



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Walesh

SUBJECT: SEE BELOW

DATE: March 23, 2015

Approved

Date

4/2/15

**SUBJECT: ACTIONS RELATED TO BRINGING THE SAN JOSE SHARKS
AMERICAN HOCKEY LEAGUE AFFILIATED TEAM TO SAN JOSE**

RECOMMENDATION

Adopt a resolution:

1. Consenting to the use of the SAP Center as a regular home game facility by the AHL (American Hockey League) team as provided in the Amended and Restated Arena Management Agreement by and between the City and SJAM (San Jose Arena Management LLC).
2. Approving an Agreement for the Third Expansion of the Ice Centre of San Jose by and between the City and Sharks Ice, LLC, providing for the construction of a two-story expansion to the Ice Centre by 6,800 square feet for a private locker room and related facilities for the AHL team, at no cost to the City.
3. Approving the Third Amendment to the Amended and Restated Lease and Management Agreement for the Ice Centre to add the expansion area to the lease and to allow the AHL team use of the private locker room and related facilities for its training and practice sessions including use of the Ice Centre's ice rinks.

OUTCOME

The proposed actions will facilitate the addition of an AHL, AAA (minor league) team at the SAP Center. The AAA team will commence play of 30-35 games in September 2015. Adding the team will also require expanded locker and related facilities at the Ice Centre. The proposed actions do not require any City expenditures.

BACKGROUND

Sharks Ice

Sharks Ice at San Jose is located at 1500 S. Tenth Street in San José, California. The nearly 170,000 square-foot facility accommodates ice hockey, figure skating, broomball, curling, speed skating, ice dancing, as well as public skating. Sharks Ice at San Jose is the official practice facility of the NHL San Jose Sharks.

The facility was originally constructed in 1994 with two sheets of ice and was known as the Ice Center of San Jose. In 1999, the City of San José and San Jose Arena Management, LP., executed a lease and management agreement for the operation of the Ice Centre of San Jose, which is now known as Sharks Ice at San Jose. Subsequently, a third rink was built with the addition of the Sharks training facility in the year 2000, followed by a fourth rink added in 2005. Included with the completion of the fourth rink were a new restaurant, expanded locker rooms, and a new public entrance. As the largest rink facility west of the Mississippi, it has become one of the most utilized public ice facilities in the United States, and is one of only seven rink facilities in the United States that currently operates at least four NHL-sized ice rinks. All four rinks are available to the public, including the Sharks training rink, which is required to be available for public use at least 90% of the total available use time. In addition, the facility is the home of the San Jose State University hockey team as well as San Jose Sharks Junior nationally ranked teams. Lastly, Sharks Ice welcomes approximately 1,500,000 visitors annually.

In January 2014, the management of Sharks Ice was assumed by Sharks Ice, LLC, which is owned by Sharks Sports & Entertainment LLC – the same company that owns San Jose Sharks, LLC and San Jose Arena Management, LLC.

In January 2015, the AHL announced the formation of a minor league Pacific Division for the 2015-2016 season. This new division will be composed of existing AHL teams relocated to California. The teams are all affiliates of teams in the NHL's Pacific Division. The San Jose Sharks have a minor league AHL team that they intend to relocate to Sharks Ice.

American Hockey League (AHL)

In operation since 1936, the AHL is celebrating its 79th anniversary this season and continues to serve as the top development league for all 30 National Hockey League teams.

The Sharks current AHL minor league team is located in Worcester, Massachusetts. The Worcester Sharks have been developing players for the NHL's San Jose Sharks since 2006. Thirty-eight players have donned a Worcester sweater before seeing action in San José. Due to the distance between the two teams, the ability of the Sharks to move players back and forth from AHL to NHL has been challenging. However, as noted above, this will no longer be an obstacle with the recent formation of the Pacific Division, in which five AHL/NHL (Los Angeles, Anaheim, Edmonton, Calgary, and San José) owned teams would relocate to the west

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coast. This will provide the Sharks with an optimum development scenario for their players and coaches, as well as provide approximately 30-35 more hockey games at the SAP Center. To the extent reasonably possible, the AHL games will be played earlier on the same day as the home games for the Sharks NHL team; therefore there will be little or no reduction in other entertainment events at the SAP. The Sharks have indicated that the AHL team play will be more of a family oriented attraction and have a lower entry price point.

To facilitate the AHL team relocating to San José, they will need to provide a home base for those players. The Sharks have submitted a proposal for the expansion of the Sharks Ice facility to create a locker room, office space and other related training facilities capable of accommodating the AHL team. The proposed locker room expansion is approximately 6,800 square feet, and does not take away from any current public space, nor does it change any interior structural elements. The expansion will eliminate approximately five parking spaces on the Sharks Ice site, but it does not delete any spaces on the adjacent Municipal Stadium parking area. The proposed locker room project is to be completed by September 1, 2015 to accommodate pre-season training.

ANALYSIS

As described above, the AHL is forming a Pacific Division for the 2015-2016 hockey season. The Sharks have announced the team's intent to move their AAA team to San José. AHL games have a lower price point and provide a family oriented attraction opportunity. The AHL team would practice at the Ice Centre Facility.

In order to facilitate the AAA team's play in San José, three actions require Council approval including: City consent for the AHL team to play at the SAP Center; approval of a Third Amendment to the Amended and Restated Lease and Management Agreement; and approval of an Agreement for the Third Expansion of the Ice Centre facility. The Lease Amendment and the Expansion Agreement would provide for the AHL team to add a locker room and associated facilities at the Ice Center. All costs of the improvements at the Ice Centre would be borne by Sharks Ice, LLC and/or its affiliates. No funds would be provided by the City.

Consent to the Use of SAP Center

The Amended and Restated Arena Management Agreement governs the use and operations of the SAP Center. San Jose Arena Management (also called SJAM or Manager) operates the facility under that Agreement. Section 3.03 of the Arena Management Agreement specifies that if the Manager of the SAP Center proposes any new professional sports teams, the City must consent to the addition of a new team. The Agreement also states that the City can negotiate for additional payments from the Manager if costs to the City would increase as a result of the addition of the proposed team. SJAM representatives have committed that all costs for traffic control would be borne by SJAM and/or its affiliates, so no additional costs are anticipated as a result of the addition of the AHL team. Therefore no additional costs are requested by City staff.

Third Amendment to the Amended and Restated Lease and Management Agreement

The Amended and Restated Lease Agreement governs the use and operation of the Ice Centre and must be amended in order to accommodate the proposed locker room and related facilities. The proposed Lease Amendment will encompass the expanded Ice Centre including an additional 6,800 square feet for a private locker room and related facilities for the AHL team.

Most of the Ice Centre contains designated public areas reserved for use as a community recreation facility available for recreation and entertainment purposes. There are certain limited exceptions to public use to accommodate special events or practice sessions. Other areas of the facility are designated as private areas for use as an exclusive training and practice facility for the San Jose Sharks. The Sharks have the right to exclusive use of one of the rinks for the NHL team's practice sessions, provided that the rink remains open to the public whenever it is not used by the Sharks. In any calendar year the Sharks may not use the rink more than 10% of the total time the rink is open to the public. The proposed Amendment will allow the AHL team to practice on a rink as well as the NHL team. The collective use of the rinks will not exceed 10% usage of the rink facilities.

Because Sharks Ice will be completing the improvements at its sole cost, and because the current lease payment is based on estimated debt service and capital costs to the public areas of the facility, no change in lease payment is recommended. The proposed Lease Amendment also does not alter the term of the agreement which continues to December 13, 2025.

Agreement for the Third Expansion of the Ice Centre

In order to provide sufficient locker room and associated facilities, Sharks Ice proposes to expand the Facility by approximately 6,800 square feet. Sharks Ice will construct the locker in accordance with all appropriate regulations. Construction of improvements will not impact the parking allocation for the Giants.

Proposed improvements include:

- Locker room to support 25 AHL players
- Weight training room
- Medical and physiotherapy area
- Offices for coaching staff
- Storage and laundry facilities
- New public entrance at the rear of the building

The Agreement outlines construction procedures for the project and identifies that the project will be overseen by and coordinated with the Department of Public Works, and Sharks Ice will pay the City fees for these services. Sharks Ice estimates that the project cost will be approximately \$3,000,000 including all hard and soft costs, furniture, fixtures, equipment and contingencies. The expansion project will eliminate approximately 5 parking spaces adjacent to the Ice Centre, but does not reduce the minimum 714 spaces allocated for the Giants use of the parking lot.

EVALUATION AND FOLLOW-UP

Staff from Public Works will be working closely with Sharks Ice representatives to review documents and construct the proposed improvements at the Ice Centre. Project completion is scheduled for September 1, 2015.

PUBLIC OUTREACH

The memorandum will be posted on the City Internet website for the April 14, 2015 meeting.

COORDINATION

This memorandum has been coordinated with the Department of Public Works, the City Attorney's Office, and the City Manager's Budget Office.

FISCAL/POLICY ALIGNMENT

Economic Development Strategy Policy No.12: Develop a Distinctive Set of Sports, Arts, and Entertainment Offerings Aligned with San José's Diverse, Growing Population

COST SUMMARY/IMPLICATIONS

All improvements to be constructed at the Ice Centre will be borne by Sharks Ice, including an estimated amount of \$128,000 paid by Sharks Ice for the Public Works staff to review, approve and inspect the project. Any additional costs associated with team operations and traffic operations related to game day activities will be borne by SJAM.

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CEQA

Exempt, No. PP15-033.

/s/

KIM WALESH

Deputy City Manager

Director of Economic Development

For questions, please contact Nanci Klein, Assistant Director of Economic Development,
at (408) 535-8184.