525,307
Interest	<u>38,506</u>	<u>6,715</u>
Total operating revenues	<u>7,591,236</u>	<u>7,532,022</u>
Operating expenses:		
Salary reimbursement	47,566	47,566
Administrative	111,769	101,112
Operations and development	2,421,076	2,218,230
Insurance	40,274	39,672
Interest	587,802	563,201
Amortization and depreciation	<u>861,116</u>	<u>821,318</u>
Total operating expenses	<u>4,069,603</u>	<u>3,791,099</u>
Operating surplus (loss)	<u>3,521,633</u>	<u>3,740,923</u>
Non-operating revenues (expenses):		
Capital transferred (to) from the Sports & Exhibition Authority	15,605	(15,602)
Development fund expenses	<u>(240,267)</u>	<u>(188,602)</u>
Total non-operating revenues, net	<u>(224,662)</u>	<u>(204,204)</u>
Change in Net Position	3,296,971	3,536,719
Net Position beginning of year	<u>3,008,235</u>	<u>(528,484)</u>
Net Position end of year	<u>\$6,305,206</u>	<u>\$3,008,235</u>

See accompanying notes to the financial statements.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statement of Cash Flows

For the Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Parking	\$7,440,343	\$7,450,716
Other	292,047	(348,119)
Interest	<u>35,169</u>	<u>6,104</u>
Total receipts	7,767,559	7,108,701
Salaries	(47,566)	(47,566)
Administrative	(111,769)	(101,112)
Operations and development	586,666	(1,722,258)
Insurance	(40,274)	(39,747)
Total cash provided by operating activities	<u>8,154,616</u>	<u>5,198,018</u>
Cash flows from capital and related financing activities:		
Principal payments of long-term debt	13,949,115	(3,189,335)
Receipts/(payments) from/to SEA	15,605	(15,602)
Interest paid on long-term debt	(564,467)	(569,955)
Net cash provided/ used in capital and related financing	<u>13,400,253</u>	<u>(3,774,892)</u>
Cash flows from investment activities:		
(Deposits) withdrawals to development funds	1,480,723	(284,074)
Purchase of CIP	(19,198,206)	(418,455)
Proceeds from fixed asset credit	0	0
Other	(240,267)	(188,602)
(Deposits) withdrawals to reserve loans	<u>(2,652,114)</u>	<u>(19,315)</u>
Net cash used in investment activities	(20,609,864)	(910,446)
Net increase in cash and cash equivalents	<u>945,005</u>	<u>512,680</u>
Cash and cash equivalents at beginning of year	<u>8,736,390</u>	<u>\$8,223,710</u>
Cash and cash equivalents at end of year	<u>\$9,681,395</u>	<u>\$8,736,390</u>
Total cash and cash equivalents consists of:		
Unrestricted cash and cash equivalents	\$1,957,356	\$2,215,974
Restricted cash and cash equivalents	<u>7,724,039</u>	<u>6,520,416</u>
Total cash and cash equivalents	<u>\$9,681,395</u>	<u>\$8,736,390</u>

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Statement of Cash Flows, continued

For the Years Ended March 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Operating profit (loss)	\$3,521,633	\$3,740,923
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization/depreciation	463,139	821,318
Interest on debt	587,802	563,201
Changes in operating assets and liabilities:		
Receivable - ALCO Parking	(112,387)	(74,591)
Other receivables	292,047	(348,119)
Accounts payable and accrued expenses	3,405,895	495,975
Prepaid insurance	(176)	(78)
Interest receivable	<u>(3,337)</u>	<u>(611)</u>
Total cash provided by operating activities	<u>\$8,154,616</u>	<u>\$5,198,018</u>

See accompanying notes to the financial statements.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements

March 31, 2017

(1) **Organization**

The Authority was formed by the City of Pittsburgh (**City**) on March 9, 1964 pursuant to the provisions of the Public Auditorium Authorities Law of the Commonwealth of Pennsylvania approved July 29, 1953, P.L. 1034, as amended (recodified as the Sports and Exhibition Authority Act 16 P.S. Section 5502-A et seq.) to provide increased commerce and prosperity, and to promote educational, cultural, physical, civic, social and moral welfare to the general public. Current documentation provides for the term of the Authority to run to December 31, 2028.

The Authority was responsible for the management of Three Rivers Stadium located in the City of Pittsburgh. Three Rivers Stadium was home to the Pittsburgh Pirates (Pirates) and Pittsburgh Steelers (Steelers) professional sports teams and was also utilized for various concerts and other events until it was razed in February 2001. Subsequent to the razing of Three Rivers Stadium, the Authority has been responsible for the development of the land between the newly constructed stadium and ballpark (See Note 5). A portion of that land was conveyed to the Sports & Exhibition Authority of Pittsburgh and Allegheny County (SEA) for construction of infrastructure. The remaining land was retained by the Authority to be developed according to a master development plan. The Authority entered into the Option Agreement with a joint venture of the Steelers and Pirates for the development of a significant portion of that land. The Authority has constructed one with a second public parking garage under construction on a portion of the land. Pending development the land is used for surface parking.

The Authority is reported as a discretely presented component unit in the City's financial statements. The Authority's component unit status is due to the City's appointment of Authority Board members. The board of directors (Board) of the Authority is appointed by the Mayor of the City. The Board is responsible for the management of the properties and business of the Authority.

An Administrative Services Agreement was entered into in November 2002 between the Authority and the SEA whereby the SEA staff performs all administrative services required for the Authority to fulfill its duties and obligations. The Authority reimburses the SEA certain expenses on a year-by-year basis. The SEA has a separate board that is appointed by the Mayor of the City of Pittsburgh and the County Executive of Allegheny County.

(2) **Summary of Significant Accounting Policies**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America applicable to governmental units and promulgated by the Governmental Accounting Standards Board (**GASB**).

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Notes to the Financial Statements, continued

March 31, 2017

(2) Summary of Significant Accounting Policies, continued

The Authority is considered a special purpose government engaged in business-type activities, and as such, presents the financial statements required for enterprise funds. A summary of the Authority's more significant accounting policies applied by management in the preparation of the accompanying financial statements follows:

(a) Basis of Accounting and Measurement Focus

The Authority's financial statements are prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred. All assets and all liabilities associated with the operations of the Authority are included on the statements of net position. The statements of revenues, expenses, and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in the Authority's net total assets.

Classification of Net Position

Accounting standards require the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- Restricted for capital activity and debt service – This component of net position consists of net assets that have constraints on use from external restrictions, reducing liabilities related to those assets.
- Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted for capital activity and debt service” or “net investment in capital assets.”

(b) Management Estimates

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

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Notes to the Financial Statements, continued

March 31, 2017

(2) **Summary of Significant Accounting Policies, continued**

(c) **Revenues**

The Authority's operating revenues consist of parking revenues from the WGRS garage and various Authority parking lots. Non-operating revenues consist primarily of funds transferred to/from the SEA per the various loan agreements (Note 8). When both restricted and unrestricted resources are available, the Authority's policy is to use restricted resources first, then unrestricted as needed.

(d) **Cash and Cash Equivalents**

The Authority considers all investments acquired with an original maturity of 180 days or less to be cash equivalents.

(e) **Restricted Assets**

Restricted assets include the portion of the development funds that are from net parking revenue deposits. The funds can only be used for certain eligible expenses as outlined in the Option Agreement.

Restricted assets also include the capital reserve accounts for the WGRS garage and the Authority lots, and the debt service reserve account and accounts relating to the WGRS garage financing.

(f) **Pending Pronouncements**

GASB has issued the following statements that will become effective in future years as shown below. Management has not yet determined the impact of these statements on the Authority's financial statements:

GASB Statement No. 83, "*Certain Asset Retirement Obligations*," effective for fiscal years beginning after June 15, 2018 (the Authority's financial statements for the year ending March 31, 2019). This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

GASB Statement No. 84, "*Fiduciary Activities*" effective for fiscal years beginning after December 15, 2018 (the Authority's financial statements for the year ending March 31,

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

2019). The requirements of this statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

GASB Statement No. 87, "*Leases*" effective for fiscal years beginning after December 15, 2019 (the Authority's financial statements for the year ending March 31, 2020). This statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. accountability and stewardship.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(3) **Cash and Cash Equivalents**

The Authority's policy is to maintain all cash deposits in qualified public depositories and is authorized to invest in securities of the United States government, other instruments that are collateralized by United States government securities, repurchase agreements subject to certain restrictions and other debt instruments (e.g., INVEST) set forth by the office of the State Treasurer of the Commonwealth of Pennsylvania (**Commonwealth**). These types of investments are held by the purchasing bank in the Authority's name. The Authority's investment activities are governed by the Commonwealth and certain loan agreements.

The following is a summary of the fair value of the Authority's cash and cash equivalents at March 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Unrestricted cash and cash equivalents:		
Cash	\$ 372,799	\$ 635,513
Government funds	870,620	866,878
Certificate of deposit	<u>713,906</u>	<u>713,583</u>
Total	<u>\$ 1,957,325</u>	<u>\$ 2,215,974</u>
Restricted cash and cash equivalents:		
Cash	\$ 2,677,308	\$ 2,994,041
Money market funds	5,217,468	2,565,354
Government funds	<u>5,046,730</u>	<u>3,526,375</u>
Total	<u>\$ 12,941,507</u>	<u>\$ 9,085,770</u>

Interest Rate Risk – Although the Authority does not have a formal investment policy, it limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All Authority investments have short term maturities.

Credit Risk – The Authority is subject to credit risk on certain investments. The maximum amount of loss the Authority would incur, if any, if the parties failed to perform on their obligation is limited to the amount recorded in the financial statements. The Authority does not hold any type of collateral on these investments.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one institution. Currently the Authority maintains its cash and cash equivalent balances at three financial institutions; two are FDIC insured banks and the third is at PA Invest (a Commonwealth program that provides highly rated investment pools designed specifically for local government and nonprofit groups). At FDIC insured banks, accounts are fully insured up to \$250,000 per institution which constitutes federally insured funds. The excess funds are secured with a pledge of collateral from the bank. Therefore at March 31, 2017 all of the Authority's cash and cash equivalent deposits were either insured under federal insurance programs or collateralized.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(4) Land

The Authority's balance sheet does not include any value for land owned by the Authority because its land was conveyed to the Authority for the construction of Three Rivers Stadium by the Urban Redevelopment Authority of Pittsburgh (URA) at no cost.

Pursuant to the Option Agreement approximately 400,000 square feet of land between the ballpark and the stadium (the Option Area) has been or is being developed. The land was originally divided into 12 development parcels. Per the original Option Agreement the agreed sale price per square foot ranged from \$8 to \$15, for a total approximate agreed sales price value of \$4 million. The Authority sold one parcel for approximately \$500,000 in September 2003, a second and third parcel for a combined total of \$455,000 in June 2004 and a fourth parcel (plus certain additional land) for a total price of approximately \$1.2 million in December 2008. In December 2008 adjustments to the parcels were made resulting in the number of parcels being decreased from 12 to 11. In November 2011 an Amendment Agreement was signed (a) adjusting the parcels back to 12, (b) defining a takedown schedule for the remaining 8 parcels (c) providing for parking revenues to be earned on certain parcels to be used by the Authority to support the development of additional parking structures and in the absence of additional parking structures, applied to pay debt service on the WGRS garage or the SEA's North Shore Garage, and (d) providing that the sale price of the remaining land is to be based on an appraised value considering the intended use of the property. In July 2013, the fifth and sixth parcels were taken down at a combined purchase price of \$1.1 million. No parcels were taken down in the 2016 or 2017 fiscal years. A 172,000 square foot parcel outside the option area was sold in October 2008 for \$1.3 million for the entertainment center.

(5) Development Funds

In accordance with the Option Agreement, the Authority deposits certain event day parking revenues in team development funds maintained by the SEA. The team development funds are on the SEA books because the certain funding vehicles over the years (bonds and loans) required the parking revenues to be deposited with the SEA to cover debt service payments. Pursuant to the Option Agreement, these funds are transferred to the teams as development occurs.

Pursuant to amendment to the Option Agreement dated November 22, 2016, it was agreed that for the fiscal year beginning April 1, 2016 and ending March 31, 2017 all deposits to the team development funds are to be released to and for use of the Authority.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(5) Development Funds, continued

Pursuant thereto \$369,793 will be released to the Authority.

(6) Building

Property and equipment is recorded at cost. Repair and maintenance costs which do not increase the useful lives of the assets are charged to operations as incurred. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10, 15, and 40 years
Machinery and Equipment	5 years

Capital assets and accumulated depreciation consist of the following:

	<u>2017</u>	<u>2016</u>
Building	\$29,580,414	\$29,182,432
HOV improvements	2,241,369	2,241,369
Machinery/equipment	43,588	43,588
Less: accumulated depreciation	<u>(8,347,066)</u>	<u>(7,485,949)</u>
Net fixed assets	<u>\$23,518,305</u>	<u>23,981,440</u>

Depreciation expense for the year ended March 31, 2017 was \$861,116 and \$821,318 for the year ended March 31, 2016.

Changes in capital assets, net of accumulated were as follows:

	<u>March 31, 2016</u>	<u>Depreciation</u>	<u>Additions/ (Deletions)</u>	<u>March 31, 2017</u>
Building	\$21,326,968	\$(778,803)	\$ 397,981	\$20,939,545
Infrastructure	<u>2,654,472</u>	<u>(82,313)</u>	<u>0</u>	<u>2,578,764</u>
Total	<u>\$23,981,440</u>	<u>\$(861,116)</u>	<u>\$ 397,981</u>	<u>\$23,518,309</u>

HOV Improvements and Chuck Noll Way were constructed by the Authority and dedicated to and accepted by the City on June 13, 2013 as City responsibilities but continue to be reflected as Authority assets because these costs are considered an integral part of the development cost of the Option Area and, accordingly, are capitalized over the life of the projects.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(7) **Construction in Progress**

Construction in Progress totaled \$19,616,659 as of March 31, 2017 and relates to the costs of the Gold 1 garage project. Subsequent to year end, this garage was put into service on May 15, 2017.

(8) **Debt**

The WGRS garage was built and opened in 2006 in accordance with the time frame requirements of the Option Agreement. It was recognized that the garage was needed to allow for future economic development and to compensate for the reduction in supply of surface parking spaces that would result from development. In 2005 the ERECT Fund, Strategic Investment Fund (SIF) and the PA Infrastructure Development Fund loaned the Authority a total of \$21,450,000 to fund the construction of the WGRS garage. On February 14, 2012 the Authority refinanced and paid in full the \$15,319,326 outstanding of the ERECT loan and the \$2,872,452 outstanding of the SIF loan with note proceeds from a PNC Bank and Dollar Bank financing (**2012 SA Garage Financing**). A \$10,400,000 fixed rate note was issued to PNC Bank, a \$5,000,000 fixed rate note was issued to Dollar Bank, and a \$3,000,000 variable rate note was issued to PNC Bank. The variable rate note was repaid in September 2015. Outstanding balances and interest rates on each of the notes are detailed in the chart below.

In April, 2016 the Authority closed on a \$15 million loan for construction of the Gold 1 garage. The Authority issued an \$8 million PNC Bank Note and a \$7 million Dollar Bank Note (together, **2016 SA Garage Financing**) for the construction of the Gold 1 garage. By March 31, 2017 the Authority had drawn \$14,626,524 of the total \$15 million for construction.

The SEA also holds a 2010 PNC Bank/Dollar Bank Loan (**2010 SEA Garage Financing**). The Authority entered into a Collateral Assignment of Parking Revenue Agreement with the SEA in 2010 that pledged certain parking revenues from Lots 1 and 7A through 7J to help secure the 2010 SEA Garage Financing. The Authority and the SEA amended the documents related to the 2010 SEA Garage Financing to extend the pledge of certain collateral to the 2012 SA Garage Financing and again to the 2016 SA Garage Financing. As a result, the security for the three loans (2010 SEA Garage Financing, 2012 SA Garage Financing and 2016 SA Garage Financing) includes the assignment of net revenues from (1) the WGRS garage, (2) Lots 7A to 7J, (3) Lots 1 through 5, (4) the Convention Center Garage, (5) the North Shore Garage, and (6) SEA surface lots revenue.

The 2012 SA Garage Financing and 2016 SA Garage Financing require that pledged revenues at least provide 1.2 coverage of garage expenses and debt service. This covenant was met in fiscal years 2017 and 2016.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(8) Debt, continued

Balances and terms of the loans/notes payable at March 31, 2017 are as follows:

	<u>April 1, 2016</u>	<u>Principal Additions/ Reductions</u>	<u>March 31, 2017</u>
PNC Bank/Dollar Bank Fixed Rate Loan (2012 SA Garage Financing) has a 20 year amortization and a 63 month term* Principal was due on the loan beginning March 2012; interest is payable at a rate of 3.8%.	<u>\$13,105,481</u>	<u>(613,074)</u>	<u>\$12,492,525</u>
PNC Bank/Dollar Bank Variable Rate Loan (2016 SA Garage Financing) for up to \$15 million is interest only paid monthly through maturity. Loan will mature May 1, 2017.* Interest is based on 70% of one month LIBOR plus 2.0%, fluctuating daily LIBOR.	<u>\$ 0</u>	<u>\$14,626,524</u>	<u>\$14,626,524</u>
Infrastructure Development Program (IDP) (original WGRS financing) was received as a lump sum \$1,250,000 loan from PA DCED on August 22, 2005. It has a term of 20 years with a 2% interest rate. Interest payments were made semi-annually on June 1 and December 1 beginning 2009. The first principal payment was made December 1, 2011 and will be made annually thereafter. The last payment is due December 1, 2028.	<u>\$ 946,200</u>	<u>(64,454)</u>	<u>\$ 881,747</u>
Total loans/notes payable	<u>\$14,051,681</u>	<u>13,948,996</u>	<u>\$28,000,796</u>
Less current portion			<u>27,184,792</u>
			<u>816,004</u>

* The balloon principal payment on the fixed rate 2012 SA Garage Financing at the end of the 63 month term and the 2016 SA Garage Financing were refinanced May 1, 2017 with a PNC Bank \$17,299,100 variable rate term note and a Dollar Bank \$9,314,900 variable rate term note.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(8) Debt, continued

The aggregate amount of annual principal payments required on the Authority's debt for the fiscal years ending 2018 through 2028 is as follows:

3/31/18	\$27,184,792
3/31/19	67,058
3/31/20	68,399
3/31/21	69,767
3/31/22 through 12/1/2028	<u>610,781</u>
Total loans/notes payable	\$28,000,796

(9) Grants from the City of Pittsburgh

Under the terms of an agreement dated July 1, 1965, and amended on various dates through June 17, 1992, the City made total grants of \$22,775,168 to the Authority to cover the excess of the aggregate costs of operations and maintenance of Three Rivers Stadium and debt service on its bonds over the total funds available to the Authority for those purposes, to be repaid if funds are available. The City does not include the \$22,775,168 as a receivable on its audited financial statements, due to the unlikelihood of collection.

(10) Parking Operating System

The Authority owns and maintains both structured and surface parking facilities on the City's North Shore. The SEA (Note 1) also owns a parking garage and several lots located on the City's North Shore. These combined facilities provide daily commuter parking as well as event parking adjacent to the SEA's public destination venues. Per Note 8, the Authority's and SEA's combined parking revenues are cross collateralized to the extent provided for in the 2010 SEA, and the 2012 and 2016 SA Garage Financings that financed the garage facilities.

Facility	Location	Date Opened	Number of Spaces	Management or Lease agreement; date of expiration
<u>Garage</u>				
West General Robinson Street (WGRS)	North Shore	2006	1,324 (1,256 structured and 68 surface)	Management; 12/31/2026
<u>Surface Parking</u>				
Lots 1-5	North Shore	-	2,004	Lease; 3/31/2050; Management (portions of Lot 1 and 2), 3/30/2050
Lots 7A-7J	North Shore	-	1,111	Lease; 3/31/2050
Total			4,439	

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(10) **Parking Operating System, continued**

Management Agreement for the Garage

The Authority has contracted with ALCO Parking, Inc. (ALCO) to operate its WGRS garage. The arrangement is structured as a management contract. The Authority's management contract for WGRS garage expires December 31, 2026. ALCO is paid a set fee of \$48,000 per year, increased annually by 2.5%, to manage the WGRS garage.

Lease Agreement for the Lots

Certain of the Authority's surface lots are operated through a Lease Agreement ("Lease") among the Authority, the SEA and ALCO. Pursuant to the lease, the Authority and SEA lease certain parcels of land to ALCO for use as parking lots. The Lease covers the majority of Lots 1-5 (a portion of Lot 1 is under a management agreement as described herein) and Lots 7A through 7J. The original Lease term was a 40-year period, which began April 1, 1970 and ended March 31, 2010. ALCO has exercised its option to extend the term of the lease for four consecutive additional periods of 10 years each to March 31, 2050. ALCO pays to the Authority an amount equal to the greater of (i) 50% of the Parking Residual Rent of Lots 1 through 5 and 7A through 7J or (ii) 50% of the Residual Base Period Rent of Lots 1 through 5 and 7A through 7J as defined by the Lease. For calendar years 2017 and 2016, Parking Residual Rent was greater and therefore the first option above was the basis of the payment.

Management Agreement for the Lots

A portion of the surface spaces in Lot 1 are operated through a management agreement. This management agreement was entered into between the Authority and ALCO commencing July 13, 2001 and the Agreement will expire March 30, 2050. The Authority pays to ALCO a management fee of 3.5% of Net Operating Income.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(11) **PennDOT Lease**

On March 23, 1989, the Authority entered into an agreement with the Commonwealth Department of Transportation (**PennDOT**) to lease certain property near Heinz Field and PNC Park (Lots 7A to 7J) to be used for public parking. The term of the lease was 21 years. At the end of the first term (March 31, 2010) the Authority exercised its option to renew the lease for four (4) ten year terms, extending the term of the lease to March 31, 2050. The Authority expensed \$70,080 related to this agreement for each of the years ended March 31, 2017 and 2016. The rate of \$70,080 began August 2010 and PennDOT has the ability to adjust the rate every two years on the basis of a fair market rental appraisal. No notification of a rate increase has been received.

Future minimum expected lease payments due from the Authority to PennDOT are as follows (assuming no rate adjustment). Because both parties have the ability to terminate the lease by mutual consent at any time, lease requirements are identified only through the end of the first 10 year extension.

2018	70,080
2019	70,080
2020	<u>70,080</u>
	<u>\$210,240</u>

(12) **Conditional Receivable**

Pursuant to the Collateral Assignment of Parking Revenues dated April 19, 2010 between the Authority and PNC Bank and Dollar Bank, and prior thereto pursuant to the Agreement Regarding Parking Revenues certain of the Authority's parking lot revenues are pledged for debt service on the 2010 SEA Garage Financing (Note 8). Pursuant thereto, as of March 31, 2017, a total of \$9,389,782 of Authority funds were used to pay debt service on the SEA Garage Financings. These revenues are to be released to the Authority in the event of "excess pledged revenue."

At the end of the SEA's fiscal year, December 31, 2016, the SEA determined that pledged revenue from Lots 1 and 7A to 7J was not needed for the 2010 SEA Garage Financing debt service. As such, for the calendar year 2016, \$1,247,757 is to be released to the Authority. At March 31, 2017, \$170,356 was accrued for the first 3 months of the calendar year. An analysis is done monthly and the account reconciled December 31, 2017 (SEA fiscal year) to determine the excess pledged revenues, if any, to be released to the Authority after the payment of debt service on 2010 SEA Garage Financing.

STADIUM AUTHORITY OF THE CITY OF PITTSBURGH

Notes to the Financial Statements, continued

March 31, 2017

(13) **Investment in Capital Assets, Net of Related Debt**

Total net assets include an amount for investment in capital assets, net of related debt. The calculations for the years ending March 31, 2017, and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Capital assets, net	\$23,518,305	\$23,981,440
Less: loans/notes payable related to capital assets	(28,000,796)	(14,051,681)
Less: construction in progress	<u>19,616,659</u>	<u>418,455</u>
Net Investment in capital assets	<u>\$15,134,168</u>	<u>\$10,348,129</u>

(14) **Subsequent Event**

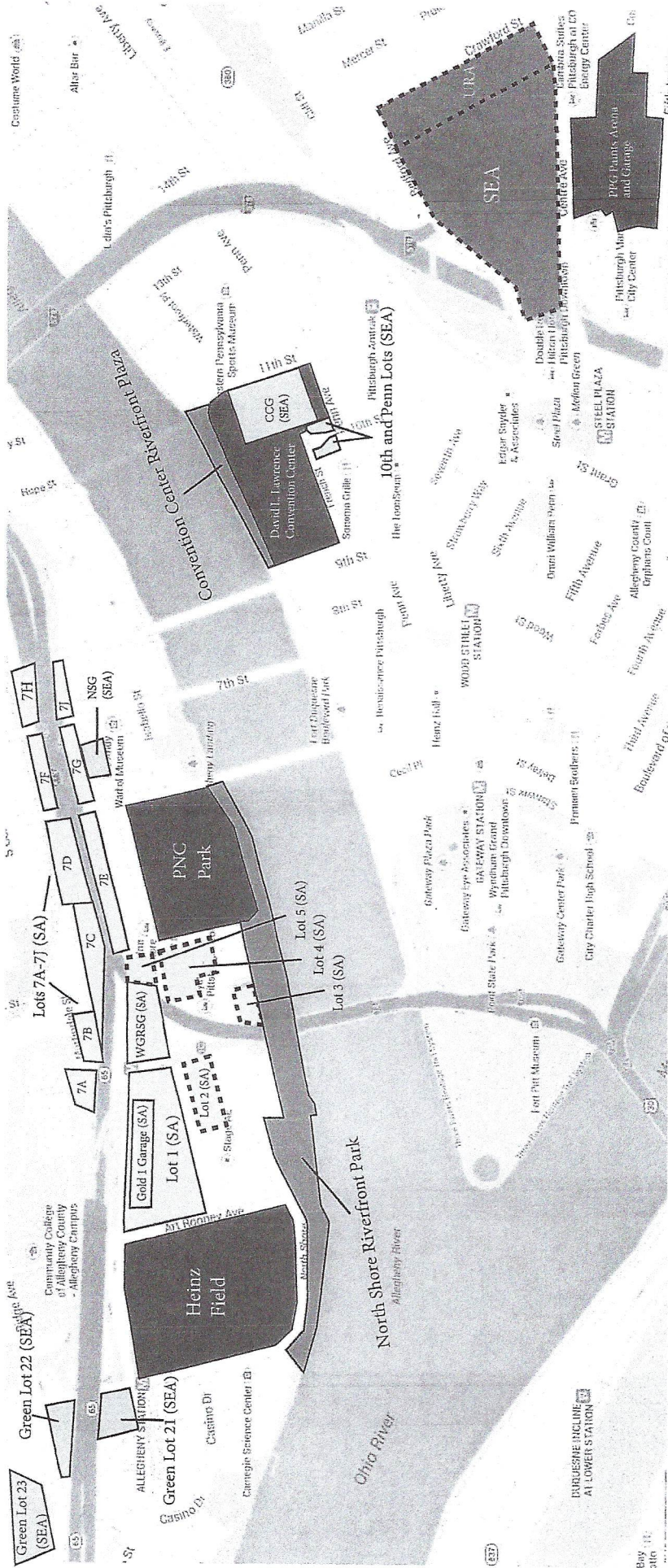
Subsequent events were evaluated through the Auditor's report date, which is the date the financial statements were available to be issued.

(1) In support of the obligations under the Option Agreement, the Authority completed constructing the new Gold 1 garage and the garage was put in service May 15, 2017. (2) The 2010 SEA Garage Financing and 2012 and 2016 SA Garage Financings all came due May 1, 2017 and on May 1, 2017 in a joint financing, the SA loans were refinanced with a PNC Bank \$17,299,100 variable rate term note, and a Dollar Bank \$9,314,900 variable rate term note and the SEA loans were refinanced with a PNC Bank \$16,650,400 variable rate term note, and a Dollar Bank \$8,965,600 variable rate term note.

No other subsequent events occurred.

Unaudited

Sports & Exhibition Authority (SEA) and Stadium Authority (SA) Property Overview Map



● Sports & exhibition facilities (owned by SEA)

○ Parking lots and garages (owned by SA): Lots 7A-7J leased long-term to SA by PennDOT; "WGRSG" refers to West General Robinson Street Garage

○ Parking lots and garages (owned by SEA): "NSG" refers to North Shore Garage; "CCG" refers to Convention Center Garage

● 28-Acre Lower Hill Redevelopment option area (19 acres owned by SEA; 9 acres currently owned by Urban Redevelopment Authority(URA); optionee is PAR, a Penguins related entity); SEA currently building road grid; Penguins currently receive surface parking revenues

○ North Shore Riverfront Park and Convention Center Riverfront Plaza (both owned by SEA)

○ Remaining North Shore option area development parcels (owned by SA, optionee is joint venture of Steelers and Pirates)(Development of Lot 3 to begin summer of 2017)