



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

**SUBJECT: FUNDING REQUEST FOR A
DEHUMIDIFICATION SYSTEM
FOR THE HP PAVILION**

DATE: January 28, 2004

Approved

Date

1/30/04

Council District: Citywide

RECOMMENDATION

It is recommended that the City Council approve the attached HP Pavilion Capital Repairs and Replacement budget adjustment for the Dehumidification System as submitted by the San José Arena Authority.

BACKGROUND

In accordance with the agreement with San José Arena Management, an annual Capital Repairs and Replacement budget was presented to the City for approval as part of the 2003-2004 budget process (MBA #14). This budget included \$1.2 million for capital repairs and replacements and was supported by the existing Arena Reserve Fund that was established for this purpose. A mid-year budget request in the amount of \$350,000 has been submitted for a dehumidification system that would also be funded from this fund.

ANALYSIS

Attached is the memorandum from the San José Arena Authority Board regarding the mid-year budget request for the dehumidification system. The Arena Reserve Fund that would fund this improvement currently has a balance of almost \$2.0 million. This project would bring the total outstanding commitments for the Reserve Fund to \$1.75 million. Because this recommendation allocates a large portion of the uncommitted fund balance, staff reviewed the following before making its recommendation to support this addition:

5-Year Forecast – The Arena Management has prepared a five-year spending plan that has been reviewed by the City’s HP Pavilion facility consultant, Aztec Consultants, MCE Corporation. This spending plan was aligned with anticipated revenues to create a five-year Source and Use Statement. With the healthy stream of revenues projected and no major expenditures expected until 2008-2009, the fund balance is estimated to increase from a

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minimum of \$250,000 - \$350,000 at the end of this year to approximately \$3.0 million by the end of 2008-2009.

- *Cash Flow* – Staff analyzed the anticipated timing of payments and the receipt of revenues to ensure that there would not be a cash flow problem in the Arena Reserve Fund. The next infusion of cash into the Arena Reserve Fund will be made on August 1, 2004 and is expected to total approximately \$660,000. On the expenditure side, it is likely that many of the payments that are programmed in this fiscal year will actually be reimbursed over the next 12 – 24 months after the scheduled work has been completed. In addition, the Arena Management has stated that it can defer approximately \$100,000 of the programmed capital items to next year without any major impacts.
- *Assessment of Potential Problems* – Aztec Consultants, MCE Corporation was contacted to determine whether there were any major issues with the Arena infrastructure that potentially would need to be addressed. Stan Smalley, the principal in charge of assessing the Arena facility responded that he did not foresee any failure to any of the major building operating systems for the next four to five years, assuming that the current preventative maintenance programs were continued.

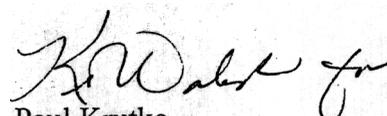
Based on the analysis above and the need for the dehumidification system, staff recommends approving the mid-year budget request. It should be noted that in addition to the Arena Reserve Fund that was established to address normal capital replacements and repairs, the City also has an allocation in the General Fund to address any emergency Arena repairs that are deemed the responsibility of the City to pay. This appropriation currently has a balance of almost \$230,000. At this time, there is one outstanding emergency repair for the fire system piping (main underground feed for the fire pump and sprinkler system) that is estimated to cost \$50,000.

CEQA

Not a Project.

COST IMPLICATIONS

The Arena Reserve Fund would be used to provide the recommended funding for the dehumidification system. This fund, which was established to fund capital repairs and replacements at the HP Pavilion, has sufficient fund balance to support this addition.


Paul Krutko
Director of Economic Development

Attachment

Council Agenda: February 3, 2004

Agenda Item:

MEMORANDUM

Honorable Mayor and Members of the City Council

William Clayton, Chair, San Jose Arena Authority

COM / FOR

Subject: Recommendation for HP Pavilion Management's Midyear Budget Allocation Request (Dehumidification System)

Date: January 22, 2004

RECOMMENDATION

It is recommended by the San Jose Arena Authority Board of Directors that HP Pavilion Management's request for a Fiscal Year 2003-2004 midyear budget allocation of \$350,000 for the installation of a dehumidification system be recommended for approval by the Mayor and City Council of San Jose. Please note that the funds requested for this midyear budget allocation would be drawn from the Pavilion Capital Repairs and Replacements Reserve Fund and not from the City's General Fund.

BACKGROUND

HP Pavilion Management has requested that a midyear budget allocation for Fiscal Year 2003-2004 be considered for the installation of a dehumidification system for HP Pavilion at San Jose. HP Pavilion Management has requested that the funds for this project be expended from the Pavilion Capital Repairs and Replacements Reserve Fund.

HP Pavilion Management continues to address the issue of substandard ice surface conditions which have been problematic during the current and previous National Hockey League seasons. As such, supplemental desiccant equipment was rented and employed to improve the ice surface conditions during the 2002 Stanley Cup Playoffs. Briefly, this condition is brought about by the rising air temperature and increased humidity that occurs within the seating area during the course of Sharks hockey games. As a result, the current makeup of the ice refrigeration equipment and the HVAC system cannot maintain the desired ice temperature or humidity levels, thereby adversely affecting the ice surface.

In a March 14, 2002 memorandum from San Jose Arena Authority Executive Director Chris Morrissey to Margaret McCahan, Principal Budget Analyst with the City Manager's Budget Office, it was noted that HP Pavilion Management would be submitting a future request to install a dehumidification system in HP Pavilion at San Jose. The memorandum noted that the initial costs associated with the installation of the system was estimated at \$750,000.

Since then, HP Pavilion Management has employed the services of M-E Engineers, Inc. to provide options to be considered to improve the air and ice conditions during Sharks games. To that end, M-E Engineers conducted air and ice surface analysis and provided HP Pavilion Management with six alternatives to address the current conditions. The alternatives ranged from a costly desiccant system to simple modifications to the existing mechanical system. From those alternatives, HP Pavilion Management was able to identify a solution that should prove to be both beneficial and cost effective.

The alternative selected by HP Pavilion Management combines the adjustment of the chilled water temperature from the central plant chillers to 38°F and adding supplemental air outlets to the inner and outer duct rings. The estimated cost associated with this Capital project is \$350,000.

ANALYSIS

Representatives from HP Pavilion Management presented a recommendation for the installation of a dehumidification system to the Arena Authority's Facilities Committee. The request was presented for consideration as a midyear budget allocation from the Pavilion Capital Repairs and Replace Reserve Fund. For Fiscal Year 2003-2004, the City Council-approved Pavilion Capital Repairs and Replacements budget is \$1,214,500. The current balance in the Pavilion Capital Reserve Fund is \$1,961,116. HP Pavilion Management is scheduled to deposit approximately \$660,000 into the Pavilion Capital Reserve Fund on August 1, 2004 and under similar circumstances, is expected to deposit comparable amounts through 2007. The current balance of outstanding payables is \$1,403,250 which is anticipated to be reimbursed through the Pavilion Capital Reserve Fund to HP Pavilion Management over the next 12 to 24 months. The Arena Authority and HP Pavilion Management continue to monitor the viability of the Pavilion Capital Reserve Fund account through the application of long term Capital project cost analysis. Initial analysis by the Arena Authority and HP Pavilion Management indicates that the Pavilion Capital Reserve Fund can support this midyear budget request.

COORDINATION

As stated above, HP Pavilion Management initially presented the request for a midyear Capital Reserve Fund allocation for the installation of a dehumidification system to the Arena Authority's Facilities Committee on October 2, 2003. On October 22, 2003, the Authority Board was given a brief report on the status of the request by members of the Facilities Committee. On October 30, the Facilities Committee convened and finalized discussions on the request for Capital funding and advised Authority staff to draft a committee recommendation for Board consideration. Please be advised that on December 4, 2003, the Arena Authority Board of Directors reviewed the plan, then unanimously approved the Facilities Committee recommendation to forward the recommendation to the Mayor and City Council. Please be advised that the Arena Authority has also consulted with the City Manager's Office and the City Manager's Budget Office to evaluate this midyear Capital budget request in relation to the balance of the Pavilion Capital Reserve Fund.