



Background on setting priorities for use of our Hotel Occupancy Tax, prime downtown real estate, and related community resources

In deciding how to spend our growing Hotel Occupancy Tax revenues, we should prioritize supporting those people and places which make Austin exciting to visitors and residents alike, and which are most at risk of being lost. This approach is consistent with state law governing uses of our HOT taxes and with urgent community needs to support and preserve what makes Austin special.

How does a proposed \$700 million-plus proposed expansion of the convention center fit into this frame work? What is the business case for such an expansion? And what are the opportunity costs? In other words, what other potentially better uses are there for these funds? We don't have all of the answers, but to date City Staff has been selling the proposed expansion rather than helping the community evaluate the proposal and other options for what will likely add up to more than \$1 billion over the next decade.

The bulk of Austin's HOT tax over the last 20 years has been dedicated to paying for convention center operations and marketing and retiring the bond debt for the 1999 convention center expansion and the adjacent Waller Creek tunnel and park improvements. The remainder has been dedicated primarily to Austin Convention and Visitor Bureau (ACVB) advertising of tourism and hotels and 15% to the City's cultural arts grant programs.

Austin Convention Center Department (ACCD) Response:

ACCD staff were directed by Council Resolution 20151112-033 to consider other facility needs and the impact of the Austin Convention Center (ACC) Long-Range Master Plan (Plan) on the capacity to fund other venue tax uses (item 2 of the Resolution), and to look at the opportunity cost of dedicating future Hotel Occupancy Tax (HOT) to the Plan in lieu of other potential uses.

ACCD's response to those items can be found in the document provided to Mayor and Council on February 6, 2017 at the following link:

<http://www.austintexas.gov/edims/document.cfm?id=271538>.

The response to item 2 begins on page 15, and the response to item 3 begins on page 18. In addition, both an independent consultant report that addresses many of the Resolution items and the financing illustrations that show how and when other venues can be pursued, as well as how certain financing concepts can provide for additional funding for other uses, can be found in the Appendix of the Resolution response, at that same link.

Key Facts about the HOT tax, the Convention Center business, and the Austin Convention Center

Austin's HOT tax collections are growing rapidly, from \$36.5 million in 2006 to an estimated \$90 million in FY 2017. This tracks the growth of Austin hotels, festivals and tourism.

Convention goers represent only 2% of Austin tourists.

ACCD response:

The data used to calculate the 2% figure stated above is incomplete and only represents a portion of Convention goers. The amount used to calculate the 2% is the conservative estimate that ACCD reports as block hotel room nights. As ACCD staff explained in its January 3, 2017 presentation to the Visitor Impact Task Force (VITF), ACC room night estimates are conservative and do not include those room nights booked around or outside the block, so the reported number is regularly underestimated. The presentation included the following points:

- ACC room night estimates are conservative and do not include those room nights booked around or outside room blocks (i.e. regularly underestimated)
 - One study indicated an average of 34.1% of rooms booked outside the block
 - Another study indicated up to 15% of rooms booked around the block

More importantly, also in that VITF presentation, ACCD explained why its impact on Austin's Tourism Industry is greater than room night generation. The points made include:

- Provides business to hotels, restaurants, other hospitality businesses during the week, when leisure travel doesn't, allowing business to employ more/full-time
 - 70% of 2016 ACC events occurred during the week
- Business/convention travel spurs leisure travel that otherwise would not exist. A report indicated:
 - 60% of travelers have taken business trips that include leisure travel as well, and
 - 55% of those travelers bring family members with them
- Business/convention travelers spend more than leisure travelers on average. A study indicated:
 - Business travelers spent approximately 6% more than leisure travelers

The full presentation can be found at:

<http://www.austintexas.gov/edims/document.cfm?id=269388>

DEMAND -- The exhibition industry's research organization, the Center for Exhibition Industry Research, conducts a "Census" of exhibition events every five years. CEIR reported from 2000 to 2010 that U.S. exhibitions dropped by 0.5% (11,094 to 11,041). CEIR then reported a total 3% increase from 2010 to 2015. Thus, over 15 years total exhibition events increased 3%.

Convention attendance tracked the number of events. CEIR's index of major tradeshow events counted 31.8 million attendees in 2000 and 33.38 million in 2015, a 5% increase for the 15 year period.

SUPPLY – Meanwhile, the supply of convention center, exhibit hall space expanded by 36.7 percent over the same 2000 to 2015 period (52.05 million square feet to 71.2 msf). Atlanta, Dallas, Las Vegas, Orlando, Chicago and many others expanded their convention centers.

MARKET REALITY -- The intersection of a very modest increase in overall attendance and a substantial increase in available convention center space created what the Center for Exhibition Industry Research described in 2013 as "excess supply" resulting in a "current buyer's market, [where] unrealistic concessions are being made to book business."

ACCD Response:

ACCD staff was directed by Council Resolution 20151112-033 to assess long-term viability of the convention and exhibition industry and project market demand for Austin Convention Center space (item 1 of the resolution).

ACCD's response to those items can be found in the document provided to Mayor and Council on February 6, 2017 at the following link:

<http://www.austintexas.gov/edims/document.cfm?id=271538>.

The response to item 1 begins on page 12, and references both data included in the Plan as well as other supporting information. Page 13 of the response also references the independent consultant report (Hacker Report) that addresses resolution item 1 that can be found in the Appendix of the Resolution response, at that same link (pages 16-24 of the report found in the Appendix). The Hacker report includes the following conclusions (on page 6 of the report found in the Appendix):

- No evidence suggests that the demographic shifts that are occurring, the continuing introduction of new technologies, or changes in business attitudes will impede the continued growth of the convention and exhibition industry.
- Substantial evidence suggests that meetings and tradeshow will continue to grow and thrive.

*****Austin Convention Center consultant Charles Johnson predicted in 1997 that the expanded convention center would increase convention-related hotel room nights from 150,500 per year to 332,600 room nights. Eighteen years later, in 2015, the same consultant now predicts that the recently proposed, second expansion of the convention center would increase hotel room nights from 185,850 room nights in 2013 to 311,270 room nights in the 8th year after the proposed expansion is completed.**

Austin Convention Center Department
 Responses to the 2/25/17 Town Hall Meeting Comments Provided by Bill Bunch
 2/27/17

ACCD Response:

In the study reference above, the consultant projected that we would see an additional 182k room nights if the ACC was expanded. At the time, ACCD reported that total block hotel room nights were at about 150k room nights, so total would be about 332k (note: ACCD assumed the increase would be after expansion was complete and business had stabilized, so in approximately 2010). ACCD's analysis shows estimated room nights in 2010, adjusted for the estimated % of room nights booked both around and outside the block, since the room night number ACCD reports is only those within the room block. And since the 1997 report did not foresee the "around and outside the block" trend becoming what it has, the actual "block" room nights need to be adjusted to make a more accurate comparison. The analysis is as follows:

Long-Range Strategy - Austin Convention Center
 Consultant's Report
 July 1997

Report Projections

Per Section 2 - Page 10 of Report

Room Nights	Base	Increment	With Expansion	
	150,500	182,100	332,600	(report does not explicitly state what year this is expected, but assume it's after a stabilization period once expansion is constructed. We assume that's year 2010)
Actual Reported <u>Block</u> Room Nights			Year 2010	225,544
Block Room Nights Adjusted for:				
Rooms booked "Around the Block"			15%	33,831.60 (Based on studies, an average of 15% of rooms are booked around the block)
Rooms booked "Outside the Block"			34.1%	76,910.50 (Based on studies, an average of 34.1% of rooms are booked outside the block)
Adjusted Room Nights				336,286

The study also projected HOT revenue (and only used the 7% Ch. 351 HOT assessment in its projections). ACCD analysis also shows the actual 7% HOT revenue as compared to the projections. Note: Both in 2010, and in total, actual revenue was higher than projections.

Hotel Occupancy Tax (Room Tax) Projection Assumptions
 Per Section 5 Page 7 of Report

Year	Projections	Gross HOT Revenue	Available to Convention Center	Growth	Actual HOT Revenue	Actual Available to Convention Center	Actuals
		(\$ thousands)	(\$ thousands)	Percent Change	(\$ thousands)	(\$ thousands)	
1995		13,140.3	8,447.3		13,140.3	8,446.6	
1996		14,259.8	9,167.0	8.5%	14,259.8	9,166.2	
1997		15,258.0	9,808.7	7.0%	15,217.9	9,782.0	
1998		16,173.5	10,397.2	6.0%	18,796.4	12,082.4	
1999		17,152.0	11,026.3	6.0%	19,597.6	12,598.5	
2000		18,019.9	11,584.2	5.1%	22,398.2	14,398.6	
2001		19,534.8	12,558.1	8.4%	24,236.2	15,580.0	
2002		20,124.8	12,937.4	3.0%	19,257.9	12,379.7	
2003		21,348.4	13,724.0	6.1%	19,840.0	12,753.9	
2004		21,993.1	14,138.4	3.0%	19,739.3	12,689.2	
2005		23,330.3	14,998.0	6.1%	23,438.1	15,066.9	
2006		24,034.9	15,451.0	3.0%	28,492.1	18,315.9	
2007		25,496.2	16,390.4	6.1%	32,842.2	21,112.3	
2008		26,266.2	16,885.4	3.0%	35,119.0	22,575.9	
2009		27,863.1	17,912.0	6.1%	32,023.5	20,586.0	
2010		28,704.6	18,453.0	3.0%	30,876.3	19,848.5	
Total		332,699.9	213,878.4		369,274.8	237,382.6	

Expanding the convention as proposed would also remove three downtown blocks from the tax rolls.

ACCD Response:

ACCD has performed preliminary analysis as it relates to the effect on City property tax receipts the proposed expansion could have.

Compared to current uses on the proposed expansion site, the estimated *net* increase to the City's General Fund through sales tax generated by the additional visitors, as compared to property tax is approximately \$9.6 million in the year of stabilization after expansion. ACCD also considered other potential uses of the site, and performed analysis utilizing nearby office properties. When adjusted for acreage size, ACCD analysis estimates a near break-even result when compare the additional sales tax to projected City property tax for that stabilization year. The analysis can be found at: <http://www.austintexas.gov/edims/document.cfm?id=271652>.

It is important to note that this analysis should be considered preliminary in nature, and could change dramatically depending on land acquisition scenarios, and the ultimate design and components of an expanded convention center. ACCD does not believe that it should be a foregone conclusion that the property will be fully removed from the tax rolls, and believes one acquisition option that should be explored is through a long-term lease versus a purchase.

There is also potential for additional development components within the expansion design, depending on the land acquisition method and/or a development agreement that could have significant impacts on the analysis, but are unknowns at this point. There is also potential for a new downtown fire station and another Austin Energy chiller to be incorporated into the expansion design, meeting important needs of the City that have not identified other solution options.

Expanding the convention would displace and disrupt community engagement, walking, biking, and commuting in downtown.

ACCD Response:

The Plan recommends expansion to the West of the current convention center, in a non-contiguous form that leaves Trinity St. open.

ACCD staff was directed by Council Resolution 20151112-033 to consider open space and green space elements (item 9 of the resolution), walkability and downtown mobility (item 10 of the resolution), and impact on auto traffic (item 11 of the resolution).

ACCD's response to those items can be found in the document provided to Mayor and Council on February 6, 2017 at the following link:

<http://www.austintexas.gov/edims/document.cfm?id=271538>.

The response to item 9 begins on page 27, the response to item 10 begins on page 29, and the response to item 11 begins on page 30. In addition, an independent consultant's preliminary

traffic analysis report that addresses item 11 can be found in the Appendix of the Resolution response, at that same link.

Regarding open and green space, some concepts for funding would allow various improvements to the areas directly adjacent to the convention center, providing additional benefits to local residents. In addition, conceptual designs include an open street-level space that invites pedestrian traffic through the facility. Sidewalks, bike paths and transit improvements could also be part of the final development plans. And finally, the full design of the expansion project will have traffic mitigation as an essential focus. Additional parking, which would be open to local residents, could be part of the expansion plan. The initial findings of traffic consultant's work have indicated an additional 400 peak-hour cars per day as a result of the expansion. Related images included in the response to Council Resolution are shown below.



ACCD has received a great deal of community and stakeholder input (and continues to do so) and has regularly communicated its intent to include elements that provide for community space, open space, activated street-level elements and walkability in its most recent presentations, including those presentations found at the following links:

Town Hall Meeting Presentation 8/27/16 (see PDF page 107 in link):

<http://www.austintexas.gov/edims/document.cfm?id=271538>

VITF Presentation 1/31/17: <http://www.austintexas.gov/edims/document.cfm?id=270664>

Council Presentation 2/7/17: <http://www.austintexas.gov/edims/document.cfm?id=271207>

Town Hall Meeting Presentation 2/25/17:

<https://www.austinconventioncenter.com/expansion/>

Expanding the convention center would take funds that could be used to support and save those people, places and activities that make Austin a place worth visiting and worth calling home.

ACCD Response:

As noted above, ACCD staff was directed by Council Resolution 20151112-033 to consider other facility needs and the impact of the Austin Convention Center (ACC) Long-Range Master Plan (Plan) on the capacity to fund other venue tax uses (item 2 of the Resolution), and to look at the opportunity cost of dedicating future Hotel Occupancy Tax (HOT) to the Plan in lieu of other potential uses.

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With regards to increasing HOT funding to cultural art uses, including music, as explained in ACCD presentations and discussion with the community, State law caps the amount of HOT that can be spent on cultural arts to 15% of a city's Ch. 351 HOT assessment. The City of Austin already allocates the maximum 15% to cultural arts. However, one of the funding concepts identified for convention center expansion would provide the potential for additional HOT funding for cultural arts and other uses, such as historic preservation. The financing concepts were covered during ACCD's presentation to Council on February 7, 2017. That presentation can be found at: <http://www.austintexas.gov/edims/document.cfm?id=271207>. The video of the presentation can be viewed at: <https://austintx.swagit.com/play/02072017-585>.

The illustration of the financing concepts can be found at:

<http://www.austintexas.gov/edims/document.cfm?id=271208>.

- 1) The greatest financial crisis facing the community is the explosive rate of growth of the cost of housing. This has been driven by explosive population growth, particularly in the central city. An explicit goal of the Convention Center Department is to bring visitors to Austin, with a corollary goal of business and relocation recruitment. Visitors are seduced by the city's charms, so both individuals and businesses commit to moving here. More newcomers means yet more expensive housing. Thus, expansion of the convention program adds fuel to the fire of our worst fiscal problem. The Convention Center Department, by fulfilling its mission, brings horrendous misfortune to the people of Austin, whom they are supposed to serve. For the City of Austin to further enable this by expanding the program does a terrible injustice to residents, the impact of which dwarfs the City's so-called affordable housing initiatives, which do nothing more than subsidize a few winners at the cost of everyone else.

Austin Convention Center Department (ACCD) response:

Included in Council Resolution 20151112-033 was direction for staff to study the impact of convention center expansions on the median home price (Resolution item 5).

Our research indicates that there is no discernible impact of convention and tourism industry on median home prices.

It is also important to note that without the overall economic impact of the tourism and visitor industry, each citizen would pay more in taxes, which is currently estimated at \$1,080 for each Austin household in Travis County.

None of ACCD's staff research resulted in finding any analysis of how convention center expansions impact home prices. However, staff did obtain historical median home price information for the comparable cities used in the Long-Range Master Plan (Plan) to perform our own analysis. We analyzed the change in median home price for the five years before and after each city's last expansion (or construction) to determine if there was any identifiable correlation.

The Hacker report, which is included in the Appendix of ACCD's response to the Council Resolution (see link below) also concludes that there is no direct correlation connecting the results of a convention center expansion and the impact on median housing and/or rental costs.

The response can be found at <http://www.austintexas.gov/edims/document.cfm?id=271538>. Item 5 begins on page 22 of the response, and is as follows:

Austin Convention Center Department
 Responses to the 2/25/17 Town Hall Meeting Comments Provided by Larry Akers
 2/27/17

Resolution Item 5 – Assessment of impact of convention and tourism industry on median home price.

Summary statement: The convention and tourism industry does not impact median home prices in Austin. Furthermore, without the tourism industry, each Austin household in Travis County would pay an additional \$1,080 in taxes.

Our research indicates that there is no discernible impact of convention and tourism industry on median home prices. We did find information that suggests home prices are impacted by various factors, including:

- Income of potential buyers
- Cost to construct new property to increase supply
- Demand for rental units

It is also important to note that without the overall economic impact of the tourism and visitor industry, each citizen would pay more in taxes, which is currently estimated at \$1,080 for each Austin household in Travis County.

None of ACCD's staff research resulted in finding any analysis of how convention center expansions impact home prices. However, staff did obtain historical median home price information for the comparable cities used in the Plan to perform our own analysis. We analyzed the change in median home price for the five years before and after each city's last expansion (or construction) to determine if there was any identifiable correlation.

The Hacker report also concludes that there is no direct correlation connecting the results of a convention center expansion and the impact on median housing and/or rental costs.

Analysis performed by ACCD staff of Austin is as follows:

City (Convention Center)	Austin ACC
Q2 2015 Median Home Price (for MSU)	271,600
Base Year Analyzed	2002
Average Annual Increase since 1993 (seasonally adjusted)	11.91%
Avg 5 yr incr/decr just prior to expansion/opening (base year)	11.37%
Avg 5 yr increase just after expansion/opening (base year)	9.12%

Sources: National Association of Realtors, Federal Housing Finance Agency

Decrease 17.06% in HOT revenue after base year from before Austin Convention Center (ACC)

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In Austin's case, the increase in median home price after the expansion was less than the increase prior to the expansion.

As shown in the table below, ACCD staff's analysis of change in median home price in peer cities at time of each convention center expansion indicates no discernible correlation. The increase in median home price was lower after expansion than before for three of the cities and was higher after expansion than before in three of the cities.

City (Convention Center)	San Antonio (MCC)	Houston (GRCC)	Dallas/Ft. Worth (DFRC)	Denver (CCC)	Seattle (MCC)	San Diego (SDCC)
Q2 2015 Median Home Price (for MSU)	199,400	271,100	215,200	362,900	208,500	547,800
Base Year Analyzed	2000	2001	2004	2005	2013	2001
Average Annual Increase since 1993 (seasonally adjusted)	6.43%	7.39%	5.26%	11.93%	6.67%	6.75%
Avg 5 yr incr/decr just prior to expansion/opening (base year)	3.12%	7.18%	6.14%	12.25%	-2.37%	10.40%
Avg 5 yr increase just after expansion/opening (base year)	2.11%	8.94%	3.02%	1.41%	n/a ¹	11.47%

¹ 5 years not available yet, but anticipate positive growth over 5 year period. Average 3 year growth is 17.97%

Sources: National Association of Realtors, Federal Housing Finance Agency

Increase 17.06% in HOT revenue after base year from before

Increase 17.06% in HOT revenue after base year from before

Henry B. Gonzalez Convention Center, San Antonio, TX (MCC)
 George R. Brown Convention Center, Houston, TX (GRCC)
 Gaylord Town Resort & Convention Center, Grapevine, TX (DFRC)

Colorado Convention Center, Denver, CO (CCC)
 Music City Center, Nashville, TN (MCC)
 San Diego Convention Center, San Diego, CA (SDCC)

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2) Like many bureaucracies, the Convention Center Department has drifted from its goal of enhancing the prosperity of the community to enhancing its own self-survival. It sees itself as competing with other local convention facilities, mostly private enterprises that are then stressed by the City's public-subsidized competition. The Department now wishes to outflank its local competition by out-sizing them, though they will continue to compete directly for small and medium-size conventions. This has nothing to do with bringing prosperity.

ACCD Response:

The business model employed by ACCD seeks to maximize the City's Hotel Occupancy Tax (HOT) revenue instead of maximizing its own facility revenue. Maximizing Hotel Occupancy Tax not only benefits ACCD, as a recipient of a portion of HOT, but directly benefits the other recipients of HOT, including all of the arts organizations receiving grants through the Economic Development Department cultural arts allocation of HOT. Maximizing HOT also results in a higher number of room nights, providing increased room revenue for hotels. Higher room nights also mean more visitors staying in Austin and spending more money in local businesses and paying sales tax that goes to the City's General Fund. General Fund revenue from this source lowers the amount Austin taxpayers pay for General Fund services.

As it relates to ACCD competing with other local convention facilities, the data on the amount of lost convention and meeting business Austin is experiencing does not suggest that the Austin Convention Center is taking business away from other facilities. In 2016, approximately 50% of convention and meeting business seeking to hold events in Austin

could not because of lack of availability (calendar dates) or lack of space. This business could not find any suitable venues in Austin in which to hold their events.

3) The Convention Center Department has enriched itself and its employees by shifting responsibility for funding operations and maintenance of its local event facility from the bed tax, as was used for Palmer Auditorium, to the car rental tax created for the Town Lake Park Community Events Center Venue Project. As you know, voters authorized this tax only for construction and development of the venue, not for Palmer Events Center operations and maintenance. This use of that revenue stream has been wholly illegitimate and illegal for 18 years. It has resulted in the City's abandonment of its obligation to enhance Auditorium Shores and create a great park in the venue district as specified by voters and an extensive public process. Until that park development is made 100% whole, the Convention Center Department should be prevented from embarking on any new capital program. As of 2011, realizing that plan would require on the order of a \$20-22 million investment, a number which surely has grown in the high-cost construction environment that has developed since then.

ACCD response:

The use of venue funds for construction and for operations and maintenance costs is authorized by Texas Local Government Code Section 334.042. Consistent with that legal authority, voters approved the venue in projects in 1998. In 1999, the Attorney General approved the City's bonds with a flow of funding identified in the bond ordinance that include the operation and maintenance of the Town Lake Community Events Center (i.e. Palmer Events Center) and the associated garage. The Bond Official Statement includes the following flow of funds:

Flow of Funds

The City covenants and agrees in the Ordinance that all receipts and revenues collected and received by the City from the Special Motor Vehicle Rental Tax, the Parking Revenues and the Events Center Revenues shall be deposited to the credit of the Venue Project Fund and more particularly to the credit of the Tax Account, the Parking Garage Account and Events Center Revenue Account, respectively.

(a) Tax Account. Following the issuance of the Series 1999 Bonds and while the Series 1999 Bonds remain Outstanding, moneys from time to time credited to the Tax Account shall be applied in the following order of priority:

First, to the payment of the amounts to be deposited to the credit of the Debt Service Account required by the Ordinance and any ordinance authorizing the issuance of Additional Bonds.

Second, to the payment of the amounts to be deposited to the credit of the Debt Service Reserve Account required by the Ordinance and any ordinance authorizing the issuance of Additional Bonds.

Third, to the payment of the amounts to be deposited to the credit of the Repair and Replacement Account required by the Ordinance and any ordinance authorizing the issuance of Additional Bonds.

Fourth, to pay amounts to be deposited to the credit of the Operating Account, including the establishment and maintenance of an operating reserve to operate and maintain the Town Lake Community Events Center and Parking Garage, as required by the Ordinance and any ordinance authorizing the issuance of Additional Bonds.

Fifth, for any lawful purpose under the Act and as authorized by the election held November 3, 1998.

(b) Parking Garage Account/Events Center Account. The City covenants and agrees Parking Revenues and the Events Center Revenues shall be deposited to the credit of the Venue Project Fund and more particularly

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The full Official Statement can be found at:

<https://assets.austintexas.gov/financeonline/finance/downloads/finalos-2withappendix.pdf>. In addition, the City has obtained legal advice from bond counsel to

make sure that the use of these funds is consistent with the legal requirements.