

FEASIBILITY OF INITIATING
THE EXPANSION OF THE
CONVENTION CENTER IN
FY 2009-10

February 23, 2010

Item 9.1

City Council Direction

- December 15, 2009 - Council direction to prepare an analysis inclusive of financing options proposed by TSJ of the feasibility of initiating a modified project totaling \$130 million as follows:
 - Raise \$70 million from the CCFD Tax bonds
 - Approve \$16 million in the Agency's proposed budget for Year 1 (FY 2009-10)
 - Approve shifting \$14 million by moving funds in the Agency's proposed 5-year Capital Improvement Plan from Year 4 to Year 2
 - Generate \$30 million from General Fund lease revenue bonds.

Background

- December 2008 – Council approves \$350 million expansion and renovation of Convention Center.
- Spring 2009 - Convention Center Facilities District (“CCFD”) formation.
- Summer 2009 - Continued global recession & SERAF.

Economic Benefits

- Adds more convention events and attracts more visitors to Downtown San Jose.
- 650 construction jobs created, over 700 hotel industry jobs created
- Shifts responsibility of ongoing capital needs from General Fund and RDA to special hotel tax fund.
- Building now allows City to capitalize on the return of the economy.
- Capture lost convention business due to additional space and renovation of center.
- Return on Investment (ROI) Analysis

Proposed Building Program - \$130 million

- Expansion Elements
 - 35,000 sq ft of column-free ballroom space
 - 25,000 sq ft of flexible meeting room space
 - Back of house systems to service expansion
 - Demolition of former MLK Jr. Library
- Renovation Elements
 - Central Utility Plant
 - New Fire Alarm System
 - Digital controls for building
 - ADA improvement
- 175,000 sq ft reduced to 125,000 sq ft

Availability of Agency Funding

- Reviewed TSJ's proposal
- Proposed Agency Budget reflects Convention Center Expansion.
- Proposed Agency funding:
 - \$16 million in FY 2009-10
 - \$14 million in FY 2012-13

Analysis of TOT & CCFD Revenues

- Analyzed by City's consultant (Horwath, HTL).
- City will not return to FY 2008 TOT collection levels until FY 2014 or FY 2015.
- Hotels will continue to struggle with competitive rate pressures until the hotel occupancy levels increase.

	2010	2011	2012	2013	2014
CCFD Revenues (in millions)	\$4.0	\$5.6	\$6.3	\$6.8	\$7.8

Financing Elements to Mitigate Risk

- Revenue Stabilization Fund (“RSF”)
 - Estimated at one year of maximum annual debt service
- Additional Special Tax (“1% Blinker Tax”)
 - Replenishes RSF in the event of draw
- Debt Ratio Coverage
 - Percentage of pledged revenue to annualized debt service ranging from 100% to 150%.

Financing Options and Bonding Capacity

CCFD Tax Bonds	\$70.6 million
General Fund Lease Revenue Bonds	89.9 million
Hybrid of CCFD Tax Bonds and General Fund Lease Revenue Bonds	85.5 million

Project Funding Gap

Total Project Cost	\$130 million
Available Agency Funding	-\$30 million
Estimated Bonding Capacity	-\$70.6 to \$89.9 million
Project Funding Gap	\$10.1 to \$29.4 million

Alternative Funding Sources

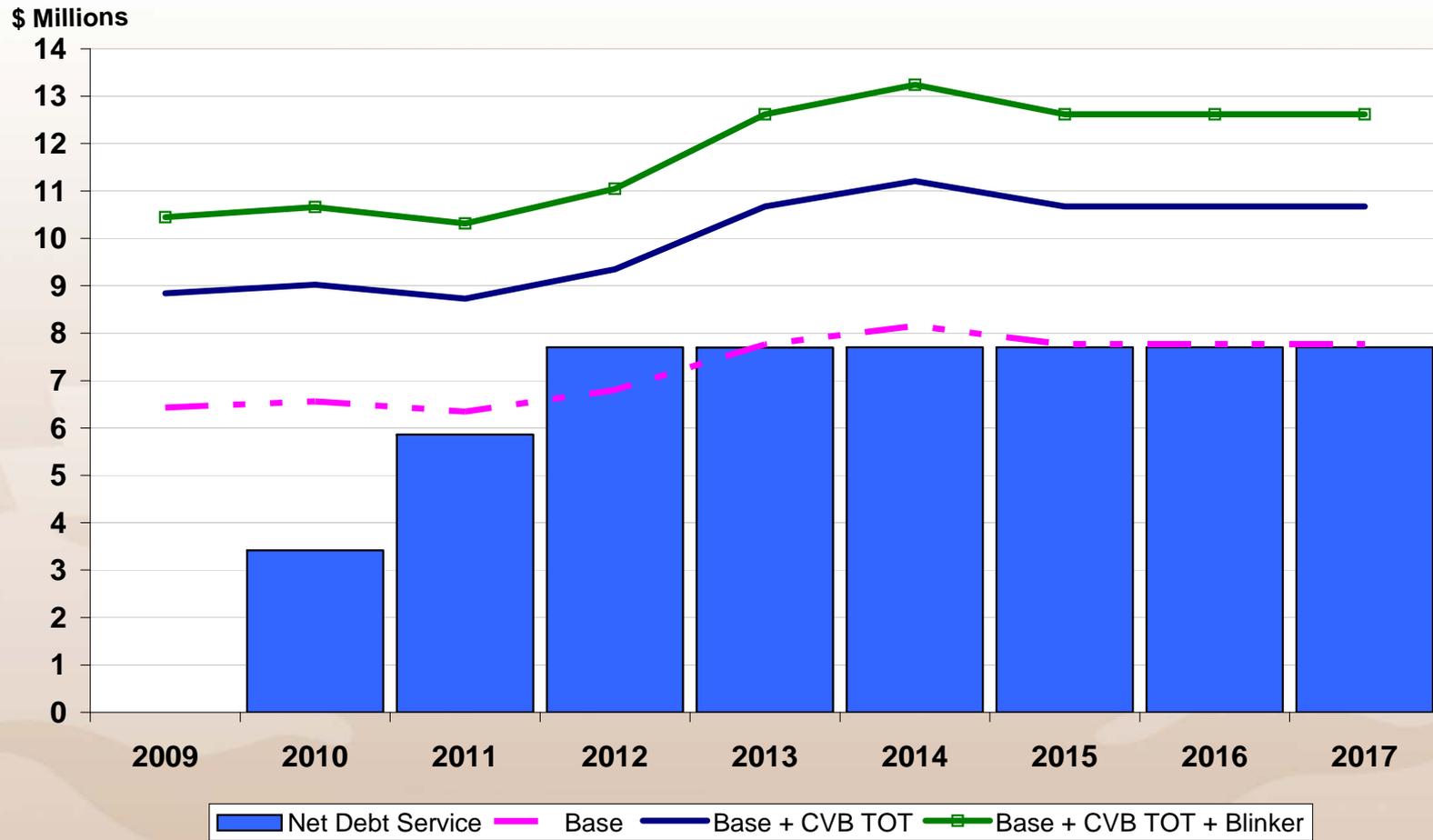
- Transient Occupancy Taxes (“TOT”)
 - 30% dedicated to Convention Center operations.
 - 15% dedicated funding of CVB (“CVB TOT”).
- Annual General Fund subsidy of the CVB, which varies from year to year.
- Hotel BID tax.

Project Funding Gap Alternative

CCFD Tax Bond with CVB TOT	\$100 million
Agency Available Funding	\$30 million
TOTAL	\$130 million

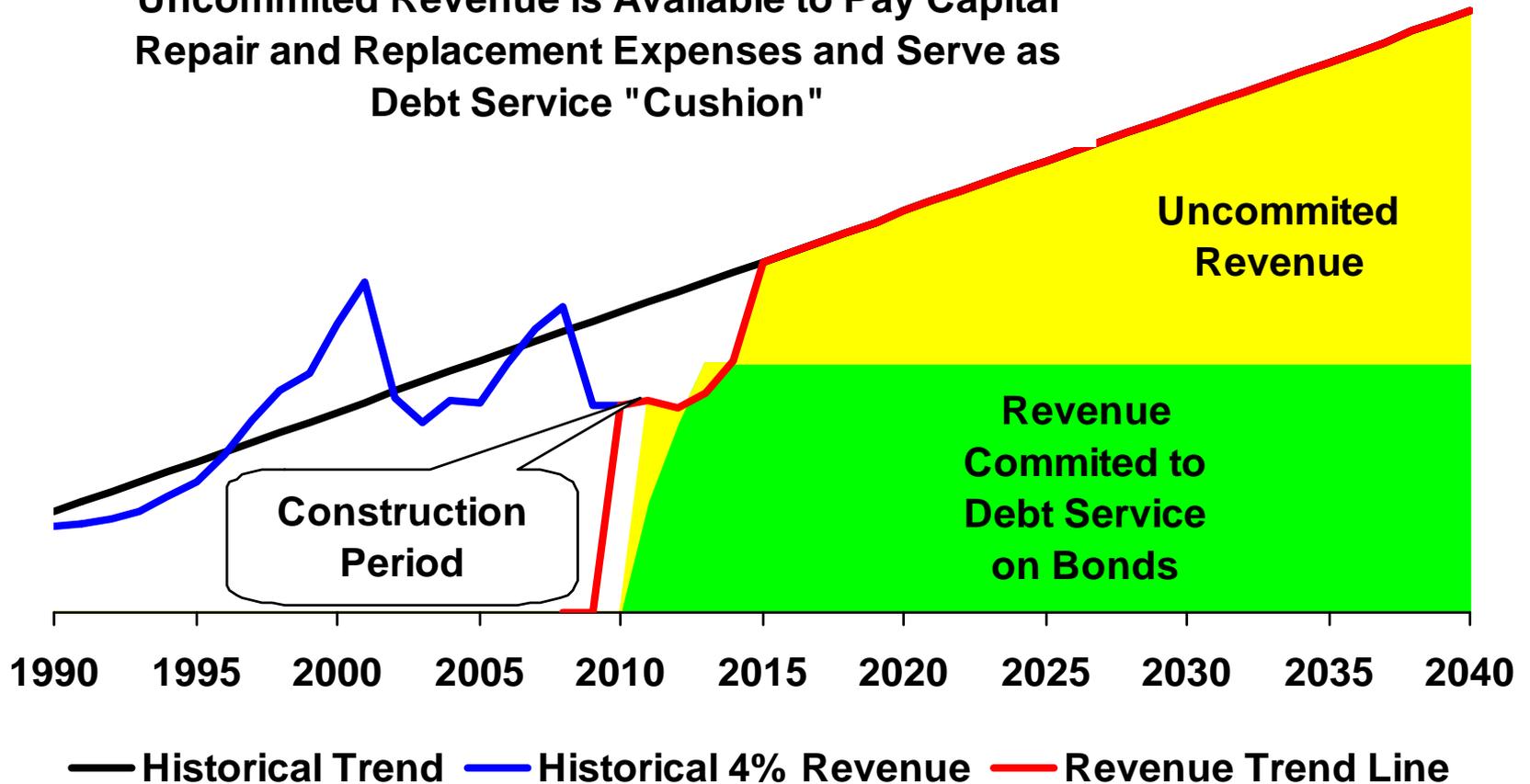
CCFD Tax with CVB TOT Debt Coverage

Projected Revenues and Debt Service on CCFD Tax Bonds Netting \$100 million



Ongoing Capital Improvements

Uncommitted Revenue is Available to Pay Capital Repair and Replacement Expenses and Serve as Debt Service "Cushion"



Design – Build Procurement

- Benefits
- Measure D – Accountability & Transparency
- Norman Y. Mineta San José International Airport
- Savings based on construction efficiencies and reduced soft costs.

Conclusions & Next Steps

- Project is feasible with additional non-general fund source of funds.
- Staff to present TSJ/CVB Board a plan to utilize additional non-general fund revenue sources to finance the proposed Convention Center Expansion.
- Capital Facilities Advisory Committee
- Proceed with Program Criteria Documents
- RFP for Design Build Contractor
- Bond Issuance – Early 2011 “Validation Lawsuit”