



Memorandum

TO: CITY COUNCIL

FROM: Mayor Sam Liccardo
Councilmember Raul Peralez
Councilmember Magdalena Carrasco
Councilmember Pierluigi Oliverio
Councilmember Don Rocha

SUBJECT: SEE BELOW

DATE: May 15, 2015

APPROVED:

DATE:

Sam Liccardo *Pierluigi Oliverio* *Magdalena Carrasco* *Don Rocha* *Sam Liccardo* 5/15/15

SUBJECT AMENDMENT TO THE AGREEMENTS WITH SHARKS SPORTS AND ENTERTAINMENT RELATED TO THE EXTENSION OF THE MANAGEMENT OF SAP CENTER

RECOMMENDATION

Approve staff recommendations to adopt a resolution to authorize the City Manager to negotiate and execute an amendment to the agreements with Sharks, Sports & Entertainment related to the extension of the management of the SAP Center and Ice Center.

BACKGROUND

The home of the San Jose Sharks, the SAP Center has become one of the most successful sports and entertainment venues in America. Built in 1993 by the City's Redevelopment Agency at a cost of \$140 million, the facility now hosts over 150 events annually. More than 35 million patrons have attended events there.

The City owns the building, and under the management of Sharks Sports and Entertainment (SS&E), it has become a great community and economic asset. With tens of millions in annual economic impact, the building annually generates over \$5 million in sales, hotel, and other tax revenues for the General Fund, supporting the City's provision of basic services. In addition, SS&E has made rental and naming rights payments exceeding \$50 million to the City. The Sharks have further invested approximately \$25 million in building repair and replacement costs over the years.

The fan base of the San Jose Sharks continues to grow nationally and internationally. The team's success and popularity has cities across America vying to attract the team away from San Jose with promises of new shiny buildings at no cost to the team. Facilities under construction in San Francisco,

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Las Vegas, Seattle, Sacramento, and Quebec City may enable those cities to bid aggressively for teams, as might cities with soon-to-be-vacant arenas, such as Oakland. Fortunately, Sharks management seek to remain in San Jose, where the franchise has developed a loyal fan base and a strong brand.

The SAP Center is now 22 years old, and has already become one of the oldest facilities in the NHL. Over the next decade, capital replacement costs will exceed \$4 million annually—for such items as the roof, lighting, transformers, and boilers—in addition to the escalating costs (over \$1 million) for the basic upkeep and maintenance of an aging facility.

The contemplated agreement will have the parties splitting \$5.2 million in annual anticipated capital replacement, repair and related expenses over the next decade, with SS&E taking on the lion's share of those costs thereafter. We appreciate SS&E's willingness to revise the current management agreement, restructure the financial provisions, and commit to continuing to share those costs.

As in previous years, this proposed agreement will protect the City from risks associated with operating the facility and owning the team. In addition, the agreement provides for a term extension, and gives us certainty that the San Jose Sharks will remain here, generating direct and indirect economic benefits for, at the minimum, another decade.

We thank Nanci Klein, Jim Shannon, and (coming out of retirement) Bill Hughes and the rest of the City staff team for an extraordinary effort to negotiate terms favorable to the City in the long term, ensuring a net minimum annual benefit to the General Fund of \$2.4 million. While we enjoyed more generous terms in the early years of the arena's lifespan, those terms remain out of step among other NHL franchises, with the market dictating that cities increasingly take fiscal responsibility for the upkeep of their own facilities. Moreover, the lack of an appropriately-sized sinking fund leaves the City without alternatives to cover those capital costs today. Accordingly, we need to invest in the building to ensure that it continues to serve as an extraordinary community and financial asset.

Fortunately, the extension of the term with SS&E and the agreement to joint funding of capital improvements ensures that a) SS&E can continue to operate a world-class facility in a highly competitive national market, and b) that the City will continue to reap direct economic benefits of an estimated \$5 million annually from sales and hotel tax revenues over the next 10 years.

At a recent press conference hosted at the SAP Center, majority owner of SS&E, Hasso Plattner proclaimed, "I am very pleased that we have been able to reach an agreement with the City to keep the Sharks where they belong – in Downtown San Jose. I love this arena and this is the only place we want to call home." With this reassurance, we hope the Council joins us—and tens of thousands of Sharks fans--in approving staff recommendations.