



# San Jose Arena Authority

## Memorandum

**To:** Members of the Arena Authority Board of Directors

**From:** John Veargason, Co-Chair, Facilities Committee *Con/For*  
Mark Burriss, Co-Chair, Facilities Committee

**Subject:** Recommendations on the Submittal of the HP Pavilion at San Jose and Sharks Ice at San Jose Capital Repairs and Replacements Budgets for Fiscal Year 2011-2012

**Date:** March 14, 2011

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On February 15<sup>th</sup> and March 10<sup>th</sup> the Arena Authority Facilities Committee convened with representatives from the City of San Jose and HP Pavilion Management to review and address the Fiscal Year 2011-2012 capital budget submittals for HP Pavilion at San Jose and Sharks Ice at San Jose. As a result, the Facilities Committee is advising that the Arena Authority Board of Directors consider the following capital budget recommendations for Fiscal Year 2011-12:

### HP Pavilion at San Jose

(1) That the Capital Repairs and Replacements budget for Fiscal Year 2011-2012 for HP Pavilion at San Jose be approved for \$1,165,000. According to Arena Authority records, the current balance in the Pavilion Capital Reserve Fund is \$3,164,683. On August 1, 2011, the City and HP Pavilion Management will each be funding the Capital Reserve Fund \$750,000 for a total of \$1,500,000. When added to the current balance, the Pavilion Capital Reserve Fund will total \$4,664,683. To determine the remaining Capital Reserve Fund balance, four expenses need to be subtracted from the Capital Reserve Fund. They include the proposed FY 2011-12 Capital Repairs and Replacements budget of \$1,165,000; the annual debt service obligation from the City at \$250,000; the annual debt service obligation from HP Pavilion Management at \$200,000; and the outstanding payables from previous fiscal years at \$2,057,875. That will leave a remaining balance in the Pavilion Capital Reserve Fund of \$991,808 and will serve as a base figure when the Arena Authority and HP Pavilion Management begin capital budget deliberations for FY 2012-13.

For reference, in 2007 the City and HP Pavilion Management agreed to upgrade the Pavilion with the purchase and installation of 16.5M in Pavilion capital enhancements. Included among the enhancements were a new scoreboard, fascia display, video system and rigging systems. Through a capital enhancements agreement between the City and HP Pavilion Management, the debt service payments on these capital items was to be annually paid for in part from the Pavilion Capital Reserve and Enhancements Funds.

From the City's annual contribution to the Pavilion Capital Reserve Fund (\$750,000 annually from Term Years 16-25 or FY 2008-09 to 2017-18) the following amounts were to be applied to the debt service payments:

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- Term Years 16-19 (FY 2008-09 to 2011-12): \$250,000 annually
- Term Years 20-22 (FY 2012-13 to 2014-2015): \$500,000 annually
- Term Year 23 (FY 2015-16): \$750,000

For HP Pavilion Management, their contribution to the Capital Reserve Fund is \$750,000 annually from Term Years 16-25 or FY 2008-09 to 2017-18. Their payment obligation to the debt service is the following:

- Term Years 16-25 (FY 2008-09 to 2017-18): \$200,000 annually

Please note that there will still be an annually operating Capital Reserve Fund to support future Pavilion capital repairs and replacements. The Facilities Committee, along with the City and HP Pavilion Management, will continue to closely monitor the fund and the proposed capital repairs and replacements submitted by HP Pavilion Management.

For the Pavilion Capital Enhancements Fund, the City's annual deposits into the fund include \$175,000 for Term Year 15 (FY 2007-08) and \$587,500 from Term Years 16-20 (FY 2008-09 to 2012-13). For HP Pavilion Management, their annual deposits into the Capital Enhancements Fund include \$787,500 for Term Years 16-20 (FY 2008-09 to 2012-13) and \$200,000 for Term Years 21-25 (FY 2013-14 to 2017-18). Please note that all funds deposited by the City and HP Pavilion Management into the Pavilion Capital Enhancements Fund through the term years listed above are currently designated to pay down the debt service from the 16.5M in Pavilion capital enhancements. Additionally, the last fiscal years listed in this memorandum illustrate the last years of the City and HP Pavilion Management's obligation to pay down the 16.5M enhancements debt. Please also note that other funding sources, outside the realm of the Pavilion Capital Reserve and Enhancement Funds, are also being utilized to pay down the debt service.

### Sharks Ice at San Jose

(2) That for Fiscal Year 2011-2012, the capital repairs and replacements budget for Sharks Ice at San Jose be approved for \$672,500. Per Arena Authority records, the current balance in the Ice Centre Revenue Fund is \$4,844,590 and does not include the \$2,000,000 that was borrowed by the City to address a state funding payment. Please note that the \$2,000,000 borrowed from the City is scheduled to be repaid in full at the fifth year of the loan (2015). Outstanding payables for City-approved capital repairs are \$1,113,555.

Additionally, HP Pavilion Management has approached the City to install fuel cells at Sharks Ice at San Jose. Fuel cells help insure uninterrupted power and cost certainty for long-term operation and planning. In addition, fuel cells help in achieving a major "Green Initiative" utilizing sustainable power as supported by the City. Currently, the City and HP Pavilion Management have identified \$2,000,000 from the Ice Centre Revenue Fund to partially cover costs associated with the installation of the fuel cells. Please note that HP Pavilion Management would cover the balance of costs for the installation of the fuel cells beyond the \$2,000,000 that has been identified from the Ice Centre Revenue Fund.

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Discussions between the City and HP Pavilion Management on the fuel cells are occurring simultaneously with the Arena Authority's budget review process. The City will continue to keep the Arena Authority apprised of any new, significant developments relating to action on the fuel cells for Sharks Ice at San Jose. Additionally, the Facilities Committee will continue to monitor the annual Sharks Ice at San Jose capital budget submittals in relation to the available balance in the Ice Centre Revenue Fund.

During the budgetary review process the Facilities Committee, along with budget, finance and building operations representatives from the City, identified one capital item not included in Exhibit G from the lease and management agreement. This item, listed below for your review, is considered a legitimate capital item to be included with the proposed capital budget:

**Capital Item Not Included in Exhibit G  
FY 2011-12**

<u>Capital Item</u>	<u>Capital Budget</u>
Building Automation System	\$100,000

Although technically not included in Exhibit G, a building automation system does involve the operation of a number of significant capital items currently included in the exhibit. A building automation system monitors air quality, air circulation and interior temperatures, the operation of the ice chiller plants, building lighting and building life safety features and provides a safe, controlled environment for patrons and employees. At the March 10<sup>th</sup> Facilities Committee meeting, City staff reported that if Sharks Ice at San Jose were constructed today, it would include a building automation system. The Facilities Committee, along with City staff, recommends that this item be included in the approved capital budget.

Spreadsheets detailing the fund activity for the Pavilion Capital Reserve Fund, the Pavilion Capital Enhancements Fund and the Ice Centre Revenue Fund are available upon request. Following any Board action, Authority staff will forward the recommended capital budgets to the City Manager's Budget Office for consideration and subsequently to the San Jose City Council for legislative approval. If you have any questions, please contact Chris Morrissey at [morissey@sjaa.com](mailto:morrissey@sjaa.com) or at 977-4783.

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