

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jim Shannon

**SUBJECT: SAN JOSÉ ARENA CAPITAL
RESERVE FUND AMENDMENTS**

DATE: January 3, 2023

Approved



Date

1/5/23

RECOMMENDATION

Adopt the following 2022-2023 Appropriation Ordinance Amendments in the San José Arena Capital Reserve Fund:

- (1) Decrease the Previously Approved Repairs Reserve by \$3,871,000;
- (2) Increase the Electrical Repairs appropriation to the Office of Economic Development and Cultural Affairs by \$855,000;
- (3) Increase the Mechanical Repairs appropriation to the Office of Economic Development and Cultural Affairs by \$2,655,000;
- (4) Increase the Structures Repairs appropriation to the Office of Economic Development and Cultural Affairs by \$334,000; and
- (5) Increase the Unanticipated/Emergency Repairs appropriation to the Office of Economic Development and Cultural Affairs by \$27,000.

OUTCOME

Approval of these appropriation amendments in the San José Arena Capital Reserve Fund provides the necessary funding to reimburse costs associated with capital repairs and improvements at the San José Arena (Arena), also known as the SAP Center, that were previously approved by the City Council in prior fiscal years and ensure that San José Arena Management receives prompt reimbursement.

BACKGROUND

The Arena was financed and constructed by the former Redevelopment Agency of the City of San José, with significant contribution by the original owners of the San José Sharks. The Arena, which is owned by the City, opened in September 1993. Since that time, there has been a seamless evolution of ownership of the San José Sharks and management of the Arena. Sharks Sports & Entertainment operates the facility through its subsidiary San José Arena Management,

under a Management Agreement with the City. The Management Agreement has been amended several times over the years to reflect changing circumstances with the goal to maintain the Arena as one of the best facilities of its type in the nation.

Under the current Management Agreement, executed July 2015, both Sharks Sports & Entertainment and the City contribute to the San José Arena Capital Reserve Fund for the purpose of paying for capital repairs and replacements of systems and equipment at the Arena (excluding repairs and replacements to “Private Use Areas” such as the team training facilities, for which Sharks Sports & Entertainment is responsible). During the annual budget process, the Administration meets with San José Arena Management and the San José Arena Authority to prepare a capital improvement and repair budget for the new fiscal year that will be paid by resources within the San José Arena Capital Reserve Fund. Projects are categorized by construction type under one of five appropriations: 1) Electrical, 2) Mechanical, 3) Miscellaneous, 4) Structures, and 5) Unanticipated/Emergency repairs. Funding for projects that have been allocated in prior years but have not been reimbursed, pending completion by San José Arena Management, are maintained in the Previously Approved Repairs Reserve. The Administration will periodically recommend the reallocation of reserve funds to various repair appropriations to provide for reimbursement to San José Arena Management for the completion of these projects as required under the Management Agreement.

ANALYSIS

The City received three invoices in 2022-2023 from San José Arena Management for the reimbursement of capital improvements and repairs from prior year allocations. These invoices are outlined below:

Received	Fiscal Year Allocated	Invoice Number	Amount
10/26/2022	2019-2020	90000226	\$1,102,329.90
10/26/2022	2020-2021	90000227	\$2,223,742.47
11/17/2022	2021-2022	90001207	\$543,332.60

The total amount of reimbursement is \$3.9 million and includes projects that were part of prior years’ allocations. As such, it is recommended to reallocate funds from the Previously Approved Repairs Reserve into the various repair appropriations in the San José Arena Capital Reserve Fund. This action would reduce the Previously Approved Repairs Reserve from \$6.0 million to \$2.1 million. The budget adjustments recommended in this memorandum will provide the City capacity to remit payment to San José Arena Management for all current invoices and realign project appropriation categories with the correct funding amounts.

CONCLUSION

Approval of this recommendation will allow the City to remit payment to San José Arena Management for capital repairs and improvements for the invoices submitted in 2022-2023 thus far.

EVALUATION AND FOLLOW-UP

No additional follow up action with the City Council is expected at this time.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the January 24, 2023 City Council meeting.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input associated with this action.

COST SUMMARY/IMPLICATIONS

As shown in the Budget Reference table below, \$3.9 million is recommended for reallocation from the Previously Approved Repairs Reserve to the respective repair appropriations within the San José Arena Capital Reserve Fund to reimburse San José Arena Management for capital project expenditures that were approved in a prior fiscal year. The Administration will continue to work with the San José Arena Authority and San José Arena Management to ensure that additional invoices that may be submitted for reimbursement of capital improvements and repairs are paid in a timely manner. Depending on the progress of the SAP Center capital improvement program, the Administration may bring forward additional adjustments prior to the end of the 2022-2023 fiscal year.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Current Total Appn.	Rec. Budget Action	2022-2023 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
459	8382	Previously Approved Repairs Reserve	\$5,978,807	(\$3,871,000)	1035	10/18/2022, 30833
459	7567	Electrical Repairs	\$1,010,000	\$855,000	1035	06/21/2022, 30790
459	7568	Mechanical Repairs	\$2,030,000	\$2,655,000	1035	06/21/2022, 30790
459	7570	Structures Repairs	\$450,000	\$334,000	1035	06/21/2022, 30790
459	7571	Unanticipated / Emergency Repairs	\$200,000	\$27,000	1035	06/21/2022, 30790

CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.



JIM SHANNON
Budget Director

The principal author of this memorandum is Stewart Patri, Capital Budget Coordinator. For questions, please email Mr. Patri at stewart.patri@sanjoseca.gov.