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Case Study:

Port of San Diego's Return on Investment on the San Diego Convention Center

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WELCOME TO SAN DIEGO & Thank you for staying at a Port hotel.

Last time I participated in one of these workshops was in Portland 2011 where we discussed Maritime Industrial Zone Overlay Districts or MIZOD's.

A lot has happened in our town since then on this topic so if you're interested, lets talk later.



Today, I am here to tell you about three decades of Port & City collaboration on the San Diego Convention Center, one of the most important economic engines in our region.

Just to get you oriented, this is San Diego Bay and you are here.



You couldn't have missed the Convention Center while getting into the Hilton.

Chances are you've visited our fair Port city and have attended a conference or two in the Convention Center.

As it sits today, it is surrounded by some of the biggest hotels on the west coast (4000 rooms just on Port tidelands), Petco park & the Downtown Gaslamp Quarter.



We are going to break up the project into 3 phases as you see here.

Case Study Presentation Summary

Phase I - \$165 million - 1989

- **Phase II - \$216 million - 2001**

- **Phase III - \$550 million - TBD**

I'll be taking you time machine from the Ron Burgundy 1980's days (yes filmed mostly in SD) to thru today & what we hope to be the completion of Phase III in the near future.

A quick look at our case study outline will show you that for over three decades, the Port & City have evolved their collaboration to fit the needs of the region.

Phase I

Project Summary

\$165 million

1970's to 1989 opening

1.7 million square feet of development on 11 acres of Port tidelands,
formerly an environmental clean up site

Setting the stage for development

Civic vision for a convention center on San Diego

Convention center & hotel nexus

Port contributes \$165 million from cash reserves

As you'll see, in better financial times, the Port could write a big check & finance the entire design & construction of the original Convention Center.

But before we could, we had to set the stage for development of the South Embarcadero, which is everything from the Hilton to the Hyatt.

Mayor Pete Wilson

- A major redevelopment campaign in the late 1970's by then Mayor Pete Wilson was the catalyst to building a world-class convention center on San Diego Bay.
- In 1982, the Mayor appoints a Task Force
- In 1983, San Diego voters approve the development of a Convention Center on San Diego Bay



It all started with a civic vision in the late 1970's by (back then) Mayor Pete Wilson that San Diego should have a Convention Center on San Diego Bay.

Today, I am going to take you through our experience on this project, the infrastructure investment, the collaboration between the City and Port of San Diego and the results so far.

**FORMER CAMPBELL SHIPYARD SITE – Port Environmental Clean-Up
\$15 - \$25 million**



South Embarcadero

Most of this area we are standing in now was a contaminated former shipyard.

The Port cleared the site and invested in its clean up.

Intercontinental Hotel (Marriott) Opened in 1984



South Embarcadero

That site work, cleared the way for the Intercontinental hotel & marina.

Convention Centre Phase I & Second Marriott Tower (1988)



Construction of the original 1.7 million sqft began in 1987 on 11 acres of Port tidelands

The second tower of the now Marriott was completed in about the same time.

The original Convention Center was paid for in cash by the District (\$165 million) and designed and constructed by the City: opened in 1989.

Convention Center Phase I Opened in 1989



The District entered into a Management Agreement with the City of San Diego in 1985 for its operation and management.

In 1994 the District entered into an MOU with the City for Expansion of the Center.

In August 1998 the Board approved documents for a lease revenue bond financing structure to fund the expansion project.

The Convention Center Financing Authority was created and the District entered into an Existing Center Lease and Expansion Lease with the Authority.

The Authority then issued \$205 million in lease revenue bonds and Leased the City the entire Center under a Facility Lease whereby the City is required to make annual payments toward the bonds in the form of rent.

First Hyatt Tower Opened in 1992 (Second tower in 2003)



Convention Center Project triggers new hotel developments on nearby Port tidelands at South Embarcadero



Since opening in 1989, the San Diego Convention Center has generated over \$17 billion in economic impact by hosting over 4,000 events that utilized more than 10 million hotel room nights.

San Diego's hotel inventory has doubled since Convention Center planning began in 1984 and hundreds of new restaurants, shops and attractions have helped transform downtown into a vibrant, urban community.

The Hyatt eventually built two towers, now 1600 rooms, separated by a decade, and all serving the group business that the Convention Center brings in.

By 1994, the Convention Center had generated about \$1.5 billion in regional economic impact so the City & Port immediately began planning an expansion to the original or what we call Phase II.

Phase II

Project Summary

\$216 million

1998 to 2001 opening

Doubling the size of the Convention Center to
2.6 million gross square feet

Regional ROI to expand

Ancillary hotels developments

City issues \$205 million in voter approved bonds

Port contributes \$90 million over 20 years

For Phase II Expansion of the Center, the District entered into several additional agreements as follows:

- 1) Support Agreement – required an initial Port payment of \$9 million and then \$4.5 million annually for 16 years towards the payment of the City bonds or \$90 million over 20 years ending this year;
- 2) 1998 Convention Center Management Agreement between the District and City which governs the maintenance, use, and operation of the Convention Center; and
- 3) MOU for Dewatering Operations at the Center

Convention Center Phase II Opened in 2001



In 1998, San Diego voters approved a ballot measure to finance a phase II expansion using City-issued bonds

The \$216 million expansion (Phase II) opened in 2001, nearly doubling the size of the building to 2.6 million gross sqft.

The Convention Center continued to thrive with award winning management of Carol Wallace, the CEO of the San Diego Convention Center Corporation, the City nonprofit agency charged with managing the day to today operations of the Center, for the City.

Truth be known, although Comic-Con gets all the press, its 16 medical conventions that are the bread & butter of the Convention Center, year after year. Doctors spend money & bring their families.



I won't bore you with all the transactional documents it takes to pull off a massive public project, but in short, I can say:

There is a Management Agreement between the City & Port that governs the use of the Convention Center.

The other Lease Agreements and Support Agreements were utilized to facilitate the lease revenue bond financing structure, all for Phase II. As you remember, we paid off Phase I with one check.

The City has a separate agreement with the Convention Center Corporation for the day to day management of the facility.

Phase II Joint Powers Authority



Consideration to City

- In consideration for City's managing, operating, maintaining, and promoting Center, City shall receive the following (in general) benefits:
- Port shall pay City \$4.5 million/year for 20 years per Support Agreement ;
- City shall receive all income from, and bear all expenses of, the Center; and
- **City shall receive all transient occupancy taxes resulting from persons staying at tideland hotels located near the Center**

Consideration to Port

- In consideration for District's investment in the designing, constructing, furnishing and equipping of Center and the managing, operating and maintaining of Parking Facility, District receives (in general) the following benefits:
- City pays the Port \$1 per year
- **City is solely responsible for the maintenance of the building and future phases, capital improvements & unexpected expenses**
- City pays rent on non-convention and non-trade show Income
- City conveys title to expansion project to Port
- City maintains the dewatering facility in the underground parking facility
- **Port keeps all parking facility income**
- **Port keeps all increased percentage rentals from its nearby tidelands properties**

Port Rents in FY 2013: Hilton, Marriott & Hyatt

**Top 3 Port hotels serving the
Convention enter**

\$400 million in gross sales

Over \$20 million in rents to the Port

For example, for each room night the Port gets a percentage rent of about 7-8% plus a range of other percentage rents from food & beverage to valet service.

Meanwhile, the City gets Transient Occupancy Tax of 10.5% plus a Tourism Marketing District Tax of about 2%.

Once Phase III financing plan is implemented, a 3-2-1% hotelier tax is added to the above to help the City pay for Phase III. More on that later.

Port Parking Garage



Let me also touch on parking, because it drives a lot of development on the waterfront in California.

The Port is responsible for the operation and maintenance of the 1900 parking facility under Phase I and receives all income from the operation, with 1100 allocated to the Convention Center & 700 to the Marriott.

There was no parking added for Phase II nor any planned for Phase III.

In addition, due to Petco Park & increased demand for parking in this area, the Port invested about \$26 million in building its own 2000-space public parking garage, with 900 allocated for use by the Hilton under a 1.5% per room night fee.

Cargo & Hotels

The Hilton San Diego Bayfront Hotel and future expansion site is directly adjacent to the Port of San Diego's Tenth Avenue Marine Terminal



The close proximity creates an interactive outreach & educational opportunity for the Port on a secure facility not ordinarily accessible to the general public.

Current Convention Centre & Hilton



The 1190 room 30-story Hilton Bayfront we are in now opened at the worst possible time in the recession, in 2008.

But its doing great now and as part of the Phase III Expansion, we are in discussions to add another 500 rooms in a second tower over the Port parking garage.

Phase III

\$550 million

2002 to Present

Approximately one million square feet of development &
a five acre rooftop park

Building on 23 years of success & ROI

City Convention Center Facilities District Bonds (Hotel visitors)
\$33 million/year

City Incremental Transient Occupancy Tax increase estimated
\$3 million/year

Port will contribute \$60 million over 20 years or
\$3 million/year

All this money going back & forth, brings us to Phase III.

I show 2002 for discussion purposes but officially, the City's Phase III Expansion plans began to take shape in 2009.

The City's financing plan is simple: Hotels, TOT & Port, with the City's general fund acting as the stop gap.

Public Engagement: Mayor's Citizen Task Force

- Leaders from varied communities
 - Hospitality, labor, business, taxpayers, environmental
- 11 public forums
- Media Outreach
- Web site:
 - www.ConventionCenterExpansion.com



As in Phase II, a diverse group of community leaders came together to consider a Phase III expansion, considering **WHY DO WE NEED AN EXPANSION?**

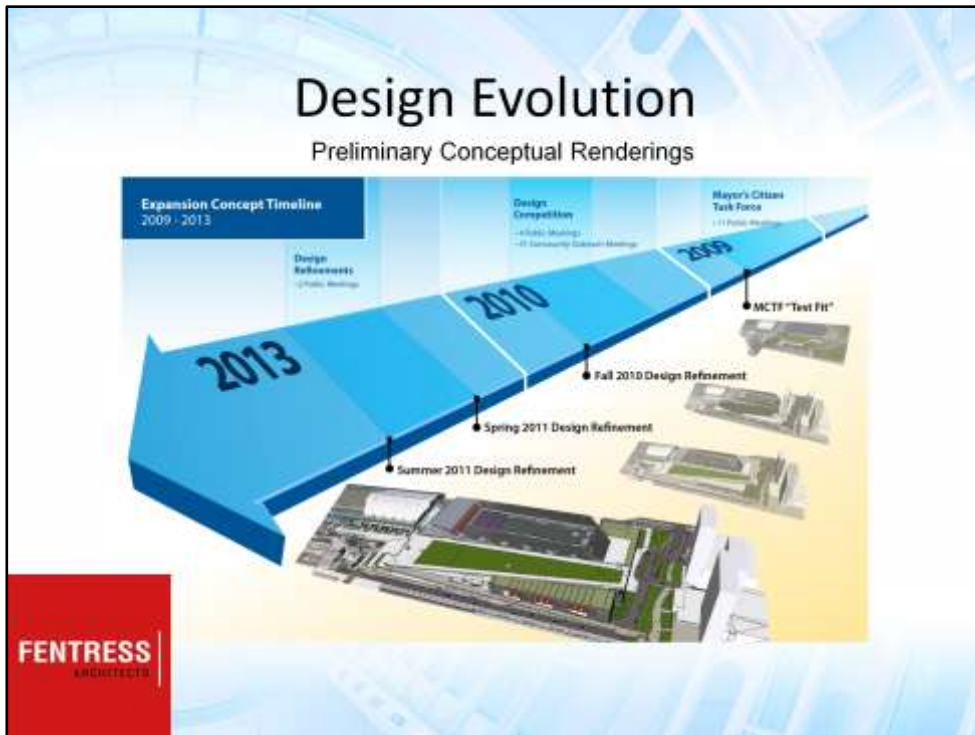
Large groups have outgrown (or will shortly like Comic Con) the current facility;
More than 40 percent of lost business is due to lack of available space;
Attract events not able to fit into current facility;
Host multiple-mid size events simultaneously

They concluded that we should expand & consider things like:

Parks & Open Space, Massing & Scale, Views, Environmental Sustainability, City Connection & Adjacent Land Uses, Public Art

Activating the Promenade and Public Spaces, Traffic Impacts & Pedestrian Safety & so on.

Most importantly for our discussion, they concluded that we **need a contiguous waterfront expansion** & not a inland & separate expansion.



Since we started, based on rounds of negotiations, back & forth with the Coastal Commission & the architects, the design evolved.

Basically, we went from a massive Test Fit to see if the desired program could fit on the land parcel we had assembled, to what we could afford, to what was eventually taken to the Coastal Commission.



The Design Criteria include elements such as:

- Expand the Convention Center and meet the building program
- Provide visitor-serving retail
- Enhance and improve the pedestrian experience
- Activate and invigorate the waterfront promenade,
- Preserve the Park Boulevard view corridor from the city's downtown
- Activate & enhance the views from the bay to the Convention Center;
- Preserve and enhance public open spaces;
- Enhance public access to the bay;
- Improve pedestrian connectivity to existing adjacent development;
- Improve vehicular and freight truck circulation; and
- Improve pedestrian safety.



In California, we have the California Environmental Quality Act (CEQA) administered primarily by the lead agency & the Coastal Act, primarily administered by the Coastal Commission. Of course, tradition dictates that when in doubt, both can be litigated.

Again without boring or scaring you out of your chairs, all phases of the Convention Center have required an Amendment to the Port Master Plan, albeit, the City is the applicant or the project owner.

The PMPA must be approved by the Coastal Commission, after CEQA.

So on October 10th, we took 400 of our closest friends to the Coastal Commission.

23 Years of Success: 1989 to 2012

Economic Impact	\$21.6 Billion+
Direct Attendee Spending	\$9 Billion+
Tax Revenues	\$411.1 Million+
Hotel Room Nights	12.9 Million+
Number of Events	4,909+
Attendance	18 Million+

The numbers continued to add up.

Since opening in 1989, the Center has generated more than \$21 billion in economic impact to our region by hosting nearly 5,000 events that have drawn over 18 million attendees.

Those events have produced nearly 13 million in hotel room nights and generated over \$400 million dollars in TOT revenues that have helped pay for our cities libraries, police, fire and roads.

City's Financing Plan

- City Convention Center Facilities District Bonds (Hotel visitors)
\$33 million/year:
 - The 1300 hoteliers in the City of San Diego voted to assess a 3%-2%-1% tax on each room night to pay for the Phase III Expansion.
 - Hotels closest to the Convention Center will pay 3% and those farthest away who may not realize as much financial benefits or increased room nights, will pay 1%.
- City Incremental Transient Occupancy Tax (TOT) increase estimated
\$3 million/year:
 - The City already has a 10.5% per room night TOT tax in place so it is projected that the Phase III Expansion will generate additional room nights & revenues directly to the City.
- Port will contribute \$60 million over 20 years
\$3 million/year:
 - The Port will make payments over 20 years to help the City pay down its annual debt service based on the [ROI calculations further explained below](#).

Port's Return on Investment on the Phase III Expansion

- In return for the Port's payment of \$60 million over 20 years to the City to pay down the Phase III Expansion annual debt service,
- The Port gains increased revenues by way of additional or incremental rents from increased room nights at its nearby hotels (Marriott, Hilton & Hyatt) that serve the Convention Center.
- The following slides further explain the Port's Return on Investment: Actual Payments vs. Projected Revenues

Proposed Port/City Support Agreement

Parties	Port and City of San Diego	
Term of Payments	20 payments made annually each July 15th	
Schedule	<u>Year</u>	<u>Payment</u>
	1	\$1,100,000
	2	\$2,460,000
	3	\$3,710,000
	4	\$3,821,300
	5	\$3,908,700
	6 - 20	\$3,000,000
Late Payments	Ten percent (10%) per annum based on 365 days	
Optional Prepay	Prepayment allowed, but at District's expense	
Refunding of Bonds	Bonds may be refunded, but at City's expense	

Potential Port Revenues

PKF STUDIES - POTENTIAL NET NEW ANNUAL REVENUES TO DISTRICT (2018)			
Scenario	Pessimistic	Expected	Optimistic
1. Convention Center & Hilton Expansions	\$4.0 million	\$6.0 million	\$7.7 million
2. Convention Center Expansion Only	\$1.1 million	\$3.5 million	\$5.2 million
EPS STUDIES - NET NEW ANNUAL REVENUES TO DISTRICT (2018)			
Scenario	Pessimistic	Expected	Optimistic
1. Convention Center & Hilton Expansions	\$4.8 million	\$6.2 million	\$8.6 million
2. Convention Center Expansion Only	\$3.0 million	\$4 to \$5 million	\$6.4 million

Role of Port's Support Payments

Proposed Debt – 30 Years¹

\$520 MM Total Project Cost

- CCFD² Bonds: \$320 M
- Lease Bonds: \$200 M

Proposed Revenues

- Special Taxes: \$45.5 M
- Incremental TOT³: \$3.5 M
- Port Payments: \$3 M

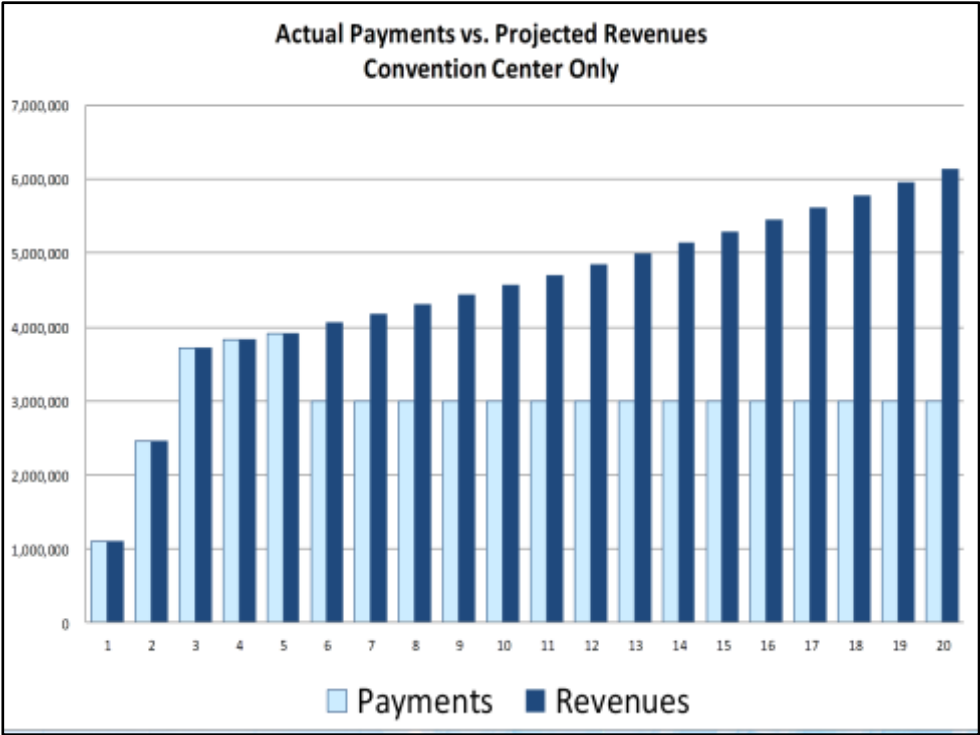
Footnotes

¹ Total debt service proposed is 30-years

² Convention Center Facilities District

³ Transient Occupancy Tax





California Coastal Commission (CCC)

In California, we must get CCC approval to build on most Port tidelands. Thanks to over 400 attendees & 2,000 letters of support, we got that approval on October 10, 2013.



After over 100 public outreach, community and Port Board & City Council meetings, it was time to take make our case to the Coastal Commission.

On October 10, 2013, after hours of testimony, the project was approved with a unanimous vote.

It was one of the two most important milestones in the project.

What's Next?

- Port Issues Coastal Development Permits
- Port/City Execute Real Estate Documents
- City Financing Resolved in Court (Validation Actions)
- City Issues Bonds
- City Completes Final Design
- City Starts Construction (36+ months)
- Grand Opening Date: TBD

The other important milestone is the “validation” of the City’s financing plan in the courts, which is a hotelier’s self-assessment of the 3-2-1% CCFD to pay for Phase III.

Lessons Learned

1. Recognize the inevitability of your project
2. Vest your stakeholders in a transparent public process
3. Listen, process & compromise to resolve conflicts
4. Implement an advanced public & media communication plan
5. Create redundant accountability processes for disciplined execution
6. Assemble a multi disciplinary team that works well together
7. Build a transactional framework that implements your best case scenario

1. Recognize the inevitability of your project
2. Draft your mission & stay on message
3. Align internal with external stakeholders
4. Vest your stakeholders in a transparent public process
5. Listen, process & compromise to resolve conflicts, fast
6. Get stakeholders on board & work to keep them on board
7. Over-communicate via multiple channels in all directions
8. Implement an advanced public & media communication plan
9. Create redundant accountability processes for disciplined execution
10. Assemble a multi disciplinary team that works well together
11. Document all possible moving parts, scenarios & contingencies
12. Build a transactional framework that implements your best case scenario
13. Integrate & benchmark lessons learned from other agencies
14. Be flexible with your processes, schedules & solutions
15. Keep your cool!



Thank you!