REDEVELOPMENT AGENCY OF THE
CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK

2007 JAN 18 PM 6:47

TO: Office of the Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: January 23, 2007

RE: **Second Supplemental Report on Resolution Authorizing the Agency Administrator to Negotiate and Execute a Three-Year Agreement with Rink Management Services Corporation for Management and Operation of the Oakland Ice Center for a Base Monthly Fee not to Exceed $4,900, Plus an Annual Incentive Fee not to Exceed 20 percent of Net Revenue Adjusted for Any Deferred Expenses that May be Earned during the Previous Year in Excess of $7,603, Pursuant to Specific Criteria**

SUMMARY

Subsequent to the issuance of the supplemental agenda report to City Council dated January 9, 2007 regarding the Oakland Redevelopment Agency's negotiation and execution of a three-year agreement for management of the Oakland Ice Center, a representative of San Jose Management, LLC (SJAM) met with Agency management staff and raised several questions and concerns about information and statements contained in the January 9, 2007 agenda report. Following are those questions and concerns and staff's response to them.

1. **There is an error in the demographic profile for York, PA on page 7 of the January 9, 2007 supplemental report. The approximate percentage of Black residents is overstated.**

York, Pennsylvania, is the location of the publicly-owned ice skating facility that Rink Management Services Corporation (RMSC) began managing in September 2004 and turned into a community-oriented profitable operation in less than two years. Staff double-checked the demographic information received from the City of York against U.S. Census data and found that York City staff did mistakenly report the percentage of Black residents in York as 60 percent. According to U.S. Census data, the percentage of Black residents in York City in 2000 was only 25.1 percent, and 60 percent was the percentage of Caucasian residents in 2000.

2. **The comparison of gross and net revenues for the Fremont facility before and after the acquisition and re-opening of that facility by Silicon Valley Sports & Entertainment (SVSE) is not clear. SVSE is a related entity of SJAM and the San Jose Sharks.**

Staff purposely did not report the actual gross and net revenue amounts for the Fremont facility after its acquisition and re-opening by SVSE to maintain confidentiality of that information as requested by SVSE. Staff, however, examined the change in financial performance of the Fremont facility following the Sharks' takeover in response to the Council's directive at the October 24, 2006 meeting to compare the success of RMSC and SJAM in turning around the operational, programmatic and financial performance of ice skating facilities similar to the OIC. SJAM indicated that it did not have access to copies of financial records for the Fremont facility prior to SVSE's takeover, so staff requested a copy of those financial records from Iceoplex, the management company for the previous owners of the Fremont facility.

Staff received and reviewed these previous financial records, which show that the Fremont facility was operating profitably for at least the two and one-quarter years before its acquisition by SVSE. Gross revenues reported by Iceoplex for calendar years 2002 and 2003 were higher than those reported by SVSE for the first ten-month period ending July 31, 2005 following SVSE's takeover, and the next 12-month period ending August 31, 2006. Net revenue for calendar year 2002 reported by Iceoplex *before* deduction of its $62,491 management fee was approximately $50,000 more than the amount of net revenue reported by SVSE *before* deduction of any management fees for the 12-month period ended August 31, 2006. In calendar year 2003, the net revenue reported by Iceoplex was approximately three times the net revenue reported by SVSE before any management fee deductions for the 12-month period ended August 31, 2006.

3. **It is not clear why RMSC scored higher on the criteria of "success in turning around the performance of a similar facility".**

Staff scored RMSC higher on the criteria of "success in turning around the performance of a similar facility" because 1) RMSC documented a clearer turn-around in the financial performance of the York City Ice Arena than SJAM demonstrated for the Fremont ice facility; 2) the demographic and socio-economic characteristics of York City are more comparable to those characteristics for Oakland than the same characteristics for Fremont are to Oakland's characteristics; 2) the publicly-owned twin-rink York City Ice Arena is more comparable to the OIC than is the Fremont ice arena; and 4) RMSC provided a more comprehensive and detailed description of the various measures it took to improve the financial, operational and programmatic performance of the York City Ice Arena than SJAM provided for the Fremont facility.

4. **It is not clear why RMSC scored higher on the community outreach criteria.**

Both RMSC and SJAM laid out similar plans and programs to outreach to the Oakland community. RMSC, however, provided more detail regarding its plans and programs than did SJAM. The SJAM representative stated that SJAM should have received more credit for its outreach efforts in San Jose at Logitech. However, the criteria in this case required that staff evaluate each organization's overall approach to outreach specifically for the OIC, not each ice facility under its management. Such a broad evaluation would have required staff to look at outreach efforts undertaken by RMSC at all 19 of the other facilities it manages. RMSC's commitment to community outreach was underscored by its establishment of a community advisory committee in Oakland early in the RFP process.

5. **It should be clarified that SJAM's offer to contribute $30,000 for initial clean-up of the OIC is the equivalent to a "no-cost" loan payable only after the second year of SJAM's management if the Agency's share of net revenue is sufficient to do so.**

Staff acknowledges that SJAM's offer to contribute $30,000 for initial clean-up of the OIC is equivalent to a "no-cost" loan payable only after the second year of SJAM's management if the Agency's share of net revenue is sufficient to do so.

6. **The $15,000 Frontline ice facility accounting software that RMSC proposes to make available to the OIC for no cost should be noted as a benefit to the Agency only if the Agency is able to retain use of this software upon termination of RMSC's management contract for the OIC.**

Staff checked with RMSC and was advised that the Agency would be able to retain and use the Frontline software upon termination of RMSC's management contract for the OIC. However, the Agency would have to pay a $5,000 license transfer fee to Frontline to retain and continue using its software. RMSC's offer therefore represents at least a net $10,000 benefit to the Agency in the event of early termination of RMSC's management agreement.

7. **Staff's characterization of the requirement that the Agency's 30 percent share of net revenue be retained in a capital reserve as a disadvantage to the Agency is an unfair characterization.**

Staff agrees that it is prudent to maintain a capital reserve for the OIC, and the Agency has maintained such a reserve since acquiring the OIC in 1997. This reserve has a current balance of approximately $242,000. SJAM's proposal for the Agency's 30 percent of net revenue to be retained in a capital reserve is therefore reasonable. However, *requiring* such retention as proposed by SJAM limits the Agency's discretion in determining when and how to use its share of net revenue to fund this reserve.

8. The financial disadvantage to the Agency of SJAM's no-base management fee at net revenue above approximately $193,000 is unclear.

At approximately $193,000 of net revenue, SJAM's incentive-only fee and RMSC's base-plus-incentive fee would cost the Agency the same amount of money. For all net revenue amounts below approximately $193,000, SJAM's incentive-only fee would cost the Agency less than RMSC's total base and incentive fee. For all net revenue amounts above approximately $193,000, SJAM's incentive-only fee is more costly than RMSC's base plus incentive fee. This is because the difference between SJAM's 70 percent fee and RMSC's 20 percent incentive fee completely closes the gap created by RMSC's $58,800 base fee "head start" once annual net revenue reaches the approximately $193,000 breakeven point. Thereafter, SJAM's higher incentive fee requires the Agency to pay $0.50 more in management fees on each dollar of net revenue beyond approximately $193,000 than RMSC's lower incentive fee requires. SJAM's fee proposal does provide the Agency a protective "hedge" if net revenue falls below approximately $193,000. However, SJAM projects that net revenue during the first year of its management of the OIC will be approximately $235,000, or $42,000 above the $193,000 breakeven amount. Therefore, based upon SJAM's projections, its no-base incentive-only fee will cost the Agency more in management fees than the RMSC proposal.

Respectfully submitted,

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APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:

OFFICE OF THE AGENCY ADMINISTRATOR