



San Diego Convention Center

**Convention Center Expansion and Hotel
Projects**

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Agenda

- I. Review new project assumptions
- II. Convention Center Expansion funding requirements
- III. Hotel financing analysis – private ownership
- IV. Hotel funding requirements – public ownership
- V. Total funding requirements
- VI. Potential revenue sources
- VII. Follow up discussion from June 15 presentation

Project Overview

Convention Center Expansion:

Gross square footage -	1,266,719 GSF
Building cost ⁽¹⁾ -	\$710.8 million
Pedestrian bridge cost ⁽¹⁾ -	41.9 million
Total Cost	752.7 million
Annual retail revenue est. ⁽²⁾ -	4.01 million
Construction begins -	January 2012

Hotel Project:

Rooms -	500
Meeting space -	37,900 sf
Stabilized year ⁽³⁾ -	2016 (Year 3)
Hotel opening -	2014
Building Cost ⁽¹⁾ -	\$164.7 million

- (1) Construction cost estimates provided by DavisLangdon.
(2) Retail revenue estimates provided by London Realty Group.
(3) Hotel operating pro-forma provided by PKF Consulting.

Convention Center Funding Requirements

Construction Cost Estimate (\$000)

	Convention Center	Pedestrian Bridges	Total
Construction Costs	\$ 560,792	\$ 33,104	\$ 593,896
Escalation	26,055	1,538	27,593
Design Fees and Bond	42,546	2,512	45,058
Owner Soft Costs		-	
including land	81,450	4,808	86,258
Total	\$ 710,843	\$ 41,962	\$ 752,805

Sources and Uses of Funds (\$000)

	Convention Center	Pedestrian Bridges	Total
Sources:			
Bond Proceeds	\$ 716,081	\$ 42,313	\$ 758,394
Interest Earnings	9,155	541	9,696
Total	\$ 725,236	\$ 42,854	\$ 768,090
Uses of Funds:			
Project Fund Deposit	710,844	42,000	752,844
Capitalized Interest	-	-	-
Other Reserve Funds	-	-	-
Costs of Issuance	14,392	854	15,246
Total	\$ 725,236	\$ 42,854	\$ 768,090

Annual Debt Service Cost ⁽¹⁾

\$57,010

Projected Annual Retail Revenues

(4,013)

Net Annual Funding Requirement

\$52,997

(1) Assumes pledged revenue sources and any additional support generate a A/A2 bond rating.

Private Financing Example

Private Financing Underwriting Criteria

- ✓ 5-7 year holding period
- ✓ Senior debt coverage of 1.40x
- ✓ 50-60% senior loan to cost
- ✓ Required rates of return
 - ✦ Mezzanine debt – 15-18%
 - ✦ Equity – 25%+

Assumptions

- ✓ Stabilized year NOI - \$16.14 million
- ✓ Parking revenue of \$1.25 million (stabilized)
- ✓ Additional revenue of \$2.8 million (stabilized)
- ✓ Senior debt capacity of \$100 million (60% LTC)
- ✓ Equity return of 25% (10 year sale)
- ✓ Private equity investment of \$40.0 million

Sources and Uses of Funds (\$000)

Required Subsidy	\$ 41,842
Debt Financing	100,000
Private Equity	40,000
Total Sources	\$ 181,842
Project Costs	\$ 169,709
Operating Reserve	3,000
Financing Costs	9,133
Total Uses	\$ 181,842

Results

- ✓ Projected NOI and development costs prohibit a 100% private financing under current criteria
- ✓ Substantial public subsidy required
- ✓ Little or no City/Port profit participation available

Hotel Funding Requirements

Construction Cost Estimate (\$000)

	<u>Hotel</u>
Construction Costs	\$ 119,105
Escalation	5,534
Design Fees and Bond	7,790
Owner Soft Costs including land	<u>32,280</u>
Total	<u>\$ 164,709</u>

Sources and Uses of Funds (\$000)

	<u>Hotel</u>
Sources:	
Bond Proceeds	\$ 232,017
Interest Earnings	<u>2,121</u>
Total	\$ 234,138
Uses of Funds:	
Project Fund Deposit	169,709
Capitalized Interest	35,207
Other Reserve Funds	23,923
Costs of Issuance	<u>5,299</u>
Total	\$ 234,138

Projected Hotel NOI (stabilized year) ⁽¹⁾	\$21,420
Site Specific Tax Revenues (stabilized year)	5,702
Parking Revenues (stabilized year)	1,250
Additional Revenues (stabilized year)	2,774
Annual Net Debt Service Cost ⁽²⁾	\$15,830
Subordinate Expenses ⁽³⁾	2,621
Reserve Fund Deposits	3,700

Projected Residual Cash flow	\$8,995
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- (1) Excludes property taxes and FF&E expense.
 (2) Assumes pledged revenue sources and any additional support generate a A/A2 bond rating.
 (3) Includes FF&E expense and subordinate management fees

Total Funding Requirements (\$000)

Funding Requirements:

Convention Center & Pedestrian Bridge	\$52,997
Hotel Residual (Stabilized Year)	<u>(8,995)</u>
Total Requirements	\$44,002

Coverage Factor:

Requirement

1.25x

55,000

1.50x

66,000

Potential Funding Sources

Broad Base Funding Options

- ✓ City or Countywide increase in TOT
- ✓ City or Countywide increase in sales tax
- ✓ Assessment of special sales tax on food and beverage sales (City or Countywide)

Targeted Funding Options

- ✓ Create Tourism Improvement District – additional TOT tax based on proximity to CC
 - ✦ i.e San Francisco
- ✓ Assessment of food and beverage tax on restaurants near CC
- ✓ Extension/Increase in TMD assessment

Additional Tourist Specific Charges

- ✓ Rental car surcharge
- ✓ Ticket tax on certain tourist activities
 - ✦ Zoo, Sea World
- ✓ Ticket tax on sports and concert events at
 - ✦ Petco Park, Cricket Wireless, Cox Arena
- ✓ Charge on taxicab airport drops/pickups

Property Based and other Options

- ✓ Citywide or Countywide parcel assessment
- ✓ Tax increment financing
- ✓ State or County financial assistance
- ✓ Surplus government revenues
 - ✦ City
 - ✦ Port

Visitor Related Funding Options

Lodging & Restaurant

	<u>Unit</u>	<u>Funds Generated</u>
Citywide TOT or TMD	1%	\$ 14,700,000
Citywide TOT or TMD	2%	29,400,000
Citywide TOT or TMD	3%	44,100,000
Downtown TOT or TMD	1%	5,160,000
Downtown TOT or TMD	2%	10,320,000
Downtown TOT or TMD	3%	15,480,000
Downtown F&B Sales Tax	1%	2,400,000
Downtown F&B Sales Tax	2%	4,800,000
Downtown F&B Sales Tax	3%	7,200,000

Visitor Related Funding Options

Transportation

	<u>Unit</u>	<u>Funds Generated</u>
Rental Car Surcharge	\$1 per rental	\$ 1,150,000
Rental Car Surcharge	\$5 per rental	5,750,000
Rental Car Surcharge	\$10 per rental	11,500,000
Surcharge - Airport Taxi	\$1 per trip	1,500,000
Surcharge - Airport Taxi	\$3 per trip	4,500,000
Surcharge - Airport Taxi	\$5 per trip	7,500,000

Other

	<u>Unit</u>	<u>Funds Generated</u>
Ticket Surcharge (Tourist Attractions)	\$1 per ticket	\$ 5,000,000
Ticket Surcharge (Tourist Attractions)	\$3 per ticket	15,000,000
Ticket Surcharge (Tourist Attractions)	\$5 per ticket	25,000,000

June 15 Follow up Discussion

Rationale for Convention Center expansion

Value of naming rights

Impact of tax increases on local consumers and tourists

Ratings / debt structure

Sensitivity analysis