



# Authorization of Taxable Lease Revenue Bonds

## Series 2020B (Ice Centre Project)

**Joint City Council/  
City of San José Financing Authority  
August 25, 2020**

**Agenda Item # 2**

### Presenters:

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# Objectives of the 2020B Bonds

- Provide \$120 million to fund the Ice Centre expansion project
  - ✓ Two new rinks and buildings at Ice Centre
- Refund \$11.17 million Lease Revenue Bonds Series 2008E
  - ✓ Take out variable rate debt with low fixed rate bonds
- General Fund Lease Obligation; however, City is entering into Amended Lease Agreement with Sharks with Base Rent Paid by Sharks to be sufficient to cover debt service on the 2020B Bonds
  - ✓ City and Sharks will execute Amended and Restated Lease and Management Agreement concurrent with bond closing in which Sharks make Base Rent Payments and Additional Rent Payments for the Expanded Ice Centre
  - ✓ Under the 4<sup>th</sup> Expansion Agreement between the City and Sharks Ice LLC, Sharks will construct the expansion of the Ice Centre using \$120 million of the 2020B Bonds proceeds City of San Jose owns the land and will own the improvements.

# ***Current Operation/Expansion of Ice Centre***

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## ➤ **Current Ice Centre Operations**

- ✓ Operated by Sharks Ice
- ✓ All four ice rinks are available for public skating
- ✓ Pre-COVID: Open year-round 5:30am-1:30am, no restrictions
- ✓ Post-COVID: Closed in March and reopened in June for youth camps within requirements of County public health order and open 6:00 am-12:00 am

## ➤ **4<sup>th</sup> Ice Centre Expansion Project**

- ✓ Additional 204,193 sq. ft. to be built
- ✓ 5<sup>th</sup> rink for public skating (new 2 story building)
- ✓ 6<sup>th</sup> rink and arena for AHL Barracuda home games and practices and public use (new 3 story building)
- ✓ Shell space on 3<sup>rd</sup> floor for future medical or other office uses and support services which may be leased to third-party medical provider specializing in sports medicine and related services

## ➤ **Construction started August 2020**

- **Projected construction completion August 2022**

# ***Amended Lease & Management Agreement***

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- **Parties** – City and Sharks Ice, LLC
- **Initial Term** – Commencing October 2020 and ending June 2051, to coincide with last 2020B debt service payment
- **Extension of Term** – Options to extend the Term in increments of three years or more with total maximum of 25 years beyond initial term. Extension rent based on fair market value (no longer based on debt service on bonds which mature)
- **Rent** - Sharks Ice will make annual base rent payments, payable in quarterly payments in advance, to the City.
- **Letter of Credit** – As security for Sharks payment obligations, the Sharks shall deliver to the City either an irrevocable letter of credit in favor of the City as the beneficiary or a cash security deposit.

# ***Key Business Terms – Lease Agreement***

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## ➤ **Capital Improvements and Reserves –**

- ✓ Sharks Ice responsible for making all Capital Repairs and Replacement, subject to annual review and approval by the Arena Authority and the City
- ✓ Capital Rehabilitation Reserve created to fund extraordinary repair work (obligation of the City)

## ➤ **Arena Authority –** Sharks Ice annual payment to support Arena Authority Operations increases from \$50,000 to \$100,000 per year with annual CPI adjustment

## ➤ **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 to be distributed by the Arena Authority in accordance with City's ticket distribution policy

# ***Key Business Terms – Lease Agreement***

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- **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 substitute subtenant acceptable to the City.
- **Parking** – 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 during the Initial Term

## ***4<sup>th</sup> Expansion Agreement Business Terms***

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- Term -- Date of execution through final completion of construction of the expansion of the Ice Centre projected August 2022
- Construction costs are not to exceed \$120 million
- Public Works construction fee is \$1.57 million paid from 2020B bond proceeds
- Project funds to be held by the trustee appointed under the 2020B Bond documents and funds disbursed from trustee upon written request from Sharks approved by Public Works and Finance
- Sharks intend to follow updated City requirements:
  - ✓ Requires prime contractors to sign and comply with the City's Project Labor Agreement for the Project (ice sheet contractors are exempted)
  - ✓ Public bidding for obtaining and awarding construction bids
  - ✓ Requires all contractors to pay prevailing wages and conduct outreach to small and local businesses for all bid opportunities



# ***Budget Actions Related to Lease Terms***

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## **Ice Centre Revenue Fund (Fund 432)**

- Reduce rent payments from the Sharks by a net \$2.0 million to account for the reduced debt service in FY 2020-2021;
- Eliminate capital repairs expenses (\$1.0 million) that were previously routed through the Fund – these expenses will instead be paid directly by the Sharks;
- Establish a transfer to the General Fund to pay for costs to administer the bond program (\$75,000);
- Establish an appropriation to refund the Sharks related to capital repair and prior debt service savings (\$1.6 million); and
- Establish a Capital Rehabilitation Reserve (\$585,000) that will be added to over the course of the agreement to pay for major structural repairs and rehabilitation of the facility.



# Feasibility Study Update – 2020B Bonds

## Summary Sensitivity Analysis - Expected Scenario (*dollars in thousands*)

|                         | <u>FY2027</u>   | <u>10%<br/>Revenue<br/>Decline</u> | <u>20%<br/>Revenue<br/>Decline</u> | <u>30%<br/>Revenue<br/>Decline</u> |
|-------------------------|-----------------|------------------------------------|------------------------------------|------------------------------------|
| Operating Revenue       | \$28,525        | \$25,673                           | \$22,820                           | \$19,968                           |
| Operating Expenses      | <u>(16,067)</u> | <u>(14,754)</u>                    | <u>(13,440)</u>                    | <u>(12,127)</u>                    |
| Operating Income/(Loss) | \$12,458        | \$10,919                           | \$9,380                            | \$7,841                            |
| Non-Operating Revenue   | \$1,696         | \$1,696                            | \$1,696                            | \$1,696                            |
| Indirect Expense        | <u>(505)</u>    | <u>(505)</u>                       | <u>(505)</u>                       | <u>(505)</u>                       |
| Net Income/(Loss)       | \$13,649        | \$12,110                           | \$10,571                           | \$9,032                            |

## Current Market Coverage Analysis (*dollars in thousands*)

|                                |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|
| Lease Payments <sup>1</sup>    | \$8,828 | \$8,828 | \$8,828 | \$8,828 |
| Coverage by Net Income         | 1.55x   | 1.37x   | 1.20x   | 1.02x   |
| Bond Debt Service <sup>2</sup> | \$8,003 | \$8,003 | \$8,003 | \$8,003 |
| Coverage by Net Income         | 1.70x   | 1.51x   | 1.32x   | 1.13x   |

<sup>1</sup> Preliminary; subject to change. Assumes Sharks rent payments based on estimated debt service on the 2020B Bonds using market rates as of June 22, 2020 plus 50 basis points (0.50%); 2020B Bonds fund \$120 million of project costs, refinancing of 2008E Bonds, capitalized interest through October 2022, debt service reserve fund, and issuance costs.

<sup>2</sup> Preliminary; subject to change. Based on debt service number from the City's municipal advisor, PRAG.

# ***Base Rent Payments from the Sharks***

- Base rent payments are made from Sharks Ice to the City
- City required to use base rent payments from the Sharks to make the lease payments to the Authority for 2020B bond debt service payments but not pledged as security for the 2020B Bonds
- Excess base rent funds – spread between the payment of scheduled debt service and the Sharks base rent payments
  - ✓ First used to pay City costs and expenses associated with administration of 2020B Bonds
  - ✓ Second shall be deposited into the Capital Rehabilitation Reserve within the Ice Centre Reserve Fund (not the same as debt service reserve)
  - ✓ Capital Rehabilitation Reserve provides a safety net for extraordinary repair work, uninsured losses following a casualty, and capital enhancements on the expansion of the Ice Centre

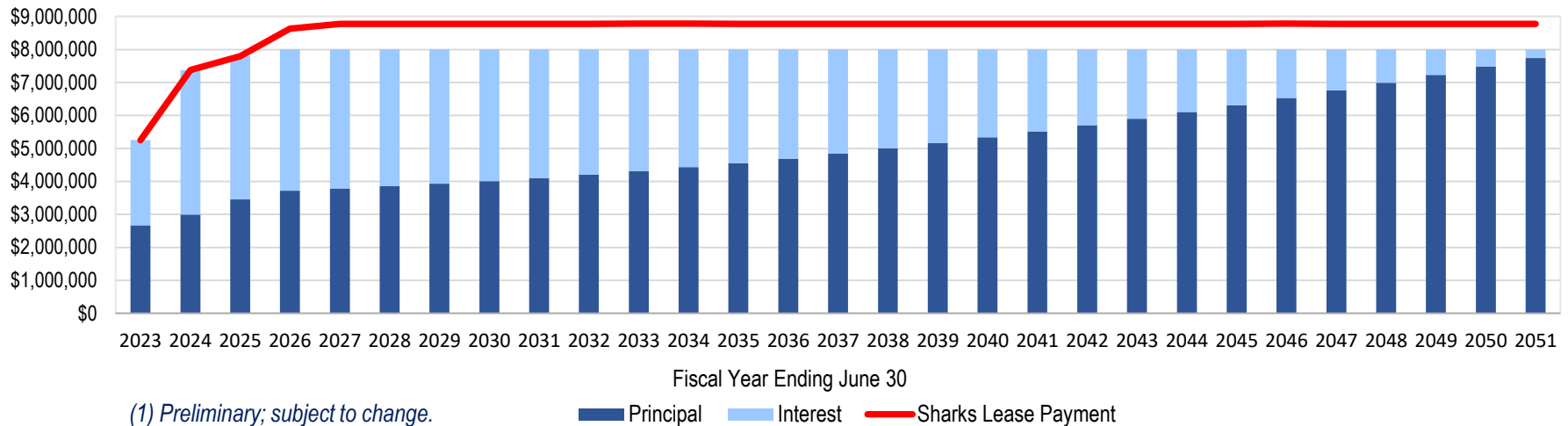
# ***Debt Service Structure – 2020B Bonds***

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- 2020B Bonds to be issued on a taxable basis
- Estimated true interest cost for the 2020B Bonds is approximately 3.27% based on market rates as of June 22, 2020.
- June 2020: Presented update to Council with discussion of feasibility study in light of COVID-19

# Debt Service on Series 2020B Bonds

Estimated Series 2020B Debt Service and Sharks Base Rent Payments



- Proceeds of the Series 2020B Bonds will fund the costs of the Project, redemption of the outstanding Series 2008E Bonds, capitalized interest, a Reserve Account, and issuance costs
- Net debt service is structured to ramp up in the three years following completion in August 2022, with level debt service thereafter
  - ✓ Interest capitalized through October 2022
  - ✓ Sharks payments from 2025-2026 and beyond will be structured at a rate 50-basis point higher than debt service on bonds, difference, “spread” will be source of funding for Capital Rehabilitation Reserve

# ***Estimated Sources and Uses of 2020B Bonds <sup>1</sup>***

| <b>SOURCES</b>                   | <b>TOTAL</b>          |
|----------------------------------|-----------------------|
| Par Amount                       | \$ 147,240,000        |
| Series 2008E Reserve Account     | 2,816,532             |
| <b>Total Sources</b>             | <b>\$ 150,056,532</b> |
| <b>USES</b>                      | <b>TOTAL</b>          |
| Project Fund                     | \$ 120,000,000        |
| Redemption of Series 2008E Bonds | 11,175,000            |
| Capitalized Interest Fund        | 9,143,394             |
| Reserve Account                  | 8,005,384             |
| Issuance Costs                   | 1,732,754             |
| <b>Total Uses</b>                | <b>\$ 150,056,532</b> |

*(1) Preliminary; subject to change.*

# ***Bond Payment Structure - 2020B Bonds***

- Lease payments are made by City to Authority is sole source for 2020B debt service payments.
  - ✓ ***Base rental payments by Sharks are used by City to make lease payments, but are not pledged to bondholders***
- Reserve Account (Debt Service Reserve Account)
  - ✓ 2020B proceeds in an estimated amount of \$8 million
  - ✓ Used to make debt service payments in the event of a deficiency in lease payments from the City to the Authority
- Source of Payments (subject to abatement)
  - ✓ Payable from any legally available funds of the City
  - ✓ Subject to abatement in the event of the loss of beneficial use and occupancy as required by law

# ***Bond and Legal Documents for Approval***

- For the Series 2020B Bonds the Council and Financing Authority are being presented:
  - ✓ Resolutions
  - ✓ Preliminary Official Statement Series 2020B
  - ✓ Indenture of Trust
  - ✓ Site Lease
  - ✓ Lease Agreement
  - ✓ Bond Purchase Agreement
  - ✓ Continuing Disclosure Certificate
- Pursuant to Government Code Section 5852.1 which became effective on January 1, 2018, by the enactment of Senate Bill 450, certain financial information relating to the 2020A Bonds has been included in the staff report prepared for the Resolution, and such information has been disclosed and made public.



# Financing Schedule – 2020B Bonds (Ice Centre)

➤ September 16      Release of POS  
to investors

➤ September 22-23      Price 2020B  
Bonds

➤ October 7      Expected 2020B  
Bond Closing

| August 2020 |    |    |    |    |    |    |
|-------------|----|----|----|----|----|----|
| Su          | M  | Tu | W  | Th | F  | Sa |
|             |    |    |    |    |    | 1  |
| 2           | 3  | 4  | 5  | 6  | 7  | 8  |
| 9           | 10 | 11 | 12 | 13 | 14 | 15 |
| 16          | 17 | 18 | 19 | 20 | 21 | 22 |
| 23          | 24 | 25 | 26 | 27 | 28 | 29 |

| September 2020 |    |    |    |    |    |    |
|----------------|----|----|----|----|----|----|
| Su             | M  | Tu | W  | Th | F  | Sa |
| 30             | 31 | 1  | 2  | 3  | 4  | 5  |
| 6              | 7  | 8  | 9  | 10 | 11 | 12 |
| 13             | 14 | 15 | 16 | 17 | 18 | 19 |
| 20             | 21 | 22 | 23 | 24 | 25 | 26 |
| 27             | 28 | 29 | 30 |    |    |    |

| October 2020 |    |    |    |    |    |    |
|--------------|----|----|----|----|----|----|
| Su           | M  | Tu | W  | Th | F  | Sa |
|              |    |    |    | 1  | 2  | 3  |
| 4            | 5  | 6  | 7  | 8  | 9  | 10 |
| 11           | 12 | 13 | 14 | 15 | 16 | 17 |
| 18           | 19 | 20 | 21 | 22 | 23 | 24 |
| 25           | 26 | 27 | 28 | 29 | 30 | 31 |

# ***Recommendations Related to 2020B Bonds***

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- City Council to conduct a public hearing approving issuance of 2020B Bonds for construction of two additional ice rinks at the Ice Centre.
- City Council to adopt a resolution:
  - ✓ approving the lease financing to refund the 2008E Bonds and fund the Ice Centre expansion and sale of up to \$155 million 2020B Bonds
  - ✓ approving and authorizing execution of legal documents
- CSJFA Board to adopt a resolution:
  - ✓ approving the issuance and sale of up to \$155 million 2020B Bonds
  - ✓ approving and authorizing execution of legal documents

# ***Recommendations Related to 2020B Bonds***

- City Council take following additional actions:
  - ✓ Adopt a resolution authorizing the City Manager to negotiate and execute (i) the Second Amended and Restated Ice Centre Lease and Management Agreement between the City of San José and Sharks Ice, LLC; (ii) the Agreement for the Fourth Expansion of the Ice Centre of San Jose between the City of San José and Sharks Ice, LLC; and (iii) all other documents necessary
  - ✓ Adopt 2020-2021 Appropriation Ordinance and Funding Sources Resolution Amendments in the Ice Centre Revenue Fund to facilitate the implementation of the terms in the Amended and Restated Lease and Management Agreement



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