

Convention Center, Infrastructure & Homelessness Funding Proposal by Mayor Kevin Faulconer

POSITION: The Chamber's Infrastructure, Housing & Land Use Committee voted to SUPPORT the Mayor's proposal on March 21, 2017. The Board of Directors has a standing position in SUPPORT of the contiguous convention center expansion.

STATUS: The City's Rules Committee voted on April 5, 2017 to direct the City Attorney to prepare a draft ordinance for placement on the ballot for a special election in November 2017. The full City Council will consider the proposal in June.

AT-A-GLANCE

City of San Diego Mayor Kevin Faulconer prioritized expansion of the convention center and funding for homelessness and infrastructure at his State of the City on January 11, 2017. This proposal addresses the financing piece of the expansion and provides additional money for homelessness and infrastructure programs.

ANALYSIS

The Phase 3 Convention Center Expansion Project was initiated under the Sanders Administration almost a decade ago. Significant milestones were met during that period, including necessary approvals by the City Council, Port of San Diego and Coastal Commission. Pre-construction work proceeded until the City lost a validation action in 2014 regarding the financing of the project, forcing funding approvals to potentially go to voters.

Separately, litigation over the Coastal Commission decision lingered until January 2017 when project proponents were ultimately victorious in court. This decision cleared the way to pursue the project and alternative financing. The Mayor also declared in the State of the City that he would continue to pursue the project in 2017.

Tourism officials argue that lack of available space is the top reason for not booking conventions in San Diego. The proposed expansion would allow the Center to retain growing conventions and attract new clients previously "sized out" of the current space. An expansion would also allow for two large conventions to co-exist, allowing for further economic return not captured today.

According to the City, the Phase 3 Expansion would accomplish the following:

- A total addition of 400,000 sf of exhibit, ballroom and meeting space to the current 816,091 sf which includes:
 - Over 220,000 sf of exhibit (current = 525,701 sf);
 - 105,000 sf of meeting rooms (current = 123,408 sf);
 - 78,470 sf of ballroom space (current = 80,706 sf);
- 5-acre rooftop public park and increased public access to the waterfront;
- Allow for approximately 50 more events and 334,000 attendees;
- Generate over \$500 million in direct spending with a regional impact of \$860 million;
- Nearly 7,000 permanent jobs in addition to construction jobs during build out;

- Approximately 380,000 new hotel room nights annually, generating about \$15 million in new TOT revenues.

The financing proposal slightly alters the original financing “3-2-1” formula. The current TOT rate in the City of San Diego is 10.5%, with lodging establishments over 70 rooms incurring an additional 2% fee to fund Tourism Marketing District (TMD) activities. Under the proposal, hotels in downtown would be assessed a 3% TOT increase. Hotels located north of SR-56 and south of SR-54 would fall within the 1% category. All other hotels within the city would have an additional 2% increase. These rates put San Diego in line with competitor and major markets:

Transient Occupancy Tax and Tourism District Combined Comparison

City	Total Lodging Tax and Assessment Fees
California Cities	
Anaheim	17.0%
Los Angeles	15.5%
San Francisco	16.25%
San Diego	12.5%
Western Region	
Phoenix	12.27%
Las Vegas	14.0%
Denver	14.85%
Seattle	15.60%
Other Major Markets	
Austin	15.0%
Chicago	16.39%
Dallas	15.0%
New York	14.75%
Orlando	12.50%

Source: 2016 HVS Lodging Tax Report, USA

The original price tag for the expansion was estimated at \$520 million. A revised March 2017 estimate, with the same design, is at \$685 million. If 2/3 of San Diego voters approve the project in November, construction activities would begin in July 2019 and conclude by March 2023.

The proposed measure would also provide the first dedicated funding stream to address homelessness in support of long-term regional efforts and immediate interventions. Services contemplated for use of funding include:

- Leveraging private development monies, bond financing and tax credits to increase affordable housing and permanent supportive housing;
- Creation of a Support Services Assessment Center;
- Prevention and diversion initiatives;
- Rental assistance
- Rapid re-housing initiatives

Finally, the measure also proposes dedicating a funding stream to road repair like slurry seal and paving to enhance the Mayor’s previous efforts to address one-third of the City’s streets (approximately 1,000 miles) over a five year period. It is expected that approximately \$10 million annually would be available for both homelessness and infrastructure investments.

While the measure has received initial high praise from business and tourism groups, a few challenges remain. Aside from achieving a 2/3 voter threshold the resulting initiative would face in November, a competing proposal to develop a hotel on the expansion site by Fifth Avenue Landing (FAL) continues to proceed through the Port's approval process. FAL secured permits in 2007, but opted not to proceed with the project due to financing complications during the recession. As the City advanced the expansion, FAL agreed to transfer their lease with the Port to the Convention Center for five years of interest payments and a buyout of \$12.5 million in 2015. Due to the unresolved litigation of the Coastal Commission decision, the Convention Center did not extend the lease or buy it out since the fate of the expansion was unknown. As a result, the lease reverted back to FAL. A condition in the lease with the Port forced FAL to proceed with a project or the lease would return to the Port at an earlier date. The current lease expires in 2024, but FAL intends to ask the Port for a long term extension. FAL filed suit against the Convention Center this month alleging interference in their permitting process.

The Chamber has a long standing position and has advocated for a contiguous expansion since approval actions commenced more than five years ago.