

San Jose Arena Authority

Memorandum

To: Claudia Kwok Chang, City Manager's Budget Office

From: Chris Morrisey, Executive Director *cmj*

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 30, 2011

At the March 23rd Regular Meeting of the Arena Authority Board of Directors, the Board reviewed the Fiscal Year 2011-12 capital budget submittals for HP Pavilion at San Jose and Sharks Ice at San Jose. Following a motion to approve the capital budget submittals by the Chair of the Arena Authority's Facilities Committee, the Arena Authority Board of Directors unanimously approved the following capital budget recommendations for HP Pavilion at San Jose and Sharks Ice at San Jose for FY 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. In determining 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.

As you know, 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

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, the City and HP Pavilion Management are currently in discussions 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. It was noted 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.

Discussions between the City and HP Pavilion Management on the fuel cells have been conducted simultaneously with the Arena Authority's budget review process. Additionally, the Arena Authority 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.

In making this determination, the Facilities Committee employed a set of guidelines that was developed by the City in consultation with the Arena Authority. Listed below are the criteria that have served as a benchmark in relation to the review of non-Exhibit G items:

1. The useful life of the repair or replacement is for five years or more.
2. The repair or replacement is integral to the public operation of the facility.
3. The repair or replacement effectively supports or prolongs the life expectancy of the building systems.
4. Replacement items and equipment become capital assets of the facility.

Please note that at a March Facilities Committee meeting, City staff reported that if Sharks Ice at San Jose were constructed today, it would include a building automation system. The Arena Authority, along with City staff, recommends that this item be included in the approved capital budget.

Following the Board action, the Board advised Authority staff to forward the recommended capital budget submittals to the City Manager's Budget Office for consideration and subsequently to the San Jose City Council for legislative approval.

- c: Members of the Arena Authority Board of Directors
Peter Detlefs, City of San Jose Finance Department
Matt Morley, Department of General Services
Rich Sotelo, HP Pavilion Management
Charlene Sun, City of San Jose Finance Department