

Item: 9.2 Convention Center Expansion



Memorandum

TO: City Council

FROM: Mayor Ron Gonzales

SUBJECT: Expansion of San José
McEnery Convention Center

DATE: November 8, 2006

Approved:

Date:

11/8/06

RECOMMENDATION

I recommend the following actions that will provide the policy and financial framework to support the expansion of the San José McEnery Convention Center:

- a. Direct the City Manager, Redevelopment Agency Executive Director, and City Attorney to initiate the formation of a Mello-Roos community facilities district for the purposes of expanding the convention center, and return to the City Council with specific recommendations for the structure and financing of a district.
- b. Direct the Executive Director to determine the potential scope and design of a project to expand the convention center in the context of funding through a Mello-Roos district by using \$500,000 in the Agency's FY 2006-2007 budget identified for this project.
- c. Direct both the Agency Director and the Manager to continue the City's active partnership with San José Convention and Visitors Bureau, Team San José, and local hotel general managers as this concept for the convention center is launched, developed, and implemented.

BACKGROUND

Expansion of the San José McEnery Convention Center remains a key component for the long-term success of downtown San José. It will create jobs for residents, better serve Silicon Valley business and industry, bring more visitors to our city, and contribute to regional economic prosperity.

My recommendations provide for an innovative way to expand the convention center to address the needs of our local business community and convention industry. Establishing a Mello Roos community facilities district will enable San José hotels to tax themselves in order to provide funding to make our convention center more competitive.

Under California law, a Mello-Roos community facility district can finance a wide range of public services or facilities that directly affect specified properties. Establishing a community facilities district and tax would require approval by two-thirds of the San José hotel properties benefiting from the project. It would provide a new source of revenue dedicated exclusively for

this purpose. A district is created by a sponsoring local government agency, and it would include all properties that benefit from specific improvements or services. The district then could issue bonds secured by Mello-Roos revenues to provide funding needed to build facilities.

Because the active participation from our local hotel community is essential to the success of this approach, I strongly recommend that the Administration continue to work closely with hotel general managers and property owners, as well as with the San José Convention and Visitors Bureau and Team San José. They are critically important stakeholders who must be included as partners from the beginning of the process to create a self-financing Mello-Roos community facilities district and who would be involved in developing the scope and design of a project.

I also recommend that the Redevelopment Agency lead the effort to evaluate the potential scope and design for a convention center expansion capital project. The Agency has resources available to undertake this first step in the FY 2006-2007 Redevelopment Agency Budget.

Expanding the San José McEnery Convention Center has been a long-standing priority for our community since I became Mayor. With strong support from local hotel, arts, business and labor groups in 2002, I led the campaign for Measure F to ask voter approval to increase the hotel tax to fund expansion of the convention center. Although the measure received 65 percent of the vote, it fell short of the two-thirds majority needed to pass.

Following the election, the City Council approved my recommendation in the FY 2003-04 Redevelopment Agency Budget Message to ask the Convention and Visitors Bureau and San José hotels to identify other alternatives to fund a convention center expansion. Among the options were the formation of a Mello-Roos district with the support of hotels; placement of another ballot measure for a hotel tax; private-public financial partnerships, and public funding sources such as the San José Redevelopment Agency.

The City Council also approved my recommendation to proceed with the installation of South Hall, a temporary structure that added 80,000 square feet of meeting space in January 2006. The success of South Hall confirms the need for a permanent solution for expansion. If San José does not remain competitive and attractive for conventions, we will likely lose high-profile events such as *eBay Live!*, which brought \$9 million in economic benefit to the city and Photonics West, a major convention held in San José for over ten years, as they outgrow our current convention center's capabilities to meet their needs.

Based on the work already done by the Administration and our hotel community, I believe the time is right to move forward with this creative concept that would enable San José to enhance the competitiveness of the San José McEnery Convention Center for the benefit of our residents, our businesses, and our downtown.

COORDINATION

This memorandum has been coordinated with the City Manager's Office, San José Redevelopment Agency, San José Convention and Visitors Bureau, and Team San José.