

Memorandum

TO: HONORABLE MAYOR,
CITY COUNCIL AND AGENCY BOARD

FROM: Del D. Borgsdorf
Harry S. Mavrogenes

SUBJECT: SAN JOSE GRAND PRIX

DATE: April 11, 2005

COUNCIL DISTRICT: 3

RECOMMENDATION

- a.) Adoption of a resolution by the City Council:
1. Approving the Amended and Restated Agreement to Conduct a San Jose Grand Prix, by and among the City, Canary Enterprises, LLC; San Jose Arena Management LLC; and San Jose Sports Authority, amending among other things the proposed Race Circuit and deleting certain financial obligations of the City and JAM;
 2. Authorizing the City Manager to negotiate and execute as necessary, amendments to that certain Parking Agreement with Walton San Jose Investors, LLP, (the San Jose Marriott), with regard to the use of the Convention Center parking garage during the Grand Prix, at no cost to the City or Agency;
 3. Authorizing the City Manager to negotiate and execute, as necessary, amendments to that certain Lease between the City and Boston Properties for the public parking lot located on the west side of Almaden Blvd south of San Carlos Street, with regard to the use of that parking lot in conjunction with the Grand Prix, at no cost to the City or Agency;
 4. Finding that the economic development benefits of bringing international exposure to San Jose through a Grand Prix event justifies the City's financial obligations under the Agreement with regard to use of City property and assistance with certain fees;
 5. Terminating the Cooperation Agreement with the Redevelopment Agency with regard to the funding of the Improvements on the HP Pavilion, which are no longer required due to the relocation of the Race Circuit.
- b.) Adoption of Appropriation Ordinance and Funding Sources Resolution amendments in the General Fund to reflect the lower contributions from City and Agency Funds for the project:
1. Decrease the San Jose Grand Prix appropriation by \$650,000.
 2. Decrease the revenue estimate for Transfers by \$650,000.

c.) Adoption of a resolution by the Agency Board:

1. Terminating the Cooperation Agreement with the City with regard to the funding of the Improvements at the HP Pavilion, which are no longer required due to the relocation of the Race Circuit.
2. Authorizing the Executive Director to negotiate and execute, as necessary, amendments to that certain lease of property from Caltrans on Woz Way under Highway 87 for the use of that parking lot in conjunction with the Grand Prix at no additional cost to the City or Agency.
3. Authorizing the Executive Director to negotiate and execute, as necessary, amendments to those certain Parking Agreements with West Hotel Partners L.P. and Hotel Sainte Claire Partners, L.P. with regard to the use of the Convention Center parking garage during the Grand Prix, at no cost to the City or Agency.

BACKGROUND

In December 2004, the City Council approved an agreement with Canary Enterprises LLC (Canary), San Jose Arena Management LLC (SJAM), and the San Jose Sports Authority (Sports Authority) to bring a Champ Car grand-prix-style road race event to San Jose. The agreement proposed a race circuit to be constructed on portions of the City owned HP Pavilion, as well as certain streets and parks surrounding HP Pavilion (the "Arena Course Circuit").

The agreement called for the transfer of \$650,000 from the City's Development Enhancement Special Fund (\$400,000) and the Redevelopment Agency (\$250,000). The monies were to be used to finance race circuit improvements at the HP Pavilion site. A separate cooperation agreement between the City and Agency regarding the funding of this contribution was entered into on February 23, 2005.

Subsequent to the completion of the design and commencement of the construction in and around the HP Pavilion and race circuit, Canary expressed a desire to conduct the race on the streets of downtown centered around the McEnery Convention Center. All of the aforementioned parties have agreed to the new downtown race circuit design, and the City is in receipt of a letter from CHAMP approving the design.

On March 30, 2005 the Board of Director of the Valley Transportation Authority (VTA) directed the General Manager to negotiate and execute an agreement with Canary Enterprises/San Jose Grand Prix to accommodate the San Jose Grand Prix race event and mitigate impacts to transit operations.

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ANALYSIS

Description of New Race Course and Terms

The basic terms of the proposed Amended and Restated Agreement remain unchanged. It provides for Canary to conduct a three-day, grand-prix-style road race in San Jose (San Jose Grand Prix) annually over a consecutive five-year period, with the first event held the weekend of July 29-31, 2005. However, the proposed change from the original Arena Race Circuit to the streets and parks Downtown (see Downtown Race Course Diagram in Attachment 1) necessitate certain amendments to the original Agreement.

Changes in Financial Arrangements.

Since the new location no longer requires modifications to the Arena Parking Lot, the City no longer has an obligation to finance race circuit improvements. Under the original terms of the agreement the City was going to use \$400,000 from its Development Enhancement Special Fund and an additional \$250,000 of redevelopment monies. These funds were to be repaid by Canary to the City and Agency over the term of the Agreement from Race proceeds. Since the contribution is no longer required, the City's participation in the Race proceeds has been deleted.

Similarly, the Sports Authority's contribution of \$325,000 will no longer be needed for the Arena Lot Modifications. The agreement has been changed to allow the Sports Authority contribution to be used for the Circuit Improvements and to defray other costs of the Event. San Jose Arena Management is released of its funding obligation under the initial terms of the agreement.

Construction of Race Course Improvements.

The proposed amended and restated Agreement requires the construction of Downtown Race Circuit Improvements, which involve the reconstruction and repaving of Almaden Blvd, Balbach St, Park Ave. and Market St., and removing or reconstructing median islands on Almaden Blvd and Park Ave. This work is being done by Canary pursuant to a separate agreement and permit issue by Public Works which also requires Canary to restore the construction work that had already started on the Arena Race Circuit. Canary's responsibility for the restoration of sidewalks on St. John Street will be capped at \$20,000. Canary and its contractor have posted payment and performance bonds to insure the completion of this work. In December the City Council made a finding that bidding the construction of Race Circuit improvements would be an idle act because they are being built at no cost to the City.

Under the initial Agreement, Canary has already deposited a Public Works fee for design and inspection services in the amount of \$440,000. Under the proposed amended and restated agreement Canary will pay for actual costs incurred by the Department of Public Works, which are estimated to be approximately \$610,000.

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Fee Provisions

Under the initial Agreement, 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 is that Canary had agreed to pay for police and fire services up to \$200,000.

The change to the Downtown Race Circuit, while beneficial to the City for many reasons, significantly increases the impacts on City facilities; cultural and civic organizations, businesses, and residents. Therefore, some changes to the provisions regarding first year costs have been agreed to. For example, the cap on police and fire services for the 2005 Race has been increased to \$225,000. Furthermore, Canary will pay to the City, starting with the 2005 Race, lost parking revenues that the City will incur due to the loss of the Convention Center Garage, the Boston Properties lot, the Woz Way parking lot and on street parking for various lengths of time. Staff still believes, however, that the City's contribution to the event in the form of taking limited responsibility for the 2005 Race for standard fees and charges set by the City's fee resolution is justified in light of the economic benefits expected to be realized by bringing this international event to the City.

After the first year, Canary will still be required to pay standard event permit fees and the costs of City services.

Other Parking Issues.

Canary will also be responsible for accommodating the Marriott, Hilton and Hyatt Hotels which are entitled to a combined 480 parking spaces in the Convention Center garage under agreements with the City and Agency. Staff recommends that the City Council and Agency Board authorize the City Manager and Executive Director to negotiate and execute amendments to those agreements as necessary to accommodate the closure of the Garage for the Grand Prix, at no cost to the City or Agency.

Other Provisions.

The City's obligations to allow the Event on the Downtown Race Circuit, is conditioned on, among other things, Canary entering into an agreement with VTA to mitigate impacts to the VTA's transit operations during the San Jose Grand Prix, at no cost to City.

OUTCOMES

By approving the Amended and Restated Agreement, Council is acknowledging that the new racecourse circuit for the Grand Prix will be located downtown.

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The three-day event is expected to stimulate the economy and generate both Sales Tax and Transient Occupancy Tax from the estimated 100,000-135,000 spectators and more than 2,000 Race employees.

These actions further the vision of San Jose 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, the San Jose Sports Authority made initial contact with the neighborhood and business community regarding a proposed San Jose Grand Prix. Within the vicinity of the Arena Course Circuit, there are approximately 20-25 residences, 15-20 small businesses, and the Comerica building. Contact was made with all of the businesses and residents. Outreach to the neighborhood and business community continues in light of the proposed racecourse change.

Given the varied amount of impacts the Downtown Race Course presents, outreach efforts have already started. The Mayor and City Manager's Office met with many business stakeholders April 1, 2005 to discuss issues related to a downtown Grand Prix. San Jose Grand Prix and City Staff have identified 20-25 residential units and over two-dozen businesses or organizations that will face some type of direct impact by the proposed Downtown Race Circuit.

In addition, specific one on one meetings with St. Joseph Cathedral, the Santa Clara Superior Court and Children's Musical Theater have been held or scheduled. Team San Jose has also held meetings with the downtown hotel general managers.

City and Agency staff members have been designated as liaisons to assist those businesses that have questions or concerns about the impact of the race on their businesses. In addition Canary and the City will be holding more community meetings to address residential and business concerns.

It should be noted that while City staff and officials are, by necessity, involved in the outreach effort for this event, Canary is responsible for providing adequate accommodation for all businesses and residents that will be impacted by this event. The City has no authority to bind Canary to any third party obligations.

COORDINATION

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

COST IMPLICATIONS

As discussed previously, funding of \$650,000 from the Development Enhancement Fund and the Redevelopment Agency will no longer be necessary to support parking lot modifications at the HP pavilion. Budget actions are recommended in this memorandum to eliminate the transfers from these funds for the project and reduce the project cost accordingly.

With the new race course design the estimated operating costs for Police and Fire/Emergency Services for the event in the first year is \$225,000, a \$25,000 increase from the Arena Race Circuit estimate. Canary will pay off-duty Police Officers directly up to a budgeted \$120,000. Canary will pay the City the remaining \$105,000, primarily for Fire/Emergency Services.

BUDGET REFERENCE

Fund	Appn. #	Appn. Name	Total Appn.	Adopted Budget Page	Last Budget Action (Date, Ord. No.)
001	6377	San Jose Grand Prix	\$975,000	N/A	12/07/04 (Ord. 27306)

CEQA

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

The proposed event was analyzed for potential environmental impacts related to noise, traffic, water quality, and hazardous materials. It is important to remember that activities such as the proposed race are considered a short-term activity, similar to other events that occur regularly downtown, or of a specific duration, such as construction activities. Attachment 2 was prepared to address potential impacts, and lack of those impacts reaching a level of significance.

In reviewing the noise associated with this event, noise levels during the race of approximately 110 dBA measured 50 feet from the cars are customary based on information from Champ car. The current noise levels in the area are the result of noise from Highway 87 and aircraft. Noise levels range during the daytime average between 64 to 72 dBA with peaks of 86 dBA. Other short-term noise levels analyzed in the areas include pile driving activities required to construct office and housing towers showed that construction noise would reach up to 105 dBA to drive piles. Due to the limited 3 days of racing, the limited number of sensitive receptors (adjacent housing units) and location under the airport approach zone, staff determined that no extraordinary noise control measures are warranted. Additionally, the race promoter has plans for working with the residents of the adjacent residential units.

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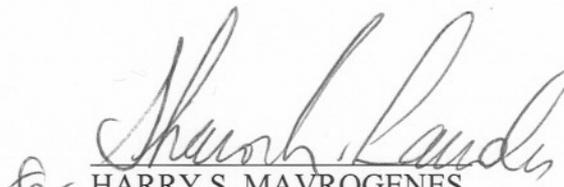
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Traffic impacts are expected to be generally limited to the areas surrounding the closure of the race streets. The management plan required by City staff is intended to minimize disruptions to the major streets such as West San Carlos Street, Park Avenue, Almaden Boulevard and Market Street. Coordination with VTA staff has begun on the rerouting of bus service to maintain the continuity of the transit system during the race event during the closure of the light rail tracks for the race. This coordination with VTA and Caltrans will occur as it currently occurs for major events downtown such as the 4th of July celebrations.

Potential impacts to water quality from the racecourse and pit areas were considered and can be addressed by incorporating standard design measures implemented through the Fire Department review of the fueling facilities, protection of storm inlets, and post race cleaning.


DEL D. BORGS DORF
City Manager


for HARRY S. MAVROGENES
Executive Director