



Memorandum

TO: HONORABLE MAYOR, CITY
COUNCIL, AND REDEVELOPMENT
AGENCY BOARD

FROM: Del D. Borgsdorf
Harry S. Mavrogenes

SUBJECT: AMENDED SAN JOSE GRAND
PRIX AGREEMENT

DATE: January 6, 2006

COUNCIL DISTRICT 3

RECOMMENDATION

1) Adoption of a resolution by the City Council:

- (a) Approving the Second Amended and Restated Agreement to Conduct a San José Grand Prix, by and between the City, the Redevelopment Agency, and San José Open Wheel Racing, LLC, successor in interest to Canary Enterprises, LLC, amending among other things the proposed Race Circuit and defining certain financial obligations of the City and Agency in the amount of approximately \$2.9 million for the 2006 race and \$1.1 million for the 2007 race, subject to appropriation;
- (b) Directing the City Manager to negotiate the lease or purchase of property from Caltrans of those certain parcels under Highway 87 and under I-280 east and west of Almaden Boulevard for parking and related support uses in conjunction with the Grand Prix.
- (c) Authorizing the City Manager to negotiate and execute as necessary, an agreement with the Valley Transportation Authority (VTA) and San José Open Wheel Racing, LLC, to modify transit service to accommodate the Grand Prix, at a cost not to exceed \$200,000.
- (d) Authorizing the City Manager to negotiate and execute, as necessary, amendments to the Parking Agreements with Walton San Jose Investors III L.L.C. (Marriott Hotel) and Sainte Claire Hotel L.L.C. with regard to the use of the San Jose McEnery Convention Center parking garage during the Grand Prix, at no cost to the City.

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- 2) Adoption of Appropriation Ordinance amendments by the City Council in the General Fund to reflect the City's cash investment of \$1,000,000, to provide \$200,000 as contingency funding and to provide \$50,000 for Public Works Design costs:
 - (a) Increase the San José Grand Prix appropriation by \$1,200,000;
 - (b) Establish a San José Grand Prix 2006 Design appropriation to the Department of Public Works in the amount of \$50,000; and
 - (c) Decrease the Contingency Reserve by \$1,250,000.

- 3) Adoption of the following Appropriation Ordinance amendments in the Construction Excise Tax Fund to support VTA Agency costs and other race improvements:
 - (a) Establish a San José Grand Prix project to the Department of Transportation in the amount of \$300,000; and
 - (b) Decrease the Ending Fund Balance by \$300,000.

- 4) Adoption of the following Appropriation Ordinance and Funding Sources Resolution amendments in the Services for Redevelopment Capital Projects Fund (City-side Redevelopment Fund) to support Public Works design costs:
 - (a) Increase the San José Grand Prix 2006 Design project appropriation by \$200,000; and
 - (b) Increase the estimate for Earned Revenue by \$200,000.

- 5) Amendment by the City Council of the Master Parking Rate Resolution to allow the Director of Transportation to establish parking rates ranging from \$5 to \$15 for the San José Grand Prix during the Race weekend at City and Agency parking facilities.

- 6) Adoption of a resolution by the Agency Board:
 - (a) Approving an adjustment to the FY 2005-2006 Adopted Capital Budget to reallocate \$500,000 from the Merged Area, Downtown Streetscape project line to the Merged Area, Grand Prix Reserve project line, as detailed in Attachment A, and amending the FY 2005-06 Appropriations Resolution.
 - (b) Approving the Second Amended and Restated Agreement to Conduct a San Jose Grand Prix, by and between the City, the Redevelopment Agency, and San José Open Wheel Racing, LLC, successor in interest to Canary Enterprises, LLC, amending among other things the proposed Race Circuit and defining certain financial obligations of the City and Agency.
 - (c) Authorizing the Executive Director to negotiate and execute, as necessary, amendments to the Parking Agreements with West Hotel Partners L.P. with regard to the use of the San Jose McEnery Convention Center parking garage during the Grand Prix, at no cost to the City or the Agency.

BACKGROUND

In December 2004, the City Council approved an agreement with Canary Enterprises LLC (Canary), San José Arena Management LLC, and the San José Sports Authority (Sports Authority) based on a race circuit to be constructed on portions of the City owned HP Pavilion, as well as certain streets and parks surrounding HP Pavilion. On April 26, 2005, the City Council approved an Amended and Restated Agreement to conduct the San José Grand Prix with Canary Enterprises, LLC, amending, among other things, the proposed Race Circuit and eliminating certain financial obligations of the City and the Redevelopment Agency. The Downtown Race Course traverses the following streets: Almaden Boulevard, Park Avenue, Market Street, and Balbach Street.

The San José Grand Prix (SJGP) inaugural race was held July 29 – 31, 2005, bringing world-class racing to downtown San José streets. The event had five racing series including the main race, the Champ Car World Series. The Champ Car race featured open-wheeled vehicles (similar in appearance to Formula One and Indy cars) with aerodynamic front and rear wings, traveling at speeds of over 200 miles per hour.

The inaugural race had spectacular results:

- During the three-day period, the event drew over 150,000 spectators to San José's downtown.
- Every grandstand seat was sold before the race (approximately 23,000).
- 30,000 pieces of race-related merchandise were sold.
- The Canary Fund Gala at the Fairmont Hotel raised \$700,000 for charity.
- Sunday was the biggest walk-up crowd for ticket sales in the Champ Car Series this year.
- VTA ridership on the light rail system was up 47% on Friday (+5,000), 148% on Saturday (+10,000), and 284% on Sunday (+15,000).
- More than 100,000 viewers watched the tape-delayed broadcast on NBC-11, making it the most viewed sporting event that weekend, surpassing both the Giants' and the A's baseball games.
- TV coverage was international, with the event broadcast to 54 countries.
- Hotels experienced an additional 3,000 room nights of occupancy (6.1% increase) with overall occupancy rising from 55% to 77% from the prior year.

Economic Impact

As shown in the following table, the economic impact of the San José Grand Prix event can be roughly broken into direct spending (overnight visitors, day visitors and race supporting activities) and indirect spending which results from new transactions caused by the additional money being brought to the local economy. Direct spending associated from the race is estimated at being \$23.1 million based on estimated spending by race attendees and actual race-related expenses. Applying a multiplier effect to represent how this money expands into San José's economy brings the total estimated figure to \$41.6 million.

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Direct Spending		
Overnight Visitors	3,500 Spectators and 1,500 Champ Car personnel x 3 days	\$1.5 million
Day Visitors	47,700 Spectators x 3 days	\$12.0 million
Race Related Expenses	Race Teams, Infrastructure, Concession Income	\$9.6 million
Indirect Spending	80% Multiplier	\$18.5 million
	Total	\$41.6 million

Revenue Impact

City revenues associated with the event are based primarily on the following sources: transient occupancy taxes (TOT), parking revenues, Convention Center rental and sales taxes. The estimated gross revenues to the City associated with the 2005 SJGP, was roughly \$165,000. Data from the State Board of Equalization indicates that year over year (2004 as compared to 2005) sales tax generated from downtown San José was up by \$19,000.

Total Transient Occupancy Taxes collected by the City for the weekend were \$71,500 based on an additional 3000 room nights being sold. Gross parking revenues, were roughly \$75,000 (\$21,000 net of out of pocket costs). McEnery Convention Center-related activities resulted in \$170,000 in gross revenue to Team San José. The VTA's sizable increase in ridership over the race weekend resulted in gross income of \$97,000. The total direct gross revenues received by the City, Team San José and the VTA from the 2005 race were approximately \$432,500.

City Service Costs

The existing Agreement specified that for the 2005 Race the City was responsible for all standard fees and charges typically charged for special events. The exceptions were that Canary Enterprises was responsible for police, fire and emergency services, capped at \$240,387 and all Department of Public Works costs.

Representatives from nearly every City department joined forces with the San José Grand Prix to make the 2005 Race a success. The services and associated costs provided by the various City departments are discussed below. The departmental costs include those costs for staff that typically charge to projects or for overtime. It does not include the cost of senior staff and managers who coordinated with San José Grand Prix and general coordination with business and residential stakeholders.

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- **The Public Works and Planning, Building, Code Enforcement Departments** completed surveys and pavement designs for two race courses; reviewed and approved temporary structure designs for compliance with State codes; and, inspected the construction of public infrastructure and temporary structures such as grandstands, suites, and bridges. The cost of the Public Works staff was approximately \$720,000, of which \$540,000 has been reimbursed and \$50,000 of which will be paid prior to execution of the Amended Agreement. The proposed Second Amendment includes a waiver of the remaining \$130,000, as additional assistance to the Operator, and in consideration of the benefits to be provided by the Operator to the City. In addition, Planning and Building fees totaling approximately \$116,000 were not collected per the agreement. These fee programs will be fully reimbursed by the General Fund in the year-end fee program reconciliation.
- **The Department of Transportation** developed a Traffic and Parking Management Plan; planned and coordinated activities with other agencies such as VTA and Caltrans; coordinated parking operations for City, San José State University, and private garages; and, modified traffic operations including traffic signals and signage for course setup, race, and post-race periods. The total cost of these services was approximately \$280,000, which was charged to existing appropriations in the General Fund and the Traffic Capital Program. Parking operations expenses of roughly \$55,000 were also incurred, but were offset by event parking revenues collected by the City resulting in \$21,000 net parking revenues during the event weekend.
- **The Police and Fire Departments** managed a command post with police, fire, and rescue teams; provided security and safety patrol inside the track, outside the track, overnight track patrol, and traffic control; and, provided fire suppression, fire prevention, and emergency medical services. Police services in the amount of \$126,735 for Police Secondary Employment were paid by the Operator directly to the participating Police Officers. This figure does not include the \$16,000 in overtime that was a direct cost associated with the Race). The cost of Fire services totaled approximately \$123,000, of which \$111,434 has been invoiced to Canary Enterprises. The total reimbursement for Police and Fire services is \$238,169, which is slightly below the cap of \$240,387.
- **Other Services:** In addition, as specified in the Agreement, other City permit fees totaling \$41,550 were not collected. These included fire prevention and inspection, park and paseo usage, and tow zone fees. The park and paseo permits include cleaning and damage refundable deposits.

The total cost for City services for the 2005 race were approximately \$1.3 million, of which \$701,000 is being reimbursed by the Operator. For 2006, costs in many areas are expected to be reduced based on the experience gained in 2005. However, overall costs could vary significantly depending on the specifics of event operations.

ANALYSIS

The Race Operator has requested that the City provide financial support for the 2006 (to be held on July 28 – 30, 2006) and 2007 Grand Prix. This request is based on the operating experience they had with the 2005 Race and their desire to make competitive improvements in the racecourse. The Second Amendment would obligate the City to:

- design the improvements to the Race Circuit;
- provide funds to support VTA light rail operations including the bus bridge,
- financial assistance to the Operator specific to pedestrian bridge improvements, marketing the Downtown, and expediting set-up and tear-down activities for subsequent event coordination;
- provide for an investment in support of race operations; and,
- provide services to the event at no cost to the Operator, including permit fees.

The total estimated amount of all City and Agency assistance is \$2.89 million for the 2006 Race (including a \$200,000 contingency) and \$1.11 million for the 2007 Race. It should be noted that City services for each Race span two fiscal years. As partial reimbursement for this City investment, the City will receive ticket revenue of \$1 per paid admission per race, expected to be in the range of \$150,000 for the 2006 race.

The proposed Second Amended and Restated Agreement makes a number of significant changes in the relationship between the City, and the Race Operator.

Change in Parties to Agreement

The parties to the initial Agreement included the San José Sports Authority, San José Arena Management, the City, and Canary Enterprises LLC. The rights and obligations of San José Arena Management, and the Sports Authority terminated after the 2005 Race and therefore neither entity is a party to the proposed Second Amended and Restated Agreement. The Agency is proposed to be added as a party to the Agreement because of the obligations to provide funding in the total amount of \$700,000 for the design of the Race Circuit Improvements, for improvements related to the pedestrian bridges, for costs related to expediting the set up and tear down of the barriers, fences, grandstands and other improvements, and for marketing costs. Furthermore, Canary Enterprises LLC has recently assigned the Agreement to San José Open Wheel Racing, LLC, and an entity with the same management as Canary Enterprises LLC (the "Operator"). This assignment was done in compliance with the terms of the Agreement.

Change in Term of Agreement

The initial term of the agreement is amended to nine years from its current length of five years. The opportunity to renew the agreement at the Operator's option for two additional five-year terms remains. Therefore this Agreement could potentially be in effect until 2024.

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Furthermore, the proposed Second Amendment provides that so long as the City provides services at no cost to Operator, the Operator is required to conduct the San José Grand Prix, and is prohibited from conducting an open wheel automobile race within 200 miles of the Downtown San José Race Circuit. This would effectively prohibit the Operator from moving the event to another Bay Area venue, or from competing with the San José Grand Prix.

The Operator is still able to terminate the Agreement without penalty however, if the Race Circuit is required to be relocated or modified for reasons beyond the Operator control, such reasons include public safety requirements and new development which impacts the Race Circuit. If the Operator terminates for these reasons, the obligation to repay the City's investment also terminates.

Fee Provisions

Under the initial Agreement as amended, the City Council determined that due to the economic development benefits expected to be realized by the City in the form of increased hotel and sales taxes, as well as national and international exposure of the Event, the City would be responsible for all of the standard fees and charges usually charged for Special Events, for the 2005 Race only. The exception was that Canary had agreed to pay for public works, police, fire and emergency services described previously. The parties had also agreed to use the 2005 race to provide the experience needed for refined estimates of extraordinary City expenses, which would be negotiated with Canary for reimbursement for the 2006 race. In future years, reimbursement for City costs was to have been capped at the 2006 level plus an annual cost of living adjustment. Any difference between the negotiated amount and the estimated cost of City services were to have been submitted to the City Council annually and considered a contribution by the City to the Race.

This Second Amendment extends the City's responsibility to fund City services for the term of the Agreement including the renewal terms. This excludes police secondary employment expenses. The estimated cost of City services and any necessary budget amendments will be submitted to the City Council annually through the budget process. In addition, department costs for services will be presented to the City Council as a part of the annual budget process. The fee programs will be developed with the estimated loss of fee revenue that will be fully reimbursed by the General Fund. This amount will be adjusted at year-end as part of the fee program reconciliation process.

In any fiscal year that the Council, in its sole discretion, decides not to appropriate funding for City services for the Race at the adoption of the City's annual budget, the City must notify Operator by June 30 of the prior year. The Operator then has 90 days to determine whether to conduct the Race for the following year and pay all of the standard City fees and charges to do so, or to suspend the Race for that year. In exchange for the in kind services provided by the City, the Operator shall provide City each year with sponsorship benefits package comparable with the 2006 package described later in the memorandum. The City will not be liable for damages for non-appropriation; however, in any year that the City determines not to appropriate funding for these services, the Operator will not be obligated to provide sponsorship benefits.

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It should be noted that although the City will be assuming costs of its services, the Operator is still required to pay for "extraordinary expenses" which includes damage to City property. Based on the experience of the 2005 Race, the City will require a deposit of \$100,000, to cover anticipated costs for 2006. The provision of the Agreement that specifies that the Operator can put up cash, a surety bond, or other instrument to assure payment has not changed. The Operator will also have to pay for any optional services provided by the City upon request of the Operator, such as hanging street banners, trimming street trees and providing design services in future years. For the 2007 race and beyond, the deposit will be based on the dollar amount of damage to City property that has not been repaired by the Operator within the thirty days of the end of the race.

For the 2006 Race, funding for Public Works Department design and inspection services in the amount of \$400,000 will come from the Redevelopment Agency. In addition, \$50,000 from the General fund will be allocated for this purpose. Of this amount, \$200,000 was approved by the City Council on December 13, 2005 to begin the preliminary design work. Budget actions to allocate the remaining \$250,000 are recommended in this memorandum.

Changes in Financial Arrangements

The Race Operator has requested that the City provide financial support for the 2006 and 2007 Grand Prix. This request is based on the operating experience they had with the 2005 Race and the need to make competitive and safety improvements in the racecourse.

The new funding proposed under the Second Amendment has the following components:

2006 Grand Prix Capital Improvements:

The proposed Second Amendment includes the following modifications to the Race Circuit for the 2006 Race:

- 1) Repaving Market Street from San Carlos to Balbach. This would include grinding and resurface the pavement, adjusting existing utilities to the new grade, removing a tree at Market and Balbach, and installing truncated domes and sidewalks. The Operator will be responsible for funding and constructing this work, estimated to cost \$300,000. This work will be done by the Operator as a part of the contract let for the other 2006 racecourse improvement work.
- 2) Construction of the Champ Car Paddock. The Operator will be responsible for funding design and construction of this work. There are currently two options being studied for the placement of the Paddock.
 - a. 280/Almaden Parking Lot. This is the area under the freeway at Almaden Blvd which is currently being leased from Caltrans by Team San José and used for parking of staging vehicles for conventions. The lease expires on June 30, 2006. The area would require at

least \$300,000 in improvements if it is to be used as the Champ Car Paddock. This assumes that the City can negotiate an agreement with Caltrans in time for such improvements to be made.

- b. Convention Center South Hall. An alternative location to the 280/Almaden Parking lot for the paddock is the South Hall. If the Operator proposes to use this location, additional Race Circuit Improvements will be necessary to accommodate the new entry required on Almaden Avenue. The City will be responsible for up to \$50,000 of the Department of Public Works costs for the design of these improvements to Almaden Avenue. The Operator would be obligated to pay the City for any design work costs in excess of \$50,000 related to such additional Race Circuit Improvements associated with a race paddock in the South Hall.
- 3) Widening Park Ave. This entails removing one and modifying two existing median islands and associated irrigation and electrical system modifications; removing the traffic island on (northeast corner of Almaden and Park) and relocating the traffic signal pole; relocating 16 palm trees; and pavement and striping modifications. The Operator will be responsible for funding and constructing this work, estimated to cost \$406,300.
- 4) Improve Light Rail approaches (Almaden and San Carlos; and Market and San Carlos). This includes street pavement grade improvements to lessen the effect of the approach to the VTA tracks. It does not include any work that might be done to the actual tracks in conjunction with the VTA. The Operator will be responsible for funding and constructing the roadwork, estimated to cost \$756,200.
- 5) Design of Race Course Improvements by the Department of Public Works. The above estimates are for hard costs only. The design work for all of the above improvements will be provided by the City's Department of Public Works. The design costs for all improvements above will be funded from the FY 2005-06 Redevelopment Agency Capital Budget and the City's budget in the amount of \$450,000.

City Investment

Under the proposed Second Amendment, the City agrees to invest \$1.0 million in the 2006 Race and \$500,000 in the 2007 race (2007 appropriation subject to subsequent appropriation by the City Council) to support the operating costs of the Race to be determined by the Operator. This investment will be repaid by the Operator to the City an amount equivalent to \$1 per paid admission per race day. It is estimated that the payment for the 2006 Grand Prix to the City would be in the range of \$150,000. These funds are recommended to be deposited into the Sports Opportunity Fund to support efforts to attract other large scale sporting events to the City.

In the event the City Council fails to appropriate the \$500,000 for the 2007 Race, the City would forfeit all right to receive this return in all future years.

Other Financial Assistance for the 2006 Race

In addition to the cash investment, the Second Amendment requires the City to pay VTA for operational costs incurred due to the 2006 event. While this was the responsibility of Canary Enterprises in 2005, the City and the Operator agree that the City is in a better position to negotiate this element. Actual costs in 2005 were roughly \$240,000, and VTA presented the Operator with an initial 2006 cost estimate of \$350,000. However, City staff believes that efficiencies could be achieved by the City and VTA working together that will substantially decrease costs. Therefore staff recommends that the City Council authorize the City Manager negotiate and execute an agreement with VTA in an amount not to exceed \$200,000.

The proposed Second Amendment also provides an additional contribution of \$400,000 for pedestrian bridge improvements, installation and removal, expedited set up and tear down of fencing, barriers, grandstands and other race improvements, as well as advertising and marketing. These contributions will support the timely setup and teardown of event facilities, as well as coordination with other events and downtown businesses. The source of this additional contribution is proposed to be the Agency (\$300,000) and the Construction Excise Fund (\$100,000).

Finally, staff recommends establishment of a budget appropriation for contingencies, in the amount of \$200,000. This will provide an ability to address issues such as unanticipated expenses for infrastructure design or inspection, or for third party costs such as VTA. This appropriation will be managed by the City Manager's Office.

Additional Benefits to City in Exchange for City Services Support

As discussed above, in consideration for the services to be contributed by the City and the Agency, the Operator will provide the City each year with a sponsorship package comparable to the package. For 2006 this will include the following:

- trackside signage (up to 5% of available locations)
- off-track signage (up to 5% of available locations)
- one festival area booth
- inclusion of City message in the race program
- event sponsor page in the race program
- identification of the City and Agency sponsorship in the media and fan guides
- City of San José name integrated into event logo and television, radio, print and collateral materials
- five promotional advertisements per day in the closed circuit television broadcast to big screens and suites
- national television broadcast exposure (signage) on NBC in 2006 and on race broadcasts in subsequent years; the Operator will use its best efforts to obtain one minute of commercial time at the beginning of the race broadcast for use by the City at no cost to the City
- website presence for City on Grand Prix, Champ Car and Canary Fund websites and wireless splash page

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- City identified in event logo on official merchandise
- five public address announcements acknowledging City/Agency sponsorship
- one private air-conditioned hospitality suite (50 person capacity) at no cost to City
- 220 Silver Grandstand tickets per race day – worth \$22,000 in 2005
- 220 Paddock passes per race day – worth \$5,500 in 2005

Staff is currently reviewing opportunities for enterprise funds, such as the Airport, to “purchase” a portion of these benefits thereby reducing costs to the General Fund.

Parking Revenues and Expenses

As occurred last year, the Downtown racecourse will use several City-operated parking facilities for grandstands, equipment staging, and other race-related uses. This affected parking revenues generated by these facilities for a period of time ranging from 3 days (Convention Center Garage) to up to 90 days (portions of the Boston Properties parking lot on Almaden). Furthermore, assuming that the City and Agency will be able to negotiate extensions to the Caltrans owned parking lots at 87/Woz Way and Almaden Blvd and the Boston Properties lease is still in effect, the City is obligated to make lease payments for these parking lots.

The current Agreement acknowledged that the Race is an opportunity for the City to realize increased parking revenues from other Downtown facilities during the Race period and therefore provided that the Operator only reimburse the City for lost parking revenues if revenues the City collects from other Downtown lots do not cover direct parking lot lease costs. For 2005, the lease costs to be covered were approximately \$28,424. After taking into account these forgone revenues and certain expenses, the City realized about \$21,000 in net parking revenue. Since the Caltrans leases have yet to be negotiated, it is unknown what the lease costs will be, if any for future years.

However, based on the experience of the 2005 Race, the Operator has requested that the City relieve the Operator from any obligation to cover lost parking revenues and staff is recommending this change. Nonetheless, the Operator will continue to be responsible for the costs of relocated hotel parking.

The City’s ability to accept the responsibility for covering lease and other costs is dependent on the implementation of special event parking rates at public parking facilities during the event weekend. Therefore staff recommends that Council amend the Master Parking Fee Resolution continue the special event parking rate of \$5- \$15 per day at designated City and Agency operated facilities.

Construction of Downtown Race Circuit Improvements

The proposed second Amended and Restated Agreement incorporates the construction of Downtown Race Circuit Improvements as described above. The work to be funded and

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constructed by the Operator will be done pursuant to a separate agreement and permit issued by Public Works. Operator and its contractor will post payment and performance bonds to insure the completion of this work.

The racecourse improvements are being designed by City forces in order to expedite project delivery and maintain the compressed schedule. The design team responsible for the racecourse design had successfully prepared the project plans and specifications for the 2005 Race.

Other Provisions

-Street closure for the Race will begin Wednesday evening at 12:00 a.m. starting in 2006 (provided that the 2006 Music in the Park event is accommodated by the Operator) and for the remainder of the term of the agreement, rather than Thursday 12:00 a.m. as specified in the initial agreement.

-The Operator will be allowed to begin construction on Boston Properties lot 45 days prior to the Race as opposed to the 30 days set forth in the existing Agreement.

-The City will use reasonable efforts to gain possession of the Caltrans lot for potential future use by Operator.

OUTCOMES

By approving the Second Amended and Restated Agreement, Council is acknowledging financial considerations for the Downtown Race Course. The three-day event is expected to stimulate the economy and generate both Sales Tax and Transient Occupancy Tax from the estimated 100,000-150,000 spectators and more than 2,000 Race employees.

These actions further the vision of San José as the world's most livable city, with diverse and distinctive qualities of life contained in the Economic Development Strategy by "Encouraging Sports Teams, Events, Facilities, Professional as well as Amateur" (Initiative 12).

PUBLIC OUTREACH

Beginning in September 2004 through the date of this memo, various City departments and the City Manager's Office, Redevelopment Agency, San José Sports Authority, and the Grand Prix have been engaged in an extensive program of outreach activities with the neighborhood and business community impacted by the Race. This program will continue under the terms of the proposed amended agreement and the required Event Management Plan.

COORDINATION

This project and memorandum have been coordinated with the City Attorney's Office, Budget Office, Department of Public Works, Transportation, Office of Cultural Affairs, Planning, Police, and Fire. Additional coordination has been made with the Valley Transportation Authority.

COST IMPLICATIONS

The City's financial assistance is necessary to help maintain the viability of this event for the Operator and the City. As discussed above, the proposed amendments to the agreement with San José Open Wheel Racing, LLC will have the following financial impacts on the City and Redevelopment Agency:

City Services: Under the current agreement, the costs of City services were to be fully reimbursed beginning with the 2006 race. Under the proposed agreement, the cost of Police Secondary Employment Program will be the only services paid for by the Operator. City services for the 2006 race are projected to cost approximately \$639,000. To cover the non-police costs for the 2006 race, the following funding sources are proposed: existing appropriations in the Construction Excise Tax Fund would provide funding for the Traffic-related expenses (estimated at \$260,000), the General Fund would provide funding to cover the Planning, Building, and Fire fees as well as the fire services and any non-Secondary Employment Program police services (estimated at \$337,000). In addition, the General Fund would forego fee miscellaneous fee revenue of approximately \$42,000. General Fund budget adjustments will be incorporated into the year-end fee recalculation and the annual budget process.

The Redevelopment Agency and the City would provide funding to reimburse the City for the cost of Public Works services for the 2006 Race (estimated at \$450,000.) The City will provide up to \$50,000 in funding for the Almaden Avenue design work that may be necessary to accommodate the race paddock in the Convention Center's South Hall. Budget actions are recommended in this memorandum to allocate the remaining \$200,000 from the Redevelopment Agency and \$50,000 from the General Fund for the Public Works services.

Additional City/Agency Contribution: Under the proposed Amendment, \$200,000 from the Construction Excise Tax Fund would be used to support VTA light rail operations impacted by the Race, including the provision of a bus bridge.

An additional \$100,000 of the Construction Excise Tax Fund, and \$300,000 in Agency funds would be made available to the Operator defray race barrier and grandstand set-up and tear-down expenses to facilitate the transition to Zero One and Jazz festivals, to improve the pedestrian bridges and to provide advertising and marketing. Budget actions are recommended in this memorandum to reflect these calculations.

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Cash Investment: The City would provide financial assistance in the amount of \$1.0 million for the 2006 race and \$500,000 for the 2007 race, subject to appropriation in that year. Budget actions are recommended in this memorandum to fund the \$1.0 million for the 2006 race from the General Fund Contingency Reserve.

Parking Revenue: Under the proposed agreement, the Operator would no longer be responsible for reimbursing the City for lost parking revenues if revenues the City collects from other Downtown lots do not cover direct parking lot lease costs.

Contingency Funding: As discussed above, a \$200,000 allocation from the General Fund is recommended to provide funding to address unanticipated expenses.

In exchange for the City services, the operator will provide a sponsorship package that will market the City of San José as a major sponsor of this internationally televised event. This event will also help stimulate the economy and generate additional sales tax, transient occupancy tax, and parking revenues.

BUDGET REFERENCE

Fund	Appn. #	Appn. Name	Total Appn.	Adopted Budget Page	Last Budget Action (Date, Ord. No.)
001	6377	San José Grand Prix	\$40,000	N/A	10/18/05 (Ord. 27580)
465	7999	Ending Fund Balance	5,251,237	V-1034	10/18/05 (Ord. 27580)
450	5265	San José Grand Prix 2006 Design	200,000	N/A	12/13/05 (Ord. 27631)

The current Agency Adopted FY 2005-06 Budget contains appropriation of \$200,000 in Grand Prix Reserve project line in Merged Area. The proposed reallocation, shifts \$500,000 from Downtown Streetscape project line to the Grand Prix Reserve for a total of \$700,000 as detailed in Attachment A. Funding of this adjustment will have no impact to the Agency Capital Reserve.

CEQA

EIR Resolution 68839, and Addendum thereto, File No. PP05-061.

for *Ray Winer*
DEL D. BORGS DORF
City Manager

[Signature]
HARRY S. MAVROGENES
Executive Director

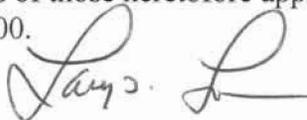
Honorable Mayor, City Council and Redevelopment Agency Board

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I hereby certify that there will be available for appropriation in the Services for Redevelopment Capital Projects Fund (City-side Redevelopment Capital Fund) in the Fiscal Year 2005-2006 moneys in excess of those heretofore appropriated therefrom, said excess being at least \$200,000.

A handwritten signature in black ink, appearing to read "Larry D. Lisenbee". The signature is stylized with a large initial "L" and a cursive "y".

Larry D. Lisenbee
Budget Director

ATTACHMENT A

FY2005-06 BUDGET REALLOCATION

A budget reallaction is an adjustment in capital funding to an existing project to cover anticipated costs.
Funding of the adjustment listed below will have zero impact to the Capital Reserve.

Agency's Business Unit Number	Project	ADOPTED BUDGET FY 2005-2006	Net CIP Change	REVISED ADOPTED BUDGET FY 2005-2006
MERGED REDEVELOPMENT AREA (Fund 090)				
0900880	Grand Prix Reserve	200,000	+500,000	700,000
0900870	Downtown Streetscape	2,000,000	-500,000	1,500,000
CAPITAL RESERVE			+0	