



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper
Kim Walesh

**SUBJECT: FINANCIAL FEASIBILITY STUDY
ICE CENTRE EXPANSION PROJECT**

DATE: November 25, 2019

Approved

Date

11/27/19

COUNCIL DISTRICT: 7

RECOMMENDATION

- (a) Accept Feasibility Study on the financial feasibility of financing the proposed expansion of the Solar4America Ice Centre with the lease payments from Sharks Ice, LLC;
- (b) Direct staff to develop a bond financing structure and prepare the necessary documents for consideration by the City of San José Financing Authority Board and City Council; and
- (c) Direct staff to negotiate an Amended and Restated Lease and Management Agreement with Sharks Ice, LLC for the City Council's consideration.

OUTCOME

The Financial Feasibility Study (the "Study") provides an independent assessment of the financial operations as a result of the proposed expansion of the Solar4America Ice Centre ("Ice Centre") from four sheets of ice to six sheets of ice and evaluates the potential income available for the repayment of bonds issued to finance the proposed expansion and to refund the bonds previously issued to finance the construction of the existing Ice Centre. The Study is a requirement of the City's Debt Management Policy that prior to embarking on lease revenue bond financing solely supported by project revenues, a financial feasibility study needs to be completed. City Council approval of the recommended actions will allow staff to commence work on developing a bond financing structure and bond documents and negotiate an Amended and Restated Lease and Management Agreement with Sharks Ice, LLC for future City Council review and consideration.

EXECUTIVE SUMMARY

In April 2019, staff received City Council approval for the City Manager to negotiate and execute a memorandum of understanding with Sharks Ice, LLC regarding the proposed fourth expansion of the Ice Centre. One of the Council approved recommendations was the completion

of a feasibility study needed for bond financing to pay for the fourth expansion. Since the source of funding to pay for this project is limited to project revenues generated by Sharks Ice, LLC, Section III.D.2.b. of the City's Debt Management Policy requires two-thirds Council approval to proceed with project financing and requires the following:

“Prior to embarking on a lease financing in which project revenues are identified as the repayment source, a feasibility study will be performed to determine the volatility of the revenue and provide a sensitivity analysis on project revenue projections including worst/best case scenarios, including without limitation, the impact on any repayment source identified as the backstop to the project revenues as the repayment source.”

The City engaged Strategic Venue Studies and Sport Synergy, LLC to perform a feasibility analysis of the proposed expansion of the Ice Centre. The proposed Ice Centre expansion (“Proposed Project”) would add two new ice sheets to its existing four sheets, including a 4,213-seat arena that will serve as the new home ice for the San José Barracuda of the American Hockey League (“AHL”). The additional ice capacity would also allow for expanded programming and ice rentals to better serve the community's ice needs. Sharks Ice has plans to enter into a long-term parking use agreement with San José State University (“SJSU”) for the use of a new, four-level 1,500-space parking structure to provide additional spaces for events at the Ice Centre. If Council approves the Study, staff will proceed to negotiate an Amended and Restated Lease and Management Agreement with Sharks Ice, LLC under the key terms and provisions outlined in this memorandum for: project scope and use; financing and repayment of bond obligations; lease payments; capital expenditures; lease and sublease provisions; and parking. The draft Amended and Restated Lease and Management Agreement, along with the proposed bond documents, would come back to the City Council for review and approval at a future date.

The results of the Study confirm that future operations from the Ice Centre, as expanded by the Proposed Project would operate within a range that is sufficient to produce revenues necessary for the repayment of lease revenue bonds to be issued to fund the expansion and meets the requirement of Section III.D.2.b. of the City's Debt Management Policy.

BACKGROUND

Existing Ice Centre

The Ice Centre is located at 1500 S. Tenth Street in San José on a parcel of land owned by City (APN 477-38-003), a portion of which is leased to Sharks Ice. The Ice Centre occupies only a portion of that parcel; the other portion is occupied by the San José Municipal Stadium, where the San Jose Giants play their home games. The parent company of Sharks Ice is Sharks Sports & Entertainment LLC, which is also the parent company of San Jose Arena Management, LLC, and San Jose Sharks, LLC.

The Ice Centre, which contains almost 180,000 square feet, accommodates ice hockey, figure skating, broomball, curling, speed skating, and ice dancing, as well as public skating. It is also the official practice facility for the Sharks and the Barracuda (both of which play their home games at SAP Center), and the home of the San José State University hockey team and nationally ranked San Jose Sharks Junior teams.

The construction of the Ice Centre was completed in phases over more than 20 years, as follows:

- 1994 - Construction of original facility with two sheets of ice
- 1999 - Addition of a third sheet of ice, Sharks training facility and offices (First Expansion)
- 2005 - Addition of a fourth sheet of ice, restaurant and expanded locker rooms (Second Expansion)
- 2015 - Addition of training facility for San Jose Barracuda (Third Expansion)

Current Operation

The Ice Centre is operated by Sharks Ice, LLC under a Lease and Management Agreement dated May 25, 2004, as amended. The parent company of Sharks Ice is Sharks Sports & Entertainment LLC, which is also the parent company of San Jose Sharks, LLC (which owns the NHL team) and San Jose Arena Management, LLC (which operates the SAP Center). As the second largest ice venue west of the Mississippi, the Ice Centre has become one of the most utilized public recreation facilities in the United States and is one of only eight such facilities that currently operates at least four NHL-sized ice rinks. All four rinks are available for public skating at scheduled times (including the professional training rinks) and are open year-round from approximately 5:30 A.M. to 1:30 A.M. Programs offered to the public include ice hockey, figure skating, broomball, curling, speed skating and ice dancing, as well as recreational skating. The Ice Centre is also the official practice facility for the San Jose Sharks NHL team and the San Jose Barracuda AHL team (both of which now play their home games at SAP Center) and is the home of the San José State University hockey team and nationally ranked San Jose Sharks Junior teams.

Proposed Expansion Project

To meet an increase in regional demand for “ice time” and to provide an alternate home arena for the San Jose Barracuda, Sharks Ice is proposing the fourth expansion to the Ice Centre. If approved, the Proposed Project would add approximately 200,800 square feet of space to the Ice Centre, including a Community/Practice Rink (Rink 5) and a Competition Rink for the San Jose Barracuda (Rink 6) that will also serve as a community/practice rink when not in use for the Barracuda. This larger complex would allow expanded program offerings and greater flexibility for simultaneous events from AHL hockey games to youth open ice skating and would help attract new events to San José such as national competitions.

Rink 5 would be two stories. On the event level (Level #1), Rink 5 would include 12 public locker rooms and arena support spaces, such as security/event office, main electrical room, ice making equipment for rinks 3, 5, and 6, boiler room, water entry room, fire pump room, main IT and storage. The second level (Level #2) would include a homework/study room, a bar restaurant, seats for 100 spectators and training space for patrons.

Rink 6 would be three stories surrounding the arena's oval-shaped seating bowl (total capacity is 4,213), which would be designed to provide optimum spectator seating. The arena level (Level #1) would include a total of up to 3,523 fixed and moveable spectator seats, locker rooms, restrooms, a ticket lobby, concessions/commissary, merchandise location, lounge and loading docks. The club level (Level #2) would provide seating of up to 690 seats in the following areas: suites, theatre box and loge boxes. The club level would also provide a press area, locker room and team training space, club seating and suites pantry.

Level #2 would also include a 4,370 square feet ("SF") space designed for physical therapy. The physical therapy space would be connected to the third level (Level #3), which would contain almost 20,000 square feet of medical office space, including space for a reception/lobby area, restrooms, offices, exam rooms and support services. Both the physical therapy and medical office spaces are intended to be leased to a third-party medical provider specializing in sports medicine and related services. The tenant would complete their own interior improvements. These structures would be designed to meet and exceed the requirements of the Americans with Disabilities Act Accessibility Guidelines.

In addition, Sharks Ice intends to obtain LEED Silver certification (or higher) for the Proposed Project in accordance with City requirements. The Sharks Ice expansion would require the demolition of the Gun Range presently on site. The Gun Range lease affords the City the ability to terminate the lease with 180 days' notice. City staff has met with Gun Range representatives to provide the required notice, and has provided one year notice. The following is a summary of proposed building area changes (all numbers, in square feet, are approximate):

Existing:	179,687
To be demolished:	<u>(2,687)</u>
Net existing:	177,000
New Level #1:	116,468
New Level #2:	69,332
New Level #3	<u>15,000</u>
Total New:	200,800
Completed Project:	377,800

Estimated Construction Period

The estimated construction period is approximately two years after completion of the proposed bond financing in time for the 2022-23 NHL season. It is estimated the proposed bond financing will be presented to the City Council in April 2020.

Increased Parking Demand/SJSU Parking Garage

Parking demand for the Ice Centre as expanded by the Proposed Project will be analyzed as part of a Traffic Impact Analysis to be completed in connection with the CEQA review and clearance prior to approval of the Proposed Project. Current estimates for the number of parking spaces that will be needed under different scenarios range from about 620 spaces (for peak week day operation with no large event) to about 1,730 spaces (for a weekend tournament situation with a simultaneous event in Rink #6). After completion of the Proposed Project, approximately 435 spaces will be provided on-site, with about 40 allocated for use by hockey players and staff and about 160 allocated for use by the San Jose Giants or other users of the Municipal Stadium.

To address increased parking demand, Sharks Ice plans to enter into a long-term parking use agreement with SJSU for the use of a new, four-level 1,500-space parking structure north of the Ice Centre on a site currently occupied by the SJSU track. The parking garage is being built by SJSU to serve its South Campus athletic facilities including the 30,000-seat CEFCU Stadium, tennis, soccer, softball, golf and future baseball facilities. It will also serve as overflow remote parking/shuttle service to the Main Campus, which is severely parking-restricted. The garage will displace the current track, but SJSU will construct a rugby/soccer field north of the garage with a walking path around it, that will be open to the community.

Sharks Ice will enter into a Parking Agreement with SJSU prior to the sale of the Lease Revenue Bonds issued for Ice Centre expansion. The Parking Agreement will allow Sharks Ice customers priority parking during Barracuda games and other Sharks Ice events for a modest fee. The term of the Parking Agreement must align with the Lease, or at a minimum extend until debt service is paid.

The City's Lease Agreement with the San Jose Giants was amended in September 2019 for a period of three years. The proposed expansion of Sharks Ice will eliminate many parking spaces needed for the operation of the San Jose Giants at the Municipal Stadium. At this time, the Giants are in negotiations with SJSU for use of the parking garage described above for game day and event parking. Sharks Ice and the San Jose Giants have opposite seasons of peak play. The San Jose Giants are most active in the summer and the Barracuda/Sharks Ice heaviest utilization is in the winter.

ANALYSIS

In April 2019, staff received Council approval for the City Manager to negotiate and execute a memorandum of understanding with Sharks Ice, LLC regarding the proposed fourth expansion of the Ice Centre. One of the Council approved recommendations was the completion of a financial feasibility study needed for bond financing to pay for the fourth expansion. Since the source of funding to pay for this Proposed Project is limited to project revenues made by Sharks Ice, LLC, Section III.D.2.b. of the City's Debt Management Policy requires two-thirds Council approval to proceed with project financing and requires the following:

“Prior to embarking on a lease financing in which project revenues are identified as the repayment source, a feasibility study will be performed to determine the volatility of the revenue and provide a sensitivity analysis on project revenue projections including worst/best case scenarios, including without limitation, the impact on any repayment source identified as the backstop to the project revenues as the repayment source.”

Financial Feasibility Report

In December 2018 the City, with the assistance of its municipal advisor, issued a request for proposals (“RFP”) to consulting firms to prepare a feasibility study for presentation to the City Council in connection with the Proposed Project. The study is required to comply with Section III.D.2.b. of the City’s Debt Management Policy.

In January 2019, the City received proposals from six firms, with interviews held for three firms later in January 2019. After careful consideration, the City selecting Strategic Venue Studies/Sports Synergy, as the feasibility consultant (“Feasibility Consultant”) in February 2019 in accordance with the specifications of the RFP. Sharks Ice, LLC provided the funding to the City in order for the City to compensate the Feasibility Consultant.

Feasibility Consultant -- The Feasibility Consultant, provides specialized expertise in performing market and feasibility studies for sports facilities and has experience in ice center operations. Specifically, their qualifications are as follows:

- Catherine Sarrett, of Strategic Venue Studies, has completed hundreds of assignments throughout the world analyzing the feasibility of youth sports facilities, professional and collegiate athletic venues, tourism attractions, museums, convention, and conference facilities, performing arts centers, and concert venues. Ms. Sarrett’s experience includes market feasibility studies, operations studies, development planning, appraisals, financing recommendations, and economic impact analyses.
- Lloyd Ney, of Sport Synergy, has over 20 years of experience in the operation and management of ice venues. Sports Synergy currently controls sports assets valued at over \$6 million, including the Sioux City Musketeers of the United States Hockey League (“USHL”). Mr. Ney also provides consulting and facility management services and oversees two year-round skating facilities and two seasonal outdoor operations. Mr. Ney also provides consulting services to new facility construction and to distressed facilities.

Methodology of Feasibility Study – In accordance with the Scope of Services, the Feasibility Consultant performed the following tasks:

- Traveled to San José, California for a market visit and client meeting with Sharks Ice representatives and gathered relevant data during this visit
- Interviewed representatives of various Ice Centre tenants and user groups
- Analyzed the economic and demographic data that indicate the extent to which, the local market area supports the Ice Centre expansion
- Analyzed national and local participation trends in ice hockey, figure skating, and curling
- Compiled data on competitive ice venues in the region, comparable National Hockey League (“NHL”) practice facilities, comparable AHL venues, and other large, multi-rink ice centers in similar markets
- Analyzed historical Ice Centre operations
- Reviewed the conceptual expansion plan
- Prepared a forecast of facility use, event demand, and attendance based on the implementation of the expansion program
- Forecasted the expected, conservative, and aggressive scenarios for the expanded Ice Centre financial operations
- Evaluated recession scenarios and other potential challenges to the expanded Ice Centre’s success.

Assumptions – The analysis assumed that the proposed expansion of the Ice Centre would be completed by April 1, 2022, and that activities and operations of the two new rinks at the Ice Centre would begin on April 1, 2022. As such, the analysis provides for a ramp up period from FY 2023 to FY 2025. It is projected that by year FY 2026, the operations of the Ice Centre as expanded by the Proposed Project, would be stabilized and the stabilized year serves as the basis for determining whether or not financial operations due to the expansion can support a repayment of a lease revenue bond obligation. To evaluate the sustainability of the Ice Centre operation after expansion, the Feasibility Consultant presented three operating projection scenarios: (1) conservative; (2); expected and (3) aggressive.

- Operating Revenue categories include: hockey programs/leagues; classes/lessons; facility rental; sponsorships; food/beverage sales; merchandise sales; AHL net income and miscellaneous income.
- Operating Expense categories include expenses associated with the above revenue categories, with the addition of administration; building operations, utilities and engineering.
- Operating Income / Operating (Loss) for each scenario is derived from the difference between Operating Revenue and Operating Expenses.
- Non-operating revenues include long term-lease contracts with the Sharks, Barracuda, a future medical tenant, and incremental revenues from naming rights.
- Indirect expenses include an annual parking access fee, other related payments by the Ice Centre, and an annual possessory interest tax paid to the County of Santa Clara under State law.

Projections - All operating projections are subject to a variety of known and unknown risks. Financial operations projections are based on a series of assumptions about the demand for ice time and participation in other sports and recreation programs. Actual events and circumstances may differ from these assumptions, and these differences may have a material effect on financial performance. Other risks include sponsorship agreements, relocation of the Sharks and Barracuda, NHL labor agreements, economic conditions, and business cycles of the San José region. The forecasts assume that tenant and third-party agreements remain in place for the duration of the projection period.

The tables below provide summaries of projected operations for each scenario (conservative, expected and aggressive). The City used the conservative scenario in modeling debt service coverage and did not include non-operating revenue and indirect expense in its calculations:

Conservative Scenario Summary Table of Operations (all figures in millions)					
	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Operating Revenue	\$16,026	\$21,637	\$22,670	\$23,676	\$24,782
Operating Expenses	(9,830)	(12,799)	(13,314)	(13,771)	(14,290)
Operating Income/(Loss)	\$6,196	\$8,838	\$9,356	\$9,905	\$10,492
Non-Operating Revenue	\$1,047	\$3,260	\$3,349	\$3,440	\$3,535
Indirect Expense	(771)	(825)	(839)	(853)	(868)
Net Income/(Loss)	\$6,533	\$11,273	\$11,866	\$12,492	\$13,159

Expected Scenario Summary Table of Operations (all figures in millions)					
	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Operating Revenue	\$17,200	\$23,493	\$24,626	\$25,702	\$26,888
Operating Expenses	(10,842)	(13,745)	(14,317)	(14,800)	(15,353)
Operating Income/(Loss)	\$6,357	\$9,748	\$10,309	\$10,902	\$11,535
Non-Operating Revenue	\$1,047	\$3,260	\$3,349	\$3,440	\$3,535
Indirect Expense	(771)	(825)	(839)	(853)	(868)
Net Income/(Loss)	\$6,694	\$12,183	\$12,819	\$13,489	\$14,202

Aggressive Scenario Summary Table of Operations (all figures in millions)					
	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Operating Revenue	\$18,742	\$26,090	\$27,364	\$28,547	\$29,849
Operating Expenses	(11,304)	(14,917)	(15,567)	(16,091)	(16,689)
Operating Income/(Loss)	\$7,438	\$11,173	\$11,798	\$12,457	\$13,159
Non-Operating Revenue	\$1,047	\$3,260	\$3,349	\$3,440	\$3,535
Indirect Expense	(771)	(825)	(839)	(853)	(868)
Net Income/(Loss)	\$7,775	\$13,608	\$14,308	\$15,044	\$15,826

The Study recommends using the mid-point (expected scenario) in interpreting financial projections as a range of possible outcomes and over a multi-year period rather than relying on projections for any one specific year. Projections in the Study reflect smooth growth over time but take into account that event demand and sports participation cycles are not always smooth. Business can be affected by unpredictable local and national economic factors. Demand is often cyclical and based on market conditions.

Economic Sensitivity Analysis - The Feasibility Consultant provided an economic sensitivity analysis for the Expected Scenario, for the first year of stabilized operations in FY 2026 that present a range of possible outcomes for Ice Centre operations under typical, cyclical market conditions and the impact of a significant economic downturn or recession. The table below depicts sensitivity to a 10%, 20%, and 30% reduction of operating and non-operating revenues in the Expected Scenario.

Summary Sensitivity Analysis - Expected Scenario <i>(all figures in millions)</i>				
	<u>FY2026</u>	<u>10% Revenue Decline</u>	<u>20% Revenue Decline</u>	<u>30% Revenue Decline</u>
Operating Revenue	\$26,888	\$24,199	\$21,510	\$18,822
Operating Expenses	<u>(15,353)</u>	<u>(14,098)</u>	<u>(12,843)</u>	<u>(11,588)</u>
Operating Income/(Loss)	\$11,535	\$10,101	\$8,668	\$7,234
<i>Non-Operating Revenue</i>	\$3,535	\$3,535	\$3,535	\$3,535
<i>Indirect Expense</i>	<u>(868)</u>	<u>(868)</u>	<u>(868)</u>	<u>(868)</u>
<i>Net Income/(Loss)</i>	\$14,202	\$12,768	\$11,335	\$9,901

Conclusion - The relative stability of the Ice Centre's historical operation suggests that future operations would continue to operate with a narrow range between the best (aggressive) - and worst-case (conservative) scenarios. Approximately 75% of operating revenues are directly attributed to ice usage. Unaccommodated prime time ice demand in the market insulates the downside, while ice capacity constraints limit the upside potential.

The chart below summarizes operating income projections, during both the ramp-up period (FY 2022) and stabilization (FY 2026) and associated estimated debt service coverage. Debt service coverage is the amount of operating income in excess of the debt service/lease payment requirements. Operating income figures do not include non-operating revenues (e.g. Leases and licensing agreements). There is no debt service in FY 2022 because interest is capitalized through the bond issuance. Revenue figures are in millions.

<u>Scenario</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Conservative	\$6.196	\$8.838	\$9.356	\$9.905	\$10.492
<i>Debt Service Coverage</i>	n/a	1.26	1.25	1.25	1.33
Expected	\$6.357	\$9.748	\$10.309	\$10.902	\$11.535
<i>Debt Service Coverage</i>	n/a	1.39	1.38	1.38	1.46
Aggressive	\$7.438	\$11.173	\$11.798	\$12.457	\$13.159
<i>Debt Service Coverage</i>	n/a	1.60	1.57	1.58	1.66

As shown in the table above, based on a desired debt service coverage of operating revenues being 1.25 times debt service in the initial years of operations, the analysis of the Study supports a lease revenue obligation to finance the expansion of the Ice Centre.

The Financial Feasibility Study is attached (Attachment A) to this memo and provides an independent assessment of the Ice Centre as expanded by the Proposed Project financial operations in order to evaluate the income available for debt service obligations.

Financing - The Proposed Project if approved, would be financed through the issuance of Taxable Lease Revenue Bonds by the City of San José Financing Authority and secured by lease payments made by the City to the Authority for the lease of the Proposed Project. It is anticipated that the City would fund its lease payments from base rent payments to be paid to the City by Sharks Ice, LLC pursuant to a proposed Second Amended and Restated Lease and Management Agreement ("Agreement"). Under the lease revenue bond structure, the City would have the legal obligation to make lease payments to repay debt service on the contemplated lease revenue bonds so long as there is beneficial use and occupancy of the Project. The source of such lease payments would be the payments made by Sharks Ice under the Agreement.

Project Cost and Financing Plan - Design, construction, and other project development costs have been estimated at \$114 million. In addition to these direct project costs, the taxable lease revenue bonds issued by the City of San José Financing Authority would also refund outstanding bonds and fund capitalized interest during the construction period, debt service reserve, and costs of issuance. The following table presents the estimated uses of bond proceeds:

Projected Use of Bond Proceeds (Series 2020 Bonds)	
Construction Fund Deposit ¹	\$112,100,000
Refund CSJFA Series 2008E Bonds	13,050,000
Liquidation of Series 2008 Debt Service Reserve	(2,840,000)
Bond Issuance Cost	1,710,000
Capitalized Interest	10,900,000
Debt Service Reserve – Series 2020 Bonds	8,680,000
Total	\$143,600,000

¹ \$1.9 million in interest earnings assumed during construction period for \$114.0 million available for project construction costs

Proposed Business Terms

As mentioned above, should the City Council authorize staff to proceed with the development of a bond financing structure, staff recommends negotiating an Amended and Restated Lease and Management Agreement with Shark's Ice LLC. The Agreement will govern the expanded Ice Centre. City staff and representatives of Sharks Ice and Sharks Sports and Entertainment have reached agreement on a draft set of terms for the Agreement. Bringing draft business terms forward at this time provides the City Council the opportunity to give direction to staff on finalizing the negotiations of the proposed Agreement. Below are key agreed upon draft terms. The outline of all key proposed business terms is attached to this memorandum. Staff will continue to negotiate the remainder of business terms and bring the fully negotiated Agreement to Council for future review and consideration and approval.

Term – The Term of the Agreement will be for an initial period of 30 years, to coincide with the issuance of 2020 bonds. The Sharks will have the option to extend the Term in increments of 3 years or more up to a total maximum extension of 25 years beyond the initial term 30-year term, for a total maximum Term of up to 55 years.

Rent – Rent from Sharks Ice to the City will include a base rent amount as currently budgeted for FY 2019-2020, and a reduced rent during the construction period for FY 2020-2021 and FY 2021-2022 in recognition of operating income impact during construction. Base payments for fiscal years 2023, 2024, and 2025 will reflect gradually increased payments through the stabilization period. At the end of the stabilization period, base rent will be set at a rate

approximately 50 basis points higher than the rate on the City of San Jose Financing Authority taxable lease revenue bonds issued to finance the proposed expansion and to refund the bonds previously issued to finance the construction of the existing Ice Centre. Beginning in FY2025-2026, base rent payments are flat and fully amortize principal and interest in an annual amount of approximately \$9 million.

Letter of Credit –Sharks Ice currently maintains a Letter of Credit equal to two years of debt service under the amended Agreement, and the Letter of Credit (or cash security deposit) will be initially set at approximately two years of debt service payments (approximately \$16 million). This amount will be reduced to one year of debt service payments after one of the two conditions are met and eliminated after both conditions are met.

- Debt Service Coverage Ratio for the prior three (3) fiscal years is 1.50 times operating income
- San Jose Arena Management, LLC agrees that the Arena Management Agreement is extended to June 30, 2040, without right of early termination.

City has the ability to reinstate the Letter of Credit (or cash security deposit) equal to one year of debt service payments, approximately \$8 million if the Debt Service Coverage Ratio for the prior consecutive three (3) fiscal years has not be maintained at least 1.50 times operating income.

Capital Reserves – It is important that the City’s General Fund be protected and that the project provide Capital Reserve funds to ensure appropriate maintenance of a capital-intensive use. Shark’s Ice management does an excellent job maintaining the facility. Each fiscal year, Sharks Ice will be responsible for making all Capital Repairs and Replacements. Payment for such work shall be provided by Sharks Ice through its own funding sources, without contribution by the City. After commencement of the Term, a Capital Reserve shall be established in the Ice Centre Revenue Fund (Fund 432) to be used solely as a source of funds to pay for any Extraordinary Repair Work or uninsured casualty loss that may occur over the Term. The Capital Reserve is funded by excess base rent payments above the amounts required for annual debt service and City administrative expenses. This reserve will receive an estimated \$21 million over the 30-year term.

Arena Authority. Sharks Ice currently contributes an annual payment to support Arena Authority Operations, which generally increases with inflation. For 2019-2020, this payment is budgeted at \$49,955. Beginning in 2020-2021, this annual contribution increases to an amount of \$100,000, and will continue to escalate with inflation.

Ticket Distribution Program – Sharks Ice will provide the City with up to 20 complimentary club-level seat tickets to Barracuda home games for distribution for municipal purposes in accordance with guidelines to be established by the City.

Construction – Sharks Ice will be required, amongst other things, to utilize a multiple prime construction delivery process, use the public bidding process when obtaining and awarding construction bids, require all contractors to pay prevailing wages and conduct outreach to small and local businesses for all bid opportunities and utilize the City’s Project Labor Agreement (with exclusion of the installation of the ice skid).

Long Term Leases – The Barracuda will sign a 30-year sublease for the Barracuda’s occupancy of the AHL training facility, the San Jose Sharks will sign a 30-year sublease for the NHL training facility.

Substitutions – In the unlikely event that either the Barracuda or San Jose Sharks would relocate to another venue, Sharks Ice, LLC would continue to pay all amounts due under their sub-lease until they found an acceptable substitute subtenant.

Parking – As mentioned above, in addition to roughly 435 on-site parking spaces that will be available for Sharks Ice patrons, Sharks Ice will enter into a Parking Agreement with SJSU for parking. The Parking Agreement must align with the term of the Agreement and allow the Parking Agreement to be assigned to the City or other operator of the Ice Centre.

CONCLUSION

The recommended actions would satisfy the requirement of the City’s Debt Management Policy that prior to embarking on lease financing solely supported by project revenues a financial feasibility report needs to be prepared and presented to Council. Additionally, the recommendations will provide direction to develop a bond financing plan and associated documents; and to negotiate the Agreement with Sharks Ice, LLC. Staff will return to Council in the spring of 2020 for review and consideration of bond financing (and associated documents) by the City of San José Financing Authority Board and City Council and the City Council’s consideration of the Agreement with Sharks Ice, LLC.

EVALUATION AND FOLLOW-UP

This memorandum presents the set of recommendations related to the City Council’s approval of actions related the financing of the Proposed Project. Staff will return to Council in the spring of 2020 for approval of actions related to bond financing and the lease agreement with Sharks Ice, LLC.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more of Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum and attachments will be posted on the City's website for the December 10, 2019 Council meeting.

COORDINATION

This report has been prepared by the Finance Department in coordination with the City Attorney's Office, and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

The City's Economic Development Strategy, Strategy #12 directs staff to, develop a distinctive set of sports, arts and entertainment offerings, aligned with San José's diverse and growing population. The proposed Sharks Ice Expansion widens the availability of the Sharks Ice to San José residents and visitors. Sharks Ice is a hub for family and youth activity that is heavily utilized.

COST SUMMARY/IMPLICATIONS

The estimated project costs of the Ice Centre expansion will be \$114 million, financed by bond proceeds totaling approximately \$143.6 million to be issued by the City of San José Financing Authority. Proceeds from the bond issuance, if approved by the Council in spring of 2020 would be sufficient to provide funding for construction cost (which includes design and project development), refunding of prior bonds issued for the Ice Centre, capitalized interest, a debt service reserve fund, and bond issuance costs.

HONORABLE MAYOR AND CITY COUNCIL

November 25, 2019

Subject: Financial Feasibility Report – Solar4America Ice Centre Expansion Project

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CEQA

Not a Project, File No. PP17-007, Preliminary direction to staff, eventual action requires approval from decision-making body.

/s/

JULIA H. COOPER
Director of Finance

/s/

KIM WALES
Deputy City Manager/
Director of Economic Development

For questions, please contact Julia H. Cooper, Director of Finance, at (408) 535-7011 or Nanci Klein, Assistant Director of Economic Development at (408) 535-8184.

Attachment A: Financial Feasibility Report

B: Proposed Business Terms to Amended and Restated Lease and Management Agreement