



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Sensitivity Analysis of Estimated Incremental TOT Revenue from Expansion of the San Diego Convention Center

OVERVIEW

On December 6, 2011 the City Council adopted a resolution of intention to form a Convention Center Facilities District (CCFD) and a resolution declaring the need to incur bonded indebtedness in an amount not to exceed \$575 million, both related to the proposed San Diego Convention Center Phase III Expansion Project. Prior to that meeting, the Chief Operating Officer and Chief Financial Officer issued a memorandum that provided additional information on the conceptual financing approach that was being considered, as well as potential revenue sources that were being contemplated to finance the Expansion Project.

One of the revenue sources identified as a potential funding source for the Expansion Project was an annual contribution of “incremental” City TOT revenue not-to-exceed \$3.5 million. A November 2010 economic analysis of the proposed Convention Center expansion by AECOM estimated that the City would realize an additional \$13.8 million in annual revenue due to additional convention business captured as a result of the expansion, including \$12.7 million in additional TOT revenue. As such, the memo from the COO and CFO characterized the City's TOT contribution as revenue that “would not be available but for the Expansion Project.”

As part of the actions taken by Council at the December 6 meeting, the IBA was directed to come back with a sensitivity analysis of the incremental TOT revenues projected to be generated from an expanded Convention Center, and the increased level of economic activity that would needed to generate the City's anticipated annual \$3.5 million contribution. This report is provided in response to that direction.

FISCAL/POLICY DISCUSSION

City TOT revenue is generated based on a tax rate of 10.5% on the total rent charged for occupancy at lodging facilities within the City of San Diego. Two important determinants of TOT revenue are total room-nights and the average daily rate (ADR). Room-nights are a measure of lodging demand, and are equal to the number of rooms rented times the number of nights they are rented for. The ADR is the average price at which rooms are rented for one day.

The goal of this analysis is to determine the incremental amount of new lodging activity that would need to be generated by the Convention Center expansion in order to produce \$3.5 million in new “incremental” TOT revenue for the City. By first determining the appropriate ADR, we can then calculate the additional number of room-nights that would be needed to meet this target.

According to the December 2011 Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau by consulting firm Tourism Economics, the ADR for San Diego County in 2011 was approximately \$124 per night. The Quarterly Travel Forecast projects that the ADR will grow to approximately \$151 by 2015, reflecting continued improvements in the tourism and lodging industry. For the purpose of this analysis, the IBA believes that the projected 2015 ADR is more appropriate, since the Convention Center expansion is not anticipated to open until early 2016.¹ As shown in the table below, using a projected ADR of \$151, the Convention Center expansion would need to generate an additional 220,780 room-nights annually in order to achieve \$3.5 million in additional TOT revenue for the City.

New City TOT Revenue Needed	\$3,500,000
<i>Divided by: City TOT Rate</i>	<i>10.50%</i>
Equals: Total Room Revenue	\$33,333,333
<i>Divided by: Projected 2015 ADR</i>	<i>\$150.98</i>
Equals: Total New Room-Nights	220,780

The Convention Center expansion would produce economic benefits for the City and the region by enabling more and larger conventions to be held in San Diego, thereby bringing more visitors and spending into the region. According the November 2010 AECOM study there are two primary event types that provide significant economic benefits, National/State Conventions & Tradeshows and Corporate Conventions. Because these events draw visitors from outside the region, they are responsible for the majority of room-nights generated by convention activity.

The San Diego Convention Center Corporation (SDCCC) collects historical data on the number of events that are held each year, the type of event, average attendance, and room-nights generated. Using this data, we are able to calculate the number of new primary events that

¹ A more precise analysis would be to use the ADR in 2017 or 2018 to align more closely with the anticipated opening and stabilization of the expansion. However, no ADR projections for those years are currently available, and using the projected 2015 ADR yields a more conservative analysis.

would be required to generate \$3.5 million in incremental City TOT. Because the two different primary event types have different characteristics with respect to average number of attendees and average room-nights per attendee, they are reflected separately in the table below.

	Nat/State Conv & Trd	Corporate Conventions
New Incremental Room-Nights Needed	220,780	220,780
<i>Divided by: Room-Nights per Attendee</i> ¹	<u>1.23</u>	<u>2.16</u>
Equals: Total New Convention Attendance	179,496	102,213
<i>Divided by: Avg. Attendance per Event</i> ²	<u>11,085</u>	<u>5,032</u>
Equals: Total New Event Types Needed	16.2	20.3

1. Average from 2003-08 based on data from SDCCC.

2. Average attendance per event at stabilization projected by AECOM.

This table shows the number of new National/State Conventions & Tradeshows **or** Corporate Conventions that would be needed annually to generate \$3.5 million in incremental City TOT revenue. Presumably, an expanded Convention Center would provide for some combination of new National/State Conventions & Tradeshows and Corporate Conventions. The November 2010 AECOM study estimated that the expanded Convention Center would capture 20 new National/State Conventions & Tradeshows and 5 new Corporate Conventions annually. AECOM estimated that these new events would generate approximately \$12.7 million in new City TOT as a result of the expansion. However, using the methodology described above, it appears that this estimate may be overstated, as reflected in the table below.

	Nat/State Conv & Trd	Corporate Conventions
Estimated new primary events (AECOM)	20	5
Average attendance per event (AECOM)	<u>11,085</u>	<u>5,032</u>
<i>Estimated total new event attendance</i>	221,700	25,160
Average room-nights per attendee (2003-08)	<u>1.23</u>	<u>2.16</u>
<i>Estimated new room-nights</i>	272,979	54,445
Projected Average Daily Rate (QTF 2015)	<u>\$150.98</u>	<u>\$150.98</u>
<i>Estimated new room revenue</i>	\$41,214,371	\$8,220,035
City TOT Rate	<u>10.5%</u>	<u>10.5%</u>
<i>Estimated new City TOT Revenue</i>	\$4,327,509	\$863,104
Total estimated new City TOT revenue	\$5,190,613	

As shown in the table above, using the projected 2015 countywide ADR of \$151, the estimated incremental City TOT revenue resulting from the expansion of the Convention Center is significantly less than estimated in the November 2010 AECOM study. It should be noted that AECOM's estimates were based on a different methodology that utilized data on the average lodging expenditures per attendee per stay. While the cause of this significant discrepancy is unclear, there are a number of factors that may impact the incremental TOT estimates using the IBA's methodology:

- The ADR used in the IBA's estimate is the countywide ADR projected for 2015. It could be argued that many of the new room-nights would be realized in downtown, which tends to have a higher ADR than the county average. Using historical data and projected growth rates, the IBA has estimated that the ADR for the downtown submarket to be approximately \$197 by 2015. Using this rate (and the higher attendance figures used in the AECOM study), estimated incremental City TOT revenue would be approximately \$6.8 million.
- As noted in the AECOM study, data on the room-nights generated by different events only reflects rooms that were booked in the block of room set aside for each event. According to AECOM, prior studies by the San Diego Convention Center Corporation have shown that around 30% of all room-night may be booked "out of block," meaning that the data provided on room-nights underestimates the true impact. To account for out of block rooms, the average room-night per attendee was increased by 30%. Making this adjustment (and assuming both of the prior adjustments), estimated incremental City TOT revenue would be approximately \$9.7 million.

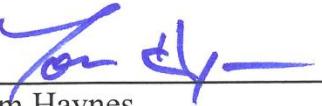
As the discussion above illustrates, the estimated incremental City TOT revenue that may be generated by the Convention Center expansion varies dramatically based on the assumptions that are used. While the contemplated \$3.5 million TOT contribution is still well within the total incremental TOT estimated in each of the IBA scenarios, this sensitivity analysis demonstrates some significant variances from the results of the AECOM study. It should be noted that the IBA has only briefly discussed the results of this analysis with AECOM and SDCCC, and there may be other factors not currently considered that would further impact the IBA's estimates. For instance, SDCCC has indicated that recent data suggest the ADR for room nights booked "in-block" is approximately \$210, and that average room-nights per attendee is between 2.15 – 2.25. The Council may wish to get further information and clarification regarding the incremental TOT revenues estimated to result from the proposed Convention Center expansion.

CONCLUSION

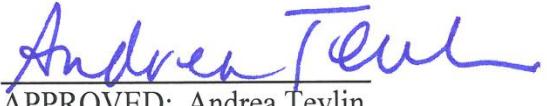
This report responds to City Council direction from the meeting on December 6, 2011 by providing a sensitivity analysis of the new "incremental" City TOT revenue that is estimated to be generated by the proposed expansion of the San Diego Convention Center. This sensitivity analysis identifies the increased level of lodging activity that would be necessary to generate the not-to-exceed \$3.5 million in City TOT that is being contemplated as the City's annual financial contribution to the Expansion Project. In addition, this report estimates the total amount of

incremental TOT that may be generated by the Convention Center expansion based on similar parameters used in the November 2010 AECOM study, but with a different methodology.

The results of this analysis suggest that the total amount of incremental TOT generated by the Convention Center expansion may be somewhat less than estimated in the AECOM study. Using different assumptions with respect to the average daily rate, event attendance and room-nights, the IBA estimates that total incremental City TOT revenue generated by the expansion may be anywhere from \$5.2 million to \$9.7 million. While all of the IBA's estimates are still well over the contemplated not-to-exceed \$3.5 million City TOT contribution, this analysis demonstrates some significant variances from the results of the AECOM study. It should be noted that the IBA has not had the opportunity to discuss the results of this analysis with AECOM or SDCCC, and there may be other factors not currently considered that would further impact the IBA's estimates. The Council may wish to get further information and clarification regarding the incremental TOT revenues estimated to result from the proposed Convention Center expansion



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