



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Paul Krutko

SUBJECT: HP Pavilion at San Jose
Improvements

DATE: November 8, 2007

RECOMMENDATION

Accept this report on activities relating to the additional capital improvements at HP Pavilion at San Jose.

OUTCOME

Inform the Committee and Council on recent activities which provides for a number of essential Capital improvements to HP Pavilion at San Jose, ensuring that to make capital improvements at HP Pavilion at San Jose they will ensure its operation as a first-class sports and entertainment facility and continues to serve as a major economic generator for the Downtown.

BACKGROUND

HP Pavilion at San Jose opened in September 1993. Since then, both the City and HP Pavilion Management have made significant Capital investments in the facility as required through the financial terms established in the Arena Management Agreement. Additionally, both the City and HP Pavilion Management have worked jointly to maintain the Pavilion at the "Applicable Standard". The "Applicable Standard" is defined in the Management Agreement as "a standard of performance, operation, and maintenance equal to or exceeding those generally applicable to contemporary comparable major arenas in the United States at which NBA and/or NHL games are played".

For reference, since the Pavilion opened in 1993, twenty-three NHL arenas have been constructed in North America, making the Pavilion the seventh oldest facility in the league. Although the Pavilion is regarded as one of the best-maintained facilities in the NHL and still retains a like new appearance a number of critical technological and operational upgrades were required.

ANALYSIS

Per the terms of the Arena Management Agreement, HP Pavilion Management may request that the City participate in funding items to enhance the Pavilion in an amount equal to fifty percent (50%) of the total cost of additional improvements to the facility. As a result, HP Pavilion Management submitted a list of additional Capital improvements to the City with their associated costs:

<u>Capital Item</u>	<u>Cost</u>
Center Ice Scoreboard	\$4,950,000
HD Video Equipment Upgrade	\$3,000,000
LED Fascia Display	\$2,700,000
Rigging Capacity Upgrade	\$1,600,000
Seating Area Sound System	\$1,500,000
Acoustic Improvements	\$1,000,000
Consultants/Contingency	<u>\$1,750,000</u>
Total:	\$16,500,000

The center ice scoreboard, the video equipment, the fascia display and the seating area sound system had all exceeded their useful lives. Parts to repair and replace these items were either obsolete or no longer supported by the manufacturer. More recently, a number of these capital items had become unreliable, inoperable and were no longer serviceable. In fact, many of the components to the capital items listed above for replacement are the original components from when the Pavilion opened in 1993.

The upgrade to the rigging capacity reflects an industry shift in the rigging weight demands for today's touring shows. The original Pavilion rigging capacity of 75,000 lbs. was based on touring shows hanging weight loads that were standard in the industry in the early 1990's. Today, touring shows routinely suspend over 125,000 lbs. of sound and video equipment in arenas around the country.

The acoustic improvements have been necessitated in an effort to improve sound quality inside the Pavilion seating area. Sound quality issues continued to be a factor during Pavilion concerts. As a result, an assortment of remedies has been attempted over the years with moderate, localized success. This additional capital improvement to upgrade the acoustics was a comprehensive approach to address current Pavilion sound quality issues.

These capital improvements and plans to fund them were presented to and approved by the City Council on April 18, 2007. Following council approval, capital project work commenced and continued throughout the summer.

To fund these additional Capital improvements, the City has utilized a loan (commercial paper) to cover the costs of the improvements in a timely manner. Over the term course of the commercial paper, funds to pay off the loan will be drawn from monies deposited by the City and HP Pavilion Management into the Pavilion Capital Reserve and Enhancement Funds that will accrue during the remainder of the Management Agreement term (through 2018).

Through the terms and conditions of the Arena Management Agreement, both the City and HP Pavilion Management have been required to contribute to a Pavilion Capital Reserve Fund. To date, the City and HP Pavilion Management have contributed over \$6M to the Pavilion Capital Reserve Fund. Additionally, HP Pavilion Management has separately invested \$9.2M in Manager's Capital Improvements and Enhancements since the opening of the Pavilion in 1993.

It is anticipated that during the remainder of the term of the agreement HP Pavilion Management will contribute over \$12.6M to the Pavilion Capital Reserve and Enhancement Funds while the City is expected to contribute \$10.6M. This will allow for the repayment of the additional capital improvements while also allowing for planning and payment for normal capital repairs and replacements during the remainder of the term.

As of October 2007, all of the additional Capital improvements were at 99% completion and all currently on budget. It is expected that all of the projects would be completed by the end of the calendar year.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City.
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.

COORDINATION

This memo has been coordinated with the City Manager's Office of Economic Development, the City Manager's Office, the City Manager's Budget Office, and the Arena Authority.

CONCLUSION

These additional Capital improvements are considered of significant benefit to the City and should produce the following outcomes:

- Insurance that the Pavilion will continue as a first-class sports and entertainment venue that acts as an economic engine for the Downtown
- Enable the Pavilion to continue to provide significant annual revenues to the general fund
- Solidify the continuing partnership between the City, the Arena Authority and HP Pavilion Management as it relates to the pursuit of an NBA franchise as well as addressing other critical Pavilion vicinity transportation, parking and operational issues


Paul Krutko
Chief Development Officer

For further information, please contact Paul Krutko, Director of Economic Development.