

**REDEVELOPMENT AGENCY OF THE
CITY OF OAKLAND**

AGENDA REPORT OFFICE OF THE CITY CLERK

2007 FEB - 1 11:04

TO: Office of the Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: February 6, 2007

RE: Supplemental Report on Resolution Authorizing a Three-Year Operations and Management Agreement with San Jose Arena Management, LLC for the Oakland Ice Center for a Negotiated Annual Fee based on a Percentage of Net Revenue, Pursuant to Specific Criteria

SUMMARY

On January 23, 2007, the Community and Economic Development Committee met to review additional information regarding proposals from Rink Management Services Corporation (RMSC) and San Jose Arena Management (SJAM) to manage and operate the Oakland Ice Center (OIC). The Committee recommended that an alternate resolution be forwarded to the City Council authorizing the Agency Administrator to negotiate and execute a 3-year agreement with SJAM instead of RMSC because 1) SJAM's no-base incentive-only management fee would cost the Agency less money if projected revenues are not generated by the OIC and 2) SJAM's affiliation with the San Jose Sharks NHL franchise should bring name recognition and branding opportunities to the OIC that should increase usage and revenues.

The Committee directed staff to negotiate the percentage of net revenue generated by the OIC each year over the benchmark amount that will comprise SJAM's incentive-only management fee. The Committee also directed staff to ensure that the new management agreement with SJAM: 1) require that the OIC offer a balanced and diverse program for residents and children; 2) provide an option for the possible allocation of the Agency's share of net revenue for maintenance and capital improvements to the OIC; and 3) require SJAM to offer free admission to Oakland Unified School District students on such dates and at such times to be determined in consultation with Agency staff.

Staff recommends that the new management agreement also include the SJAM-proposed requirement that SJAM perform a minimum of \$30,000 of maintenance and facility clean-up activities at the OIC to be determined in consultation with Agency staff. As proposed by SJAM, the Agency would only be required to reimburse SJAM a maximum of \$30,000 to pay such clean-up costs, but only if the Agency's share of net revenue from the OIC is sufficient to make such reimbursement. Staff further recommends that the one-year period for determining the benchmark net revenue used to calculate SJAM's incentive-only management fee be moved forward from the fiscal year ended June 30, 2006 to the one-year period ending the last full month preceding SJAM's assumption of management of the OIC.

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The reason for moving forward the one-year period for determining benchmark net revenue is the gradual improvement in OIC performance and net revenue over the past year and a half. Staff recommends that SJAM's incentive-only management fee be based upon the improvement in net revenue compared to the one-year period ending just before SJAM's assumption of management of the OIC, not a one-year period ending nearly a year before SJAM's assumption of management. If the one-year period ended June 30, 2006 is retained to determine the benchmark net revenue benchmark, then some of SJAM's incentive management fee will likely be calculated upon an increase in net revenue that occurred prior to SJAM's assumption of management, and SJAM was not responsible for generating. For instance, during the one-year period ended November 30, 2006, OIC net revenue adjusted for deferred electrical expense was \$15,341 higher than the similarly adjusted net revenue for the current one-year benchmark period ended June 30, 2006. Moving the benchmark net revenue period to the last full year before SJAM's assumption of management of the OIC will ensure that SJAM's incentive management fee reflects only SJAM's efforts in improving financial performance at the OIC.

ACTION REQUESTED OF AGENCY

A resolution has been prepared for Agency approval authorizing the Agency Administrator to negotiate and execute a three-year agreement with SJAM for management of the OIC for an annual management fee based only on a percentage of net revenue for each year of SJAM's management of the OIC in excess of the net revenue for the one-year period preceding SJAM's assumption of management, pursuant to specific criteria and other terms listed above.

Respectfully submitted,




Claudia Cappio

Interim Director of Community and Economic
Development Agency

Prepared by:
John Quintal
Economic Development Analyst

APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:



Office of the Agency Administrator

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APPROVED AS TO FORM AND LEGALITY


AGENCY COUNSEL

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION NO. _____ C.M.S.

Resolution Authorizing a Three-Year Operations and Management Agreement with San Jose Arena Management, LLC for the Oakland Ice Center for a Negotiated Annual Fee based on a Percentage of Net Revenue, Pursuant to Specific Criteria

WHEREAS, on May 2, 1997, the Redevelopment Agency of the City of Oakland (Agency) acquired the twin-rink ice skating facility located at 519 – 18th Street known as the Oakland Ice Center (OIC) following the default by the original owner of the OIC on an Agency loan; and

WHEREAS, pursuant to Agency Resolution No. 97-12 C.M.S., the Agency is authorized to enter into contracts necessary to manage and operate the OIC; and

WHEREAS, the current management agreement for the facility expired in March of 2002, and has been continued on a month-to-month basis since its expiration, as provided in the agreement; and

WHEREAS, although the financial performance of the OIC has improved during the last fiscal year, in April of 2006 Agency staff issued a Request for Proposals (RFP) to firms specializing in ice skating facilities management, with the goal to further improve OIC's financial performance and to create additional recreational and other economic benefits for Oakland residents; and

WHEREAS, four qualified firms responded to the RFP, and an RFP Review Committee was established to review and evaluate the qualifications and RFP responses from these firms; and

WHEREAS, following a multi-step review process, the RFP Committee and Agency staff ranked Rink Management Services Corp. (RMSC) as the most qualified and San Jose Arena Management, LLC (SJAM) as the second most qualified of the four responding firms to manage the OIC; and

WHEREAS, on October 24, 2006, the Community and Economic Development Committee directed Agency staff to obtain and analyze additional information from RMSC and SJAM in the following areas:

1. The assumptions and calculations supporting the two-year income and expense pro forma statement submitted by RMSC and SJAM;
2. The impact of the marketing power of the San Jose Sharks organization that SJAM would bring to OIC;
3. Community outreach/marketing programs proposed by RMSC and SJAM;
4. The advantages and disadvantages to the Agency of SJAM's no-base management fee proposal; and
5. The success of RMSC and SJAM in turning around the operational, programmatic, and financial performance of an ice skating facility similar to OIC, following their assumption of management of those respective facilities; and

WHEREAS, staff obtained the additional information, re-evaluated the ranking of RMSC and SJAM, and determined that RMSC still ranked higher, but by a smaller margin; and

WHEREAS, on January 23, 2007, Community and Economic Development recommended that an alternate resolution be forwarded to the City Council authorizing the Agency Administrator to negotiate and execute a 3-year agreement with SJAM instead of RMSC because Committee members found that 1) SJAM's no-base incentive-only management fee would cost the Agency less money if projected revenues are not generated by the OIC, and 2) SJAM's affiliation with the San Jose Sharks National Hockey League franchise should bring name recognition and branding opportunities to the OIC that could increase usage and revenues; and

WHEREAS, SJAM's incentive-only fee proposal is considered reasonable and competitive compared to management fees that are standard in the industry, and those proposed by the other three RFP respondents; now, therefore be it

RESOLVED: That the Agency Administrator is hereby authorized to negotiate and enter into a three-year agreement ("Management Agreement") with SJAM for the management and operation of the OIC consistent with the terms set forth below:

1. The benchmark net revenue (Benchmark Revenue) used to calculate the SJAM's fee shall be the net revenue generated by the OIC, adjusted for any deferred expenses, during the 12-month period ending on the last complete month prior to SJAM's assumption of management of the OIC;
2. The Incentive Management fee that SJAM shall receive during each year of SJAM's management of the OIC shall consist solely of a percentage ("Incentive Percentage") of the net revenue generated by the OIC, adjusted for any deferred expenses, that is in excess of the Benchmark Revenue;
3. The Incentive Percentage shall be subject to negotiation between the Agency Administrator and SJAM;

4. The Agency Administrator shall deposit annual net revenue after deducting payment of SJAM's incentive fee, into a capital improvement reserve for the OIC, with the timing and amounts of such deposits at the sole discretion of the Agency Administrator;
5. SJAM shall complete, within one hundred and twenty (120) days of execution of the Management Agreement, at least \$30,000 of maintenance and clean-up activities ("Initial Facility Clean-up") at the OIC to be determined in consultation with Agency staff;
6. The Agency shall only be required to reimburse SJAM a maximum of \$30,000 for the cost of Initial Facility Clean-up payable only if the Agency's share of net revenue from the OIC after deduction of the Incentive Fee is sufficient to make such reimbursement during the initial 3-year term of the Management Agreement;
7. The Management Agreement shall require that SJAM maintain a balanced and diverse program of hockey, figure skating, public skating, ice dancing and other ice-related activities at the OIC; and
8. SJAM shall offer free admission for Oakland Unified School District students at such dates and times to be determined in consultation with Agency staff; and be it

FURTHER RESOLVED: That the Agency Administrator is authorized to take whatever action is necessary with respect to the Management Agreement consistent with this Resolution and its basic purposes; and be it

FURTHER RESOLVED: That any agreements authorized hereunder, including amendments, modifications, or extensions, shall be approved as to form and legality by the Office of the City Attorney and filed with the Office of the City Clerk.

IN AGENCY, OAKLAND, CALIFORNIA, _____, 2007

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, BRUNNER, CHANG, KERNIGHAN, NADEL, QUAN, REID, AND CHAIRPERSON DE LA FUENTE

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____
 LATONDA SIMMONS
 Secretary of the Redevelopment Agency
 of the City of Oakland