

Caldeira, Rick

From: Calvillo, Angela
Sent: Wednesday, January 30, 2013 11:30 AM
To: Caldeira, Rick; Young, Victor; Nevin, Peggy
Subject: FW: Controller's Office, Office of Economic Analysis Report: Moscone Expansion Project, January 30, 2013

For the Hearing currently occurring in B&F.
Rick, Please make sure the Committee members received.
Thanks

Angela Calvillo
Clerk of the Board

From: Toy, Debbie
Sent: Wednesday, January 30, 2013 11:24
To: Calvillo, Angela; BOS-Supervisors; BOS-Legislative Aides; Kawa, Steve; Leung, Sally; Howard, Kate; Falvey, Christine; Elliott, Jason; Campbell, Severin; Newman, Debra; Rose, Harvey; sfdocs@sfpl.info; gmetcalf@spur.org; Matz, Jennifer; Lane, Maura
Cc: Egan, Ted; Liao, Jay; controller@sfgov.org
Subject: Controller's Office, Office of Economic Analysis Report: Moscone Expansion Project, January 30, 2013

The proposed legislation would authorize the City to issue approximately \$500 million in Certificates of Participation (COPs) to fund an expansion of the Moscone Convention Center. The expansion project would occur during the 2014-19 period. The COPs would be backed by the Moscone Center, which is owned by the City, and would be repaid through an assessment on San Francisco hotel revenues, and a General Fund contribution.

The Moscone Center is the city's primary means of attracting large conventions to San Francisco. These conventions are a major source of demand for the local tourism industry. The SF Travel Association and Jones Lang LaSalle Hotels (JLLH) have conducted market research that suggests San Francisco is at a competitive disadvantage against other cities with larger, more integrated convention facilities. Local hotels will benefit from greater demand for hotel rooms from more conventions. The City stands to benefit from owning a more valuable asset, and to the extent there is a positive economic and fiscal impact associated with the expansion.

The Office of Economic Analysis estimates that the expansion project can be expected to create an average of 790 jobs during the 2013-2019 construction spending period, peaking in 2017 and 2018 when the bulk of the construction spending is expected to occur. After completion, the city will have up to an additional 1,240 permanent jobs per year on average from spending by new visitors brought to the city by a larger convention center.

Further, the project will also likely create financial benefits for hotels, in the form of higher hotel rates that exceed the assessment they will be charged to fund the expansion. The City will also receive indirect tax benefits, through higher hotel, sales, and business taxes, that should exceed the City's General Fund contribution in the first full year of operation after the expansion and thereafter.

However, the city's fiscal and economic benefits will be limited by the the difficulty in expanding hotel capacity in San Francisco. If hotel capacity could be added more readily, more visitors could be accommodated and the economic and fiscal benefits to the city would be greater.

<http://co.sfgov.org/webreports/details.aspx?id=1531>

Debbie Toy

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller
Monique Zmuda
Deputy Controller

January 30, 2013

The Honorable Board of Supervisors
City and County of San Francisco
Room 244, City Hall

Angela Calvillo
Clerk of the Board of Supervisors
Room 244, City Hall

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2013 JAN 30 AM 10:44

Re: Office of Economic Analysis Impact Report for File Numbers 130015, 130016, and 130043

Dear Madam Clerk and Members of the Board:

The Office of Economic Analysis is pleased to present you with its economic impact report on file numbers 130015, 130016, and 130043, "Moscone Expansion Project." If you have any questions about this report, please contact me at (415) 554-5268.

Best Regards,

Ted Egan
Chief Economist

City and County of San Francisco

Office of the Controller – Office of Economic Analysis

Certificates of Participation to Fund the Moscone Expansion Project: Economic Impact Report

Office of Economic Analysis

January 30th, 2012

Item # 130016



City and County of San Francisco

Office of the Controller — Office of Economic Analysis

Outline of the Legislation

- The proposed legislation would authorize the City to issue approximately \$500 million in Certificates of Participation (COPs) to fund an expansion of the Moscone Convention Center.
- The expansion project would occur during the 2014-19 period.
- The COPs would be backed by the Moscone Center, which is owned by the City, and would be repaid through two sources, over the 2019-2047 period.
 - an assessment on the receipts of hotels in San Francisco, equaling 1.25% of revenues for hotels near the Moscone Center, and 0.3125% in the rest of San Francisco.
 - a General Fund contribution of between \$8 million and \$10 million per year.



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Background

- The Moscone Center is the city's primary means of attracting large conventions to San Francisco. These conventions are a major source of demand for the local tourism industry.
- The SF Travel Association and Jones Lang LaSalle Hotels (JLLH) have conducted market research that suggests San Francisco is at a competitive disadvantage against other cities with larger, more integrated convention facilities.
- Hotels in the city have formed the San Francisco Tourism Improvement District (TID) as a means to assess themselves to invest in facilities that develop the tourism industry in the city.
- The proposed Moscone expansion will be jointly funded by the TID and the City. The TID will benefit from greater demand for hotel rooms from more conventions. The City stands to benefit from owning a more valuable asset, and to the extent there is a positive economic and fiscal impact associated with the expansion.



Economic and Fiscal Impact Factors

- The overall economic impact of the expansion is the combination of both positive and potential negative impacts.
- Positive impacts:
 - Increased construction spending in San Francisco
 - Increases in convention attendees, leading to increased demand for hotel rooms, net increase in visitors, and higher hotel rates.
 - Increased spending associated with net increase in visitors.
 - Potential increase in the value of the City-owned asset and higher fee payments from convention organizers.
- Potential negative impacts:
 - Financing costs: TID assessment costs on hotels
 - Financing costs: opportunity cost of General Fund support
 - Repayment risk to the City



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Economic Impact Assessment: Construction and Financing Costs

- Construction and financing costs: The project is expected to cost approximately \$500 million, spent between 2014 and 2019.
- It will be funded through the issuance of COPs that will be paid back over a 29-year period beginning in 2019.
- At a conservative assumption of 6% interest, financing costs will equal \$35.5 million per year for 29 years, and total amount financed will be roughly double the construction cost. Actual financing costs will depend on market conditions and will likely be less than 6% based on past experience.
- Two-thirds of the financing cost will be borne by the hotels, with one-third falling on the City's General Fund.
- However, the City's General Fund contribution to the financing is equal to what the City currently spends promoting San Francisco through the SF Travel Association. The City's contribution can thus be seen as a continuation of its capital investment in Moscone.



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Economic Impact Assessment: New Convention Capacity and Hotel Demand

- Based on JLLH research, convention attendance is expected to increase to 1.207 million per year by 2020-21 without the expansion¹.
- With the expansion, according to JLLH projections, convention attendance will increase to 1.474 million per year²—an increase of 267,000 attendees annually.
- With an average stay of 3.5 days, the expansion would produce an annual increase in demand of 934,500 room-nights.

1 – Jones Lang LaSalle Hotels, *Moscone Convention Center Expansion, Phase II Cost Benefit Analysis*, March 16, 2012; p. 42.
2 – Jones Lang LaSalle Hotels, *Moscone Convention Center Expansion, Phase II Cost Benefit Analysis*, p. 48.



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Economic Impact Assessments: Hotel Capacity, Planned Supply, and Net New Visitors

- More detailed econometric research would be required to precisely estimate how this increase in demand would lead affect hotel revenues, occupancy, and rates. Nevertheless, some impacts are clear given the readily-available data.
- JHHL has reasonably assumed a maximum possible hotel occupancy rate of 87.6%, while PKF Consulting has reported that San Francisco hotels have already achieved an 83% occupancy for 2012 (through November).
- JHHL further notes that the development pipeline for hotels is limited, with just two projects planned in the Moscone area, accounting for only about 250 rooms.
- If these projects were built and existing hotels in the city all reached their maximum feasible capacity, with no other source of growth in the local hotel industry, 65% of new convention demand could be accommodated without displacing other, non-convention-attending, hotel guests.
- This suggest the maximum number of net new hotel guests generated by the Moscone expansion could be 175,000 per year, or 65% of the new convention attendance.



Economic Impact Assessment: New Visitor Spending

- The SF Travel Association produces annual estimates of visitor spending. These estimates do not distinguish between convention attendees and other visitors to San Francisco.
- Based on SF Travel's spending profiles, the up to 175,000 net new visitors will spend a maximum of \$180 million per year (in 2011 \$), in the following spending categories:
 - Lodging: \$61 million
 - Restaurants: \$36 million
 - Retail (including exhibitors): \$48 million
 - Entertainment: \$15 million
 - Transportation: \$19 million



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Economic Impact Assessment: Rate Impacts and Repayment Risk

- Given the limited capacity of the local hotel industry to absorb the demand that the Moscone expansion will create, hotel rates will likely rise, because of the project, by a greater percentage than the TID assessment.
- Thus, from the perspective of the hotel industry, the expansion project is likely to pay for itself.
- It also suggests that the City's repayment risk associated with the COPs is minimal.



Economic Impact Assessment: REMI Model Analysis

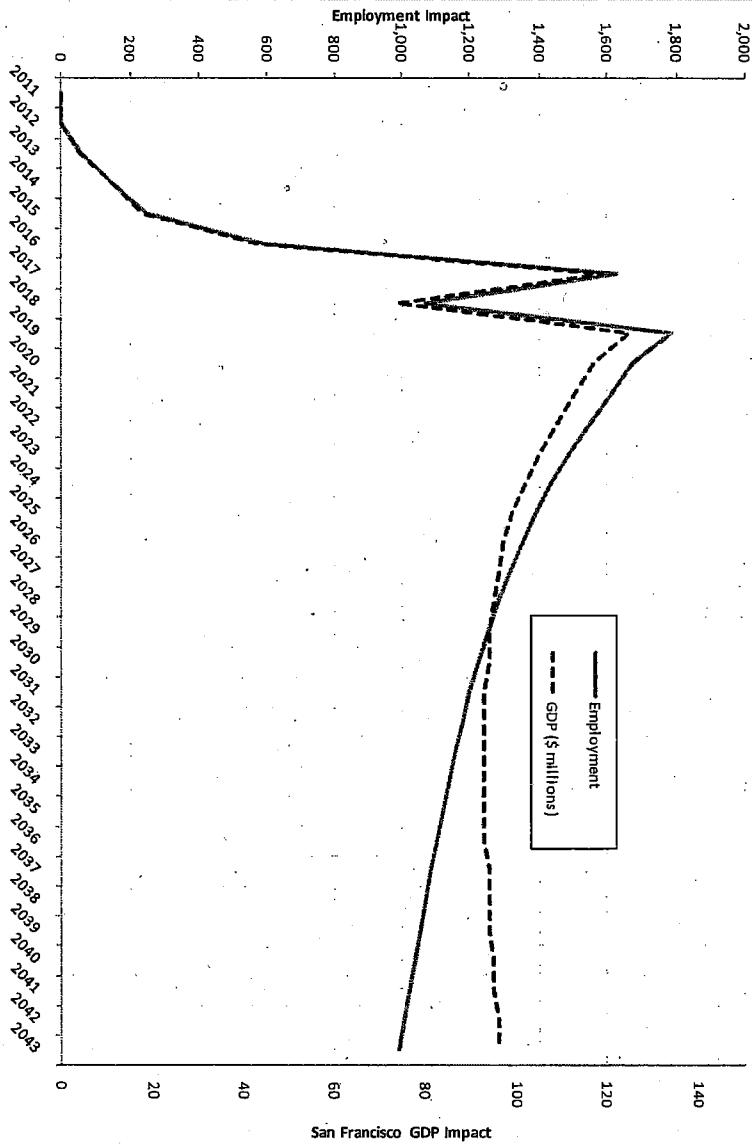
- The Office of Economic Analysis's REMI model of the San Francisco economy was used to estimate the city-wide economic effects of the impacts discussed in this report.
- Specifically, we modeled the impact of:
 - \$500 million in construction spending spread over the 2014-19 period.
 - \$180 million in annual visitor spending beginning in 2020 until 2045.
 - \$0 impact in higher hotel assessment costs, as hotel rate increases from the project should more than offset any negative impact of the assessment on the hotel industry.
 - \$8 - \$10 million annual reduction in local government spending because of the General Fund support of the project.
- All of these effects create multiplier effects in the local economy which the REMI model calculates and totals.

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REMI Model Results

Economic Impacts of the Moscone Expansion Project, 2013-2045



The project can be expected to create an average of 790 jobs during the 2013-2019 construction spending period, peaking in 2017 and 2018 when the bulk of the construction spending is expected to occur.

After completion, the city will have up to an additional 1,240 permanent jobs per year on average from new visitor spending. The job impacts of this new visitor spending will outweigh the negative impact of the General Fund support of the project.



Fiscal Impacts

- The City will also receive fiscal benefits from the economic growth created by the project. Transient Occupancy (Hotel) Tax, Sales Tax, and Business Tax revenue can all be expected to increase.
- In 2019, when completion is complete, the City stands to receive \$0.6 million in new business tax revenue, \$1.5 million in new sales tax revenue, and \$10.9 million in new hotel tax revenue, for a total of \$13.0 million. This assumes 3% inflation until 2019, and the accommodation of 175,000 new convention attendees in San Francisco hotels.
- This estimate does not assume any increase in hotel rates due to the capacity limitations in the hotel industry, so the actual hotel tax revenue could be higher than this estimate.
- The \$13.0 million in indirect tax revenue exceeds the City's General Fund contribution, and will continue to grow along with inflation into the future.

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Conclusions

- The proposed Moscone Expansion project is expected to create an average of 790 jobs during the construction phase, and an average of 1,240 permanent jobs after construction is completed.
- The project will also likely create financial benefits for hotels, in the form of higher rates, that exceed their TID assessment.
- The indirect tax benefits to the City should exceed the City's General Fund contribution in the first full year of operation after the expansion.
- However, the city's fiscal and economic benefits will be limited by the city's inability to expand hotel capacity in line with the expanding capacity of the Moscone Center.
- If hotel capacity could be added more readily, more visitors could be accommodated and the economic and fiscal benefits to the city would be greater.



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