




MEMORANDUM

To: Mayor and City Council Members

From: Rodney Gonzales, Assistant City Manager 

Date: July 31, 2019

Subject: Update to the Austin Convention Center expansion planning efforts

On May 23, 2019, Austin City Council voted to approve Resolution No. 20190523-029 (Resolution). The Resolution covered many topics within the Palm District, including the Palm School, Rainey Street, the Fifth Street Mexican American Heritage Corridor, the Convention Center expansion, and a district planning process. This update covers topics related to the Convention Center Expansion, in particular the direction to the City Manager to do the following:

- Recommend an initial design for a Convention Center expansion.
- Analyze and recommend a financing plan for a Convention Center expansion, including funding mechanisms, due diligence, and risks.
- Explore all possibilities related to land leasing, acquisition, and the establishment of public-private partnerships for the expansion project.
- Work with stakeholders to prepare for the establishment of a Tourism Public Improvement District (TPID).
- Incorporate the Convention Center expansion planning efforts into the Palm District planning.
- Present a timeline for the design work and for the documents, actions, and ordinances necessary to adopt and initiate the additional hotel occupancy taxes (HOT) and to undertake an expansion.
- Present as much of an analysis and initial design of the convention center expansion as available by July 31, 2019.

The City Manager has appointed me as the Executive Lead for this project. And, I've selected Carla Steffen, Deputy Director for the Austin Convention Center, as the Project Lead who will have day-to-day responsibilities for coordinating and completing project activities associated with the project. A dedicated, cross-departmental and cross-functional team is supporting the project and consists of staff from Parks and Recreation Department (PARC), key staff from the Financial Services Department (FSD), the Office of Real Estate Services (ORES), and the Law Department. In addition, the team will be augmented by the City's Treasury Office, City financial advisors, bond counsel, as well as advisory consultants focused on land acquisition and building design. As the project progresses, other City departments and agencies will

interact during certain phases of the site assembly, master planning, funding, design & delivery and redevelopment.

Separately, the Planning and Zoning Department (PAZ) will provide updates to Mayor and Council for the Palm District planning process. And, separately, an update will be provided to Council related to the expansion of the Board of Directors of Austin Convention Enterprises.

Attached to this memo is a summation and outline of major activities for advancing the project.

If you have any questions, please do not hesitate to contact me or Carla Steffen, Deputy Director for the Austin Convention Center.

cc: Spencer Cronk, City Manager
City Manager's Executive Team
Mark Tester, Director, Austin Convention Center
Carla Steffen, Deputy Director, Austin Convention Center

UPDATE TO THE CONVENTION CENTER EXPANSION PLANNING EFFORTS

PROJECT WORKPLAN OVERVIEW

The Convention Center expansion efforts include four primary project activities. Some of these activities have begun; however, many will commence concurrently beginning in August, with certain tasks completed by the end of the year. The project activities are discussed in more detail within this attachment, and some project activities will require City Council approval at a later date. As a general overview, the project activities include the following:

1. Design of the Convention Center expansion
 - a. Establish the City's project team
 - b. Evaluate delivery methodologies
 - c. Solicit, select, and negotiate firm for Master Plan update
 - d. Begin the "Basis for Design"
2. Analysis of the financing plan for a Convention Center expansion, including funding mechanisms, due diligence, and risks
 - a. Conduct market research and analysis
 - b. Update financial projections, including HOT bonding capacity
 - c. Finalize the financing plan, including any required change to HOT assessment
3. Develop options for land leasing, acquisition, and the establishment of public-private partnerships
 - a. Identify land owners
 - b. Explore site acquisition options (lease, fee simple, partnerships, etc.)
 - c. Negotiate agreements/transactions
4. Create the Tourism Public Improvement District (TPID)
 - a. Convene stakeholders to discuss the TPID
 - b. Conduct a revenue collection analysis
 - c. Develop a proposal for the use of TPID revenues

As directed by City Council, the planning, design, and financing efforts will assume participation in Green Building and LEED certification programs as well as the Better Builder Program, or a program with comparable worker protections. The assumptions will take into account the City Council's desire to create a zero waste, net zero energy, and net positive water facility. The efforts will consider including, if practical, a new Downtown fire station, an Austin Energy water chiller, as well as any other municipal needs (such as City office space) that might be identified.

1. DESIGN OF THE CONVENTION CENTER EXPANSION

Council directed the City Manager to recommend an initial design for a Convention Center expansion. It is very early in the planning process to recommend an initial design because there are several pre-design activities that need to be completed, including the activities listed below. Most of the following activities will be completed or well underway by Summer 2020, at which time an initial design will be recommended to City Council. The list of pre-design activities includes the following:

- Convention Center Master Plan update
- Market study update
- Funding capacity confirmation
- Site acquisition and/or public-private partnerships determination
- Project delivery methods evaluation
- A “Basis for Design” needs to be developed which will confirm concepts, the project budget and development schedule for the initial expansion phase.

The [Frameworks for Placemaking - Alternative Futures for the Austin Convention District](#) prepared by the Center for Sustainable Development, University of Texas at Austin (UT Austin), School of Architecture provides an expansive overview of long-term, strategic development and redevelopment opportunities surrounding the Convention Center. In addition to the UT Austin report, the [2015 Austin Convention Center Long-Range Master Plan](#) and the [2017 Visitor Impact Task Force Report](#) provide the basis for final Austin Convention Center Master Plan and Capital Improvement Plan. Some design elements are included in one of those supporting documents, but not others. The Master Plan update, discussed next, will further inform and finalize the Capital Improvement Plan.

Master Plan Update. The master plan update and concept confirmation efforts will inform the site acquisition plans and quantify the size of development sites within the ultimate project, including air-rights opportunities. The master plan update is expected to be completed by the end of this year and will reconcile the differences between the various documents (current Master Plan, Frameworks for Placemaking, Visitor Impact Task Force Report) and will provide the basis for a final master plan. The update is a first step which informs the following next steps:

- Coordinate related planning items, adjacent site and developments.
- Confirm concepts previously identified
- Define solutions that meet the short-term and long-term needs of the project
- Confirm project phasing options that meet logistical, market, operational and fiscal requirements of the project.

Project Delivery Methods. Several project delivery options and hybrid models are available for use on this project, including design/build, design/engineer/construct and developer-led systems. Each of these options varies in schedule impact, control of design work product and owner input throughout the design process.

“Basis for Design”. Certain professional consultants and advisors will be required to complete the initial tasks and provide the “Basis for Design” which confirms concepts, project budget and development schedule for the initial expansion phase. As the project progresses, other consultants will be required to assist the team with the planning, design, and delivery of the phased expansion to the Convention Center. Those consultants will include the following:

- **Facility and Operations Advisor** – Will ensure that plans developed are functionally desirable, relevant to the competitive marketplace and minimize disruption to event activity throughout construction.
- **Concept Planner/Designer** – Will study options for a phased expansion and redevelopment of the existing convention center site which will then inform the appropriate level of design to ultimately be recommended. Although the west expansion recommended by both Gensler and UT Austin’s Option 5 is somewhat developed, connection to the redeveloped existing facility must be understood clearly.

2. ANALYSIS OF THE FINANCING PLAN

The financing model that includes the Convention Center’s current allocation of the City’s Chapter 351 HOT revenue (4.5% of the 7% assessment), the additional 2% HOT assessment allowed by Chapter 351 for convention center expansion, and the Convention Center’s facility revenues continues to be the recommended financing model for the convention center expansion project. The City’s existing Chapter 351 HOT revenue that is currently allocated to promotion of the arts, historic preservation activities, or tourism promotion will not be pledged to the expansion project financing and will therefore continue to be available for those current purposes under the proposed expansion model. The City’s General Fund revenue will also not be pledged to the expansion project financing.

The financial analysis will be influenced by the final site acquisition and public-private partnership determination. Once those elements are more informed, the team will update the financial feasibility analysis.

Bonding Capacity. Currently, given current and forecasted HOT revenues and Convention Center revenues and expenses, along with moderate growth assumptions, initial bonding capacity for the west expansion phase of the project is estimated at \$750 million. The HOT bonding capacity for the project has been impacted by the changes to the funding of the historic preservation fund and the resulting switch to funding the majority of Visit Austin’s budget through the Convention Center. HOT bonding capacity also remains subject to future HOT revenue trends and operating cash flow performance of the Austin Convention Center. An updated analysis of the HOT bonding capacity will be performed and will be completed to coincide with an initial bond issuance in late 2021.

HOT Assessment. An ordinance required to raise the HOT assessment is being drafted and is anticipated to be presented for Council action by the end of the calendar year. Hotels would begin collecting the new assessment approximately 90 days after Council approval.

Market Analysis and Financing Model. The market and economic impact studies will be updated to reflect current conditions that exist within the convention center market, including an analysis of market demand. The market analysis will be completed by the end of 2020. The financing model, including cash

flows, will be updated to include current market and economic conditions. The team continues to work with the City's Financial Advisors in completing the financial analysis. The financing model will be updated continuously throughout the planning effort. A future briefing to Council regarding the financing model can be provided and would include a discussion about opportunity costs and risks. This briefing could take place to coincide with the approval of the HOT assessment ordinance noted above.

3. OPTIONS FOR LAND LEASING, ACQUISITION, AND THE ESTABLISHMENT OF PUBLIC-PRIVATE PARTNERSHIPS

Site Assembly. Assembling the site for the expansion could involve a purchase, long-term lease, and/or trade for future development rights with a developer concurrent with the master planning effort. Separate commercial developers may be interested in developing pad sites or in air-rights once design commences and those opportunities are defined. The site assembly will be the most complicated aspect of the project. As such, site assembly will be approached with careful, thoughtful deliberation and as confidentially as possible given that there will be negotiated real estate transactions. A dedicated team is being developed specifically for this aspect of the project.

Public-Private Partnerships. One of the initial tasks in preparing for the phased expansion is to define the role of a developer/developers and establish the scope for its/their involvement. A developer could be used to assemble the land for the project and provide private-sector development of commercial pads at grade or in air-rights over the future phase expansion. Because of timing involved, separate developers could be used at various stages in the ultimate project. However, being able to assemble the site under one developer could simplify the land assembly process, aid in negotiations and save a considerable amount of time.

As we begin activities related to site assembly, communication with Mayor and Council will take place in executive session and/or via attorney-client privileged memos due to these matters being related to real estate transactions.

4. TOURISM PUBLIC IMPROVEMENT DISTRICT (TPID)

We have held two stakeholder meetings with hotel community representatives and homeless service providers to discuss the structure, process and timing related to the creation of the TPID. Stakeholder meetings will continue as we move forward with the TPID.

It is envisioned that a 1% TPID will be proposed. The proposed structure of the TPID is currently being finalized; however, the initial contemplation is that the 1% TPID will be structured as follows:

- 50% for marketing and promotion
- 40% for the Convention Center incentive/buydown program
- 5% for TPID administration
- 5% for research

Use of TPID Revenues. The Convention Center funding allocated to the incentive/buydown program is the source of funding which will be transferred to the City's use for homeless services and programs. Once

the allocation of the 1% TPID funds is used for the Convention Center incentive/buydown program, the statutory requirements for the use of TPID funds will be satisfied. At that point, the Convention Center can transfer those funds used for the incentive/buydown program to the City's use for homeless services and programs. The transfer will be possible since the TPID funding will not be included in the pledged revenues for project financing.

Hotel Stakeholders and the Potential Ballot Initiative. At this time, petition signatures have been validated by the City Clerk's Office regarding a ballot initiative on the Convention Center expansion, leading to a City Council item to call an election. Hotel stakeholders have indicated a preference to moving forward with the creation of the TPID after the election (should the petition be affirmed). The timing for the creation of the TPID will be better informed once the petition affirmation process is completed.

Next Steps. There are steps that are moving forward today, including the drafting of the ordinance, service plan and management agreement, as well as compiling the hotel information for the hotels that will be part of the TPID. Based on the experience in other Texas cities, the creation of the TPID will take up to a year. The steps required to create the TPID include the following:

- Identifying hotels and gathering required information
- Council approval of service plan, petition, management agreement
- Gathering petition signatures
- Creating non-profit management group/board of directors
- Petition validation
- Notification/creation of TPID and set rate
- Update of hotel systems/begin collecting TPID fee