



**COUNCILMEMBER BARBARA BRY  
COUNCILMEMBER CHRISTOPHER WARD  
COUNCILMEMBER GEORGETTE GÓMEZ**

**M E M O R A N D U M**

DATE: May 1, 2017

TO: Honorable Kevin Faulconer, Mayor

FROM: Councilmember Barbara Bry, First District

Councilmember Christopher Ward, Third District

Councilmember Georgette Gómez, Ninth District

SUBJECT: Proposed Ballot Measure to Increase the Transit Occupancy Tax to Fund a Contiguous Phase III Convention Center Expansion and Related Initiatives to Reduce Homelessness and Road Repairs

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This joint memorandum respectfully requests that your office provide additional background and information on the Report to the City Council relating to the consideration of a special election ballot measure to increase Transient Occupancy Tax (TOT) to fund a proposed convention center expansion, and dedicate a revenue stream to address the homelessness and infrastructure crises (staff report) issued on March 29, 2017, and presented to the City Council's Rules Committee on April 4, 2017.

It is our understanding that a discussion regarding this proposal will be brought to the City Council on or around May 22, 2017. In an effort to have a full and productive discussion at that hearing, we request additional clarification on this special election ballot initiative, as noted below. We respectfully request responses by May 18, 2017.

**Convention Center Expansion Costs**

- The March 27, 2017 memorandum from Paz Gomez, Deputy Chief Operating Officer, to Scott Chadwick, Chief Operating Officer, states that "The project cost estimate increased by \$167 million over 46 months, which is an average increase of \$3.6 million per month. Any additional construction project delay beyond an estimated completion date of March 2023 could result in a continuing increase in construction costs of \$3.6

million per month”. We request a detailed breakdown and rationale for the \$167 million increase for construction costs in order to understand this potential increase in costs.

- The March 29, 2017 Report to the City Council notes that the updated costs for the Coastal Commission–approved Phase III expansion project range from a low of \$630 million to a high of \$685 million. We request additional information regarding how these estimates were calculated. If any consultant report was enlisted to update these calculations, please share with us a copy of their work.
- Could the amount of revenue that is anticipated to be lost during the time the expansion is being constructed be quantified?
- As part of the proposed expansion project, does the revenue or cost projections include paying off the loan from the State incurred for the Convention Center’s deferred maintenance?
- Please detail all financing costs for borrowing for the Phase III expansion. Do we need to have a reserve fund?
- Does the City need to first secure the land to build the expansion project and has it been done in the past? If so, where?

#### **TOT Growth Rate and Hotel Room Nights Calculations**

As noted in the April 4, 2017 Office of the Independent Budget Analyst (IBA) report on this proposal, a range of \$4 million to \$9 million annually may be more realistic than the \$15 million estimate noted in the staff report.

- In line with the IBA’s suggestion we request a copy of the consultant’s analysis to clarify how additional TOT funds will be generated for the General Fund.
- Additionally, please provide a copy of the consultant’s analysis regarding how new hotel room nights were calculated to be attributable to the expansion.

#### **Transit Occupancy Tax to Address Homelessness**

Addressing homelessness is a major priority for our communities and constituents. As stated on Page 5 of the staff report, the measure would “generate revenues exceeding \$150 million for homelessness” over 10 years, “increasing to approximately \$900 million in total revenues for homeless programs over 40 years.”

- Could you explain the anticipated process to spend the funding dedicated to homeless services throughout all nine Council Districts? Will each Council District get a pro rata share of funding to spend? If so, how will this be calculated and what can it be spent on? If additional funding was increased for homeless services would it be utilized in areas that are most impacted?
- In order to better understand the funds estimated and timing of the funding for this project we request a 40-year fiscal analysis broken down by year to better understand the amount and timing of the funding for proposed homeless housing and services.

- As stated in the IBA report, “an alternative option might be to amend the proposal to allow TOT received over and above the amount necessary to finance the Phase III Convention Center expansion, net capital, and operating and maintenance costs, if any, to be allocated to homelessness programs/services.” We request that your office provide an analysis of this proposal.

All in all, we believe that a larger percentage of the proposed TOT should be allocated from this measure towards addressing the significant needs of our growing homeless population that impacts all council districts.

- In order to better understand the highest percentage of what the market will tolerate, we request the study that explains the methodology and rationale that was used to calculate the 1-3% TOT tiered allocation and why higher percentages cannot be considered.
- Is the TOT increase comparable to other major cities and does your office have any documentation from other cities that you can share?
- Is there a mechanism by which funds allocated to homeless services can be increased as part of this initiative? What role does the County of San Diego play in this effort? Will they be contributing funding or programming to address the issue?

### **Convention Center Future Operations and Maintenance Costs**

The staff report notes that the proposed expansion of the Convention Center would include an additional 400,000 square feet of rentable exhibit, ballroom and meeting space to the existing facility and allow the facility to attract approximately 50 more annual events. This new space and the events will require additional operating, maintenance and capital cost revenues.

In the March 29, 2017 Report to Council there is no discussion of the costs to operate or fund maintenance of the additional square footage nor is there information regarding on how to address the current funding gap for capital projects.

- To better understand how the operating and maintenance costs will be addressed, we respectfully request an operations and maintenance cost plan for the future expansion. We would like to ensure that the proposed expansion not compound the current capital needs gap.
- Will the expansion allow the City to stop contributing to the Convention Center’s operations and maintenance? And if so, who will be responsible for ensuring the maintenance and operation of the existing facilities and future expansion?
- Has the City or the Port conducted a new study of the effect of the sea-level rise on the Convention Center Expansion project?

### **Street Repair Revenues**

In regards to street repair revenues, please clarify if the TOT revenue in the proposal will replace the need for lease revenue bonds for street repair as described in the FY 2018-FY 2022 Financial Outlook.

### **Special Election**

We would like to better understand why the expansion of the Convention Center would warrant a special election that could cost upwards of \$5 million when we currently have an estimated \$81 million budget shortfall that we must resolve this year with another budgetary shortfall anticipated for next year.

- Why is the TOT increase being proposed for November 2017 at a special election instead of being scheduled for November 2018 during the general election?
  - How much is the special election in November 2017 estimated to cost the taxpayers?
  - Has your office investigated if it would be more prudent to put the TOT increase on the November 2018 ballot? What would the estimated cost be to add it to the consolidated election?
  - Measure L garnered 65% of the vote on the November 2016 ballot, to encourage issues of significance to be placed on the general election. Why are we considering this special ballot initiative in light of the recent passage of Measure L?

Finally, on April 20, 2017 the San Diego Housing Coalition sent a letter to your office as well as to the Council offices with questions regarding the proposed TOT measure. We would appreciate if your office could review, consider, and provide responses to those questions as well.

We appreciate the opportunity to work with you on these important issues and look forward to your responses.