

# Follow-Up Questions and Answers from the July 21, 2009 MCTF Meeting

## General Finance Related

- 1) What is the estimated range of revenue expected to be generated from each of the revenue options below. (see attachment A)

Possible Revenue Sources (to meet bond obligation):

- Adjacent, new convention center hotel -Residual cash flow
- Convention Center Retail - Net income
- Convention Center Hotel Business Improvement District Assessment - By geographic proximity to Center
- Convention Center Entertainment District Assessment- All non-hotel businesses, by geographic proximity to Center
- Convention Center Restaurant Business Improvement District Assessment - By geographic proximity to Center
- Convention Center Parking District (BID) - By geographic proximity
- Convention Center Taxi District - Drop-off/Pick-up Surcharge
- Rental Car Surcharge
- Convention Center Service Contractor Fee
- Incremental Convention Center Parking Fees - 100% of all above 2007 baseline
- Contribution of land and other concessions from Unified Port of San Diego

- 2) Can we have a presentation on the feasibility and applicability of Lease Revenue Bonds? No future presentations are planned or budgeted. Information on lease revenue bonds is provided in attachment B.
- 3) At the last meeting we did not discuss the comparative table provided by staff on the funding sources of other convention center expansions.
  - a) Are the centers listed on the table San Diego's competitive set or more of a random list of centers that experienced expansions in recent years? The list includes convention centers in our competitive set (depending on the piece of business). It was compiled primarily to get a list of convention center projects completed over the last few years to identify how they were funded and the financial firms used to assist the project.
  - b) Can staff go over this information for public record and to extrapolate data for incorporation in our recommendation memo? The memo is public record.
- 4) Out of the 13 center expansions noted, only one was paid for entirely through new or increased taxes or fees and it's hardly a comparison because the project cost was a fraction of what we're considering at \$65 million. Most of the centers received significant investments from their State or County governments. We've never once talked about the County as a possible source of revenue. If it's not our business to

determine political feasibility, why wouldn't we include the County? Unlike the State, the County is not broke.

The County of San Diego will be added as a possible source of funding in the "Other" category to be explored.

### **Entertainment Districts/BID**

- 5) BID/TID/TMD - specific to San Diego – What are they? How long have they existed in SD. What have they financed in the recent past? What is their taxing/fee authority on their member group? (See attachments A & B)
- 6) Please explain what is involved (process, realistic timeframe and cost) for establishing special districts. (See attachment B)
- 7) Convention Center Entertainment District Assessment is noted as a funding source, and the sub-bullet notes that it is defined as all non-hotel businesses by geographic proximity to the Center. It was my understanding that we were only going to recommend funding sources that have a nexus of benefit from the expanded Center. It would seem to me that there are many businesses that will never benefit from Center expansion because they are not service or visitor oriented. How are we defining "entertainment" and did the authors really mean ALL non-hotel businesses? (See attachment B)

### **Port of SD Related**

- 8) What is meant by the last bullet point which states "Contribution of land and other concessions from the Unified Port of San Diego"? There are a number of ways the Port can participate in funding the expansion, including assisting with land and reductions or elimination of fees required of other businesses on Port lands. The Port owns the San Diego Convention Center and leases the building to the city of San Diego for \$1 per year. The Port paid \$165 million in cash to finance the original building. The \$216 million expansion, which opened in 2001, was financed primarily with \$205 million in voter-approved lease revenue bonds issued to by the San Diego Convention Center Expansion Financing Authority- a joint powers authority between the city and the Port. The total annual bond payment for the expansion is \$13.7 million. The city pays \$9.2 million per year and the Port contributes \$4.5 million annually (through 2014 when the entire payment becomes the sole responsibility of the city to pay).
- 9) Under what circumstance can we look to the Port for a greater contribution to help to finance the convention center? What is the true level of concession that we could possibly anticipate? It is unclear, at this stage of the process, exactly what contributions or role the Port would play in funding an expansion.

The Unified Port of San Diego will be added as a possible source of funding in the "Other" category to be explored.

## **CCDC Related**

- 10) Since "Revenue for expansion must come from sources that have a nexus of benefit from the expanded Center" (top of Page 10), why isn't CCDC identified as a Possible Source of Revenue since it clearly has a nexus of benefit from the expanded Center?

Yes. CCDC has been added to "Other" funding sources that should be explored.

- 11) Can CCDC help to finance the convention center since the downtown area will directly benefit from the project? If so, what might that mechanism look like?

Yes. See attachment C for a link to the CCDC web site where you can find detailed information on how a redevelopment agency funds public projects.

## **Convention Center Operations**

- 12) Can we expect a positive net increase in Convention Center operating profits (or reduction in loss) as a result of the expansion assuming debt service costs are covered by new sources of revenue or capital contributions by other government agencies? In the current fiscal year, the Corporation receives approximately \$3.9 million which is used for capital improvements and client rental credits. This represents a decrease of 10% from the prior year. An updated operating pro forma (using the future event and attendance data for an expanded convention center presented by ERA) is expected to be completed by the end of August. The results will be shared with the Mayor's office. This pro forma is based on proprietary and competitive marketing assumptions; thus, it is likely that "bottom line" results will be disclosed but detailed aspects of the model will not be disclosed for competitive reasons.

- 13) What occupancy rate is needed to reach a break-even excluding debt service, and how does that occupancy rate compares to the present or historical occupancy rates?

The financial performance of the convention center is measured by facility square footage measurements and event/usage that includes attendance levels, occupied square feet, and prime exhibit space. An updated operating pro forma (using the future event and attendance data for an expanded convention center presented by ERA) is expected to be completed by the end of August.

Given the historical performance of the facility of operating at or above 65% occupancy, it is expected to perform at similar levels with the expansion. The historical performance graphs distributed at the May 26<sup>th</sup> meeting provide an overview of annual occupancy rates since 1991. No data has come to the attention of the Corporation that would suggest less than break even based on reasonable assumptions derived from historical performance.

## **Taxes**

14) Can you please try to obtain the study referenced by Mike McDowell? It is called IMPACT and was produced by the American Hotel Foundation, the research arm of the American Hotel & Lodging Industry Association. [A copy has been obtained and is being distributed.](#)

15) Where does San Diego rank relative to our peer cities in the area of fees/taxes? [The materials distributed to MCTF at the July 21, 2009 meeting from NBTA provides a variety of charts detailing how San Diego compares relative to other competitive convention cities for hotel, restaurant and rental car taxes.](#)

16) Can we have a presentation on the information contained in the document with two added pieces of data :

- a) Where might SD finish up if we explore one or two configurations of the new revenue source proposals (in other words if we just select the middle ground of financing options, where might we end up since right now San Diego ranks right at the middle of all cities as it relates to fees/taxes (which seems to be a good thing.)
- b) If we need to add for the expansion, does it make us the most expensive city or are we going to be in the top third, quarter?

[There are no additional presentations planned, nor budgeted. Because no specific taxes or fees are currently being proposed, it is not possible to create any scenario\(s\) that would have value.](#)

17) Can we have someone come and speak to us with San Diego specific data that attempts to address questions related to whether an increase in fees/taxes might impact demand? [Lani Lutar will provide a presentation on this topic at the August 4 meeting.](#)

18) In the "Alternative Means" document we received this afternoon, there were 4 potential options that could potentially be deemed a fee. This included Taxicab p-up/drop-off, Rental Car Surcharge, TMD plan amendment and new TMD formation. It would seem that we should at least understand the impact of the simple metric of how many millions a "one dollar" increase would yield? (I'm not clear if adding \$1 to this covers \$1M, \$10M or \$100M of the overall funding gap.) [The Piper Jaffrey presentation materials from June 15, 2009 \(pg. 17\) and July 6, 2009 \(pg. 9-10\) include estimates on a variety of revenue sources with varying amounts. Also see attachment A.](#)

19) I think it would be educationally beneficial to this TF to understand this same comparative metric relative to the other items that the Mayor's Office may ultimately choose to pursue: ie: how much would a \$1 increase in Hotel Tax, a \$1 increase in Restaurant tax, a \$1 increase in the Airport Car Rental, etc... provide. [The Piper Jaffrey presentation materials from June 15, 2009 \(pg. 17\) and July 6, 2009 \(pg. 9-10\) include estimates on a variety of revenue sources with varying amounts. Also see attachment A.](#)

## **Environmental**

20) Does the estimated construction consultant estimate include the cost of environmental clean-up? The expansion site will require limited clean-up because there are no underground structures or parking. No dredging or other interference with the sea bed is contemplated in the construction. Funding for the clean-up is included in the cost estimates presented to the MCTF.