



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Edward K. Shikada

SUBJECT: SEE BELOW

DATE: May 18, 2011

Approved

Date

5/19/11

SUBJECT: RECOMMENDATION FOR THE 2011-2012 CAPITAL BUDGET FOR SHARKS ICE AT SAN JOSE

RECOMMENDATION

It is recommended that the City Council approve the Building Automation System as part of the 2011-2012 Capital Budget for repairs and replacements for Sharks Ice at San Jose.

BACKGROUND

In the Lease and Management Agreement between the City and HP Pavilion Management for Sharks Ice at San Jose, the City is required to pay for the costs of all repairs and replacements to the facility. This includes all facility improvements, equipment and systems, but excludes the HP Pavilion Management's equipment, Sharks training center and the mezzanine restaurant. The City pays for these repairs through the Ice Centre Revenue Fund, a source that is funded solely through quarterly rent payments made by HP Pavilion Management, which has full operation of the ice training facility. Under the terms of the agreement, the Ice Centre Revenue Fund has been specifically designed to pay for the debt service associated with the construction and expansion of Sharks Ice and to cover the costs of facility capital repairs and improvements.

The Sharks Ice at San Jose Lease and Management Agreement includes an exhibit (Exhibit G) that lists agreed upon capital repair and replacement items such as ice chillers, Heating Ventilation and Air Conditioning, and electrical equipment. This exhibit serves as the basis for HP Pavilion Management's annual budget submittal. For the purposes of the agreement, the term "replacement" means the repair or replacement of those capital items specified in Exhibit G and the City has no obligation to pay for capital repairs or replacements not shown in this exhibit. For items of capital repair or replacement which are not included in their approved capital repair plan, and do not involve emergency work, HP Pavilion Management is required to request in writing approval of the proposed capital items. When this occurs, City staff and the Arena Authority review the capital budget submittal and determine if the non-Exhibit G items should be recommended with the rest of the capital budget.

Each year, HP Pavilion Management submits to the Arena Authority and the City a detailed capital repairs and replacements budget for Sharks Ice at San Jose. Following review of the annual capital budget, the Arena Authority Board of Directors reviews and subsequently recommends to the City a list of capital repair and replacement items.

On March 30, 2011 the Arena Authority submitted its annual Sharks Ice at San Jose capital repairs and replacements budget to the City. For 2011-2012, the Arena Authority is recommending \$672,500 in capital repairs and replacements for the ice training facility (see Attachment). The capital budget recommendation includes \$572,500 in improvements listed in Exhibit G and \$100,000 for an item that is not identified in Exhibit G.

ANALYSIS

Following HP Pavilion Management's annual budget submittal, the Arena Authority, in consultation with the City, reviewed the capital budget and determined which non-Exhibit G capital items would be included for funding consideration. For 2011-2012, the following non-Exhibit G item has been included with the Sharks Ice at San Jose Capital Budget recommendation:

Capital Item Not Included in Exhibit G 2011-2012

<u>Capital Item</u>	<u>Capital Budget</u>
Building Automation System	\$100,000

The Building Automation System would allow staff to operate and monitor facility systems including ice chillers, rink lighting levels and air quality from remote locations 24 hours per day. Approximately 60% of the Sharks Ice's electrical usage is consumed for ice making equipment. The new system would improve energy efficiency, increase the longevity of major mechanical units, and assist with the regulation of the building environment. Currently, the operation and monitoring is done manually only during the business and operating hours at Sharks Ice. While the City is not required to fund any item not included in Exhibit G, staff has reviewed this item, and consistent with the Arena Authority Board, believes that this item aligns with the building facilities and activities currently reflected in Exhibit G. In making this determination, staff has applied the following criteria, with the proposed item(s) required to meet all criteria:

1. The useful life of the repair or replacement is for five years or more.
2. The repair or replacement is integral to the public operation of the facility.
3. The repair or replacement effectively supports or prolongs the life expectancy of building systems.
4. Replacement items and equipment become capital assets of the facility.

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This recommendation is not intended to authorize future non-Exhibit G expenditures, which are reviewed on a case-by-case basis as part of the annual budget process. Staff has evaluated the item not included in Exhibit G list and the documentation to support its expenditure. Staff believes this item will support the public operation of the facility and recommends that the City Council approve the request for the Building Automation System as part of the 2011-2012 Capital Budget for repairs and replacements for Sharks Ice at San Jose. The total amount recommended for the Capital Budget in the Ice Centre Revenue Fund is \$672,500 and is included in the 2011-2012 Proposed Operating Budget. These expenditures are offset by base and ground rental revenues from operations at the Sharks Ice. Should the City Council choose not to approve the expenditure for the Building Automation System, a budget adjustment will be recommended as part of the adoption of the 2011-2012 Operating and Capital Budgets.

COORDINATION

This memorandum has been coordinated with the Arena Authority, the Office of the City Attorney, and the Department of Finance.



EDWARD K. SHIKADA
Assistant City Manager

Attachment

Attachment

**SHARKS ICE AT SAN JOSE
Capital Budget Recommendations for 2011-2012**

<u>Normal Capital Repair/Replacement*</u>	<u>Proposed Budget</u>
Carpeting	\$ 15,000
Dashboards	250,000
Exterior Cleaning	20,000
Fire Systems	10,000
Food Service Equipment	5,000
Glazing	5,000
Lighting System	6,000
Mechanical, Plumbing & Electrical	
Emergency Gas Shut Off Valves	7,500
Air Compressor	4,000
Chilled Water Pumps	10,000
Cooling Tower	10,000
Building Automation System*	100,000
Ice Chiller Plant	30,000
Water Treatment Center	25,000
Drinking Fountains	5,000
Painting	40,000
Restrooms	15,000
Security	60,000
Plexiglas	25,000
Unanticipated Repairs	<u>30,000</u>
Total 2011-2012 Proposed Capital Budget	\$ 672,500

*All items listed above for repair and replacement are included in Exhibit G in the Sharks Ice at San Jose Lease and Management Agreement with the exception of the Building Automation System.