

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jim Shannon  
Julia H. Cooper

**SUBJECT: ICE CENTRE REVENUE FUND  
APPROPRIATION ADJUSTMENTS**

**DATE:** October 17, 2019

Approved

Date

10-17-19

## RECOMMENDATION

Adopt the following 2019-2020 Appropriation Ordinance and Funding Sources Resolution amendments in the Ice Centre Revenue Fund:

- a) Increase the Revenue from the Use of Money/Property by \$188,486;
- b) Increase the Repairs – Electrical appropriation to the Finance Department by \$318,015;
- c) Increase the Repairs – Mechanical appropriation to the Finance Department by \$560,038;
- d) Increase the Repairs – Miscellaneous appropriation to the Finance Department by \$7,389;
- e) Increase the Repairs – Structures appropriation to the Finance Department by \$704,283;
- f) Increase the Repairs – Unanticipated/Emergency appropriation to the Finance Department by \$40,656;
- g) Increase the Transfer to the General Fund – Ice Centre Insurance Expenses by \$831;
- h) Decrease the Previously Approved Repairs Reserve by \$444,532; and
- i) Decrease the Unrestricted Ending Fund Balance by \$998,194.

## OUTCOME

Approval of the appropriation actions recommended in this memorandum allows for the reimbursement of capital rehabilitation and repair expenses at Solar4America Ice (also known as the Ice Centre) previously performed by Sharks Ice, LLC (Sharks Ice) and aligns anticipated revenue lease payments to the City with the Fourth Amendment to Amended and Restated Lease and Management Agreement (Agreement) for Solar4America Ice executed on August 15, 2018.

## **BACKGROUND**

On May 19, 2015, the City Council adopted Resolution number 77532 authorizing the City Manager to negotiate and execute the following documents: (i) a Second Amended and Restated Arena Management Agreement between San Jose Arena Management and the City extending the term of the 2000 Arena Agreement and amending other terms, consistent with the Term Sheet presented to the Council; (ii) a Fourth Amendment to the Amended and Restated Lease and Management Agreement for the Ice Centre between Sharks Ice and the City; and (iii) other documents consistent with the term sheet. The City executed the Fourth Amendment to the Agreement with Sharks Ice for the management of Solar4America Ice on August 15, 2018, which memorialized the details of the Term Sheet with respect to Solar4America Ice.

Rent payments from Sharks Ice are received by the City and deposited into the Ice Centre Revenue Fund. The Base Rent is used to pay for debt service related to the past expansion of the facility, and for reimbursement of capital rehabilitation and repair work performed by Sharks Ice. The Additional Rent provides partial funding for the Arena Authority to pay the City's insurance premium associated with Solar4America Ice. Though the Additional Rent did not change, the revised Agreement changed how the Base Rent is calculated. Instead of a prescribed payment schedule that was initially built upon assumed debt service and capital repair schedules, beginning in 2018-2019, the revised Agreement defines the Base Rent as the amount of money necessary for the City to fulfill its annual debt service obligations and the amount of money reasonably necessary to cover reasonable capital repairs for the applicable fiscal year.

## **ANALYSIS**

In planning for the 2018-2019 budget, consistent with past practice, Sharks Ice presented a capital repair plan to the Arena Authority and reviewed that plan with City staff, including the Public Works Department and the City Manager's Budget Office. The Base Rent payment for 2018-2019 was based on the approved capital repair plan, the debt service payment as calculated by the City, and left room for a remaining ending fund balance of approximately \$150,000 for any minor repair issues that may arise during the year.

Due to a miscommunication between the City and Sharks regarding the invoicing of the Base Rent payment, the final quarterly payment in 2018-2019 was not received by the City. As a result, the City was not able to process all of the reimbursement requests recently submitted by Sharks Ice for capital repairs that occurred in 2018-2019.

The City and Sharks Ice subsequently met to clarify the invoicing process. Further, those discussions determined that funding previously set aside in the Ice Centre Revenue Fund to reimburse for capital repairs that were authorized prior to 2018-2019 will no longer be needed. By liquidating the reserve, these funds are able to offset a portion of the reimbursement expenses for 2018-2019.

The actions included in this memorandum:

- 1) Result in a net increase of \$188,486 to the Base Rent in 2019-2020 that accounts for truing up the underpayment of Base Rent in 2018-2019 and maintains the target unrestricted ending fund balance of \$150,000;
- 2) Fully reimburses Sharks Ice for capital repairs that occurred in 2018-2019 in the amount of \$1.6 million, which includes work related to the pro shop remodel (\$660,000), ice chiller plant (\$526,000), lighting system (\$318,000), fire systems (\$26,000), and other miscellaneous costs;
- 3) Liquidates the Previously Approved Repairs Reserve of \$444,532 as this funding is no longer needed for any repairs approved prior to 2018-2019;
- 4) Increases the Transfer to the General Fund in the amount of \$831 to reflect the City's revised annual insurance premium; and
- 5) Maintains the unrestricted ending fund balance in the Ice Centre Revenue Fund at the target amount of \$150,000.

### **EVALUATION AND FOLLOW-UP**

No additional follow up actions with the City Council are expected at this time.

### **PUBLIC OUTREACH/INTEREST**

This memorandum will be posted on the City's website for the October 29, 2019, City Council agenda.

### **COORDINATION**

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

### **COMMISSION RECOMMENDATION**

This item does not have input from any board or commission.

### **COST SUMMARY/IMPLICATIONS**

As described above, the recommended appropriation actions are largely technical adjustments to align the Base Rent with the terms of the Agreement and to reimburse Sharks Ice for previously approved capital repairs that occurred in 2018-2019. The City and Sharks Ice will continue to meet annually on the capital repair program for Solar4America Ice, ensuring that funds are sufficient for debt service payments and reasonable capital expenditures.

October 17, 2019

**Subject: Ice Centre Revenue Fund Appropriation Adjustments**

Page 4

**BUDGET REFERENCE**

The table below identifies the fund and appropriation recommended to be modified with this memorandum.

Fund #	Appn #	Appn. Name	Total Appn.	Rec. Budget Action	2019-2020 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
432	R080	Revenue from the Use of Money/Property	\$3,659,645	\$188,486	X-46	6/18/2019, 79162
432	2049	Repairs - Electrical	\$540,000	\$318,015	X-46	6/18/2019, 30286
432	2051	Repairs – Mechanical	\$447,100	\$560,038	X-46	6/18/2019, 30286
432	2052	Repairs – Miscellaneous	\$65,000	\$7,389	X-46	6/18/2019, 30286
432	2053	Repairs – Structures	\$35,000	\$704,283	X-46	6/18/2019, 30286
432	2054	Repairs – Unanticipated/ Emergency	\$75,000	\$40,656	X-46	6/18/2019, 30286
432	A045	Transfer to the General Fund – Ice Centre Insurance Expenses	\$11,271	\$831	X-46	6/18/2019, 30286
432	8382	Previously Approved Repairs Reserve**	\$2,057,321	(\$444,532)	X-46	6/18/2019, 30286
432	8999	Unrestricted Ending Fund Balance**	\$283,998	(\$998,194)	X-46	6/18/2019, 30286

\* The 2019-2020 Proposed Operating Budget was adopted by the City Council on June 18, 2019.

\*\*Actions included in the 2018-2019 Annual Report, scheduled for City Council review on October 22, 2019, will revise the Previously Approved Repairs Reserve to \$444,532 and the Unrestricted Ending Fund Balance to \$1,148,194

HONORABLE MAYOR AND CITY COUNCIL

October 17, 2019

**Subject: Ice Centre Revenue Fund Appropriation Adjustments**

Page 5

**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.

/s/

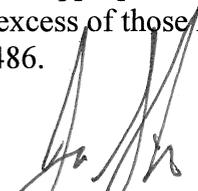
JULIA H. COOPER

Finance Director



JIM SHANNON  
Budget Director

I hereby certify that there will be available for appropriation in the Ice Centre Revenue Fund in Fiscal Year 2019-2020 moneys in excess of those heretofore appropriated therefrom, said excess being at least \$188,486.



JIM SHANNON  
Budget Director

For questions please contact Jim Shannon, Budget Director, at 408-535-8142.