

# City of Sacramento

## Legislation Text

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File #: 2019-00969, Version: 1

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**Title:**

**Authorize the Issuance and Sale of the 2019 Sacramento Tourism Infrastructure District Assessment Revenue Bonds (Convention Center Ballroom) to Finance an Additional Ballroom in the Sacramento Convention Center and Other Capital-Improvement Projects, with a Principal Amount Not Exceeding \$55 Million**

File ID: 2019-00969

**Location:** District 4

**Recommendation:**

1) Adopt a Resolution authorizing the issuance and sale of the 2019 Sacramento Tourism Infrastructure District Assessment Revenue Bonds (Convention Center Ballroom) to finance an additional ballroom in the Sacramento Convention Center and other capital-improvement projects, with a principal amount not exceeding \$55 million, and approving related documents and official actions; and 2) pass a Motion approving Supplement No. 4 to Agreement for Legal Services with Jones Hall and a Disclosure-Counsel Agreement with Stradling Yocca Carlson & Rauth.

**Contact:** John Colville, City Treasurer, (916) 808-8297; Brian Wong, Debt Manager, (916) 808-5811, Office of the City Treasurer

**Presenter:** John Colville, City Treasurer, (916) 808-8297, Office of the City Treasurer

**Attachments:**

- 1-Description/Analysis
- 2-Resolution
- 3-Indenture
- 4-Continuing Disclosure Certificate
- 5-Bond-Purchase Agreement
- 6-Preliminary Official Statement
- 7-Supplement No. 4 to Agreement for Legal Services (Jones Hall)
- 8-Disclosure-Counsel Agreement (Stradling Yocca Carlson & Rauth)

## Description/Analysis

**Issue Detail:** On October 30, 2018, the City Council formed the Sacramento Tourism Infrastructure District No. 2018-04 (“**STID**”) for the purpose of levying a new assessment on lodging businesses, including Airbnb, VRBO, and vacation-rental businesses (the “**Assessment**”). The Assessment will be levied at a rate of 1% of gross short-term rental revenue and is similar to, and in addition to, the assessment currently levied by the City’s Sacramento Tourism Marketing District (“**STMD**”). Assessment revenues will be used primarily to pay debt service for revenue bonds the City will issue to finance an additional ballroom in the Sacramento Convention Center (“**Ballroom Project**”) that certain lodging businesses and Visit Sacramento have asked to be included in the larger Sacramento Convention Center Renovation and Expansion Project (“**SCC Project**”). Assessment revenues not needed for the Ballroom Project would be available for other capital improvements authorized by the STID Management District Plan.

Soon after the STID was formed, an Airbnb operator filed a lawsuit challenging the validity of the Assessment. The lawsuit was settled on June 26, 2019, and if no appeal or other challenge is filed by July 29, 2019, then the City will be able to levy the Assessment and issue the bonds.

The City Treasurer’s Office has been working closely with the City Manager’s Office and members of the financing team toward the successful issuance of the first series of bonds to be secured by the Assessment, to be known as the “City of Sacramento 2019 Sacramento Tourism Infrastructure District Assessment Revenue Bonds (Convention Center Ballroom)” (the “**Bonds**”). The estimated sources and uses of funds for the Ballroom Project are as follows:

| <b>Estimated Project Sources</b>   |                     |
|--|---------------------|
| Sources  |                     |
| STID Bonds   | \$44,911,000        |
| Available City Funds   | 8,089,000           |
| <b>Total Sources</b>   | <b>\$53,000,000</b> |
|  |                     |
|  |                     |
| <b>Estimated Project Fund Uses</b>   |                     |
| Construction   | \$40,870,000        |
| Marks and Adjustments  | 12,130,000          |
| <b>Total Uses</b>  | <b>\$53,000,000</b> |
|  |                     |
| (1) Estimates provided by Morgan Stanley based on market conditions as July 10, 2019 |                     |

**Policy Considerations:** The City formed the STID in 2018 under the Property and Business Improvement District Law of 1994 (California Streets and Highways Code sections 36600 through 36671) (the “**PBID Law**”) as augmented by City Code section 3.92.055 ( the “**STID Revenue Bond Law**”), which the City enacted in accordance with its charter powers and the PBID Law. The STID Revenue Bond Law authorizes the City to secure repayment of bonds or other indebtedness with a pledge of the Assessment revenues collected within the STID. Importantly, the Bonds are **not** an obligation of the City’s general fund.

**Economic Impacts:** As the City Manager’s office has previously reported, Halo Hospitality, with assistance from Visit Sacramento, analyzed the potential effect of the SCC Project on additional event growth and hotel-room-night demand. Based on that analysis-which also assumed the construction of an additional 350-room convention-center-serving hotel, the completion of The Kimpton Sawyer Hotel, and the construction of the other proposed downtown hotel projects-completion of the SCC Project is estimated to increase the convention center’s occupancy rate from 48% to 62% within the next five years. In addition, the number of Group A events (i.e., Citywide conventions that generate substantial demand for hotel rooms) is projected to increase from the current average of about 36 events annually to an estimated 61 events annually by 2025. Were those projections borne out-and, of course, there is no guarantee that the projected growth will in fact occur -it would result in an estimated annual increase of over 150,000 new hotel-room nights. There would be additional economic benefits from other spending by additional conference attendees.

CBRE, Inc. Hotel Advisory (“**CBRE**”) has prepared a third-party analysis comparing assessment revenues collected for the STMD since 2013 and the Assessment revenues expected to be collected within the newly formed STID. Based on its analysis of historical STMD collections, CBRE estimates that if the Assessment had been levied within the STID during the same period, the hypothetical collections of the Assessment would have had the following growth rates:

- 10.1% increase in collections between FY13/14 and FY12/13

- 12.0% increase in collections between FY14/15 and FY13/14
- 10.3% increase in collections between FY15/16 and FY14/15
- 10.1% increase in collections between FY16/17 and FY15/16
- 10.6% increase in collections between FY17/18 and FY16/17

CBRE projects the compounded annual growth rate of Assessment revenues to be 4.0% through Fiscal Year 2057/58.

Because there are several years of STMD collections, and because the composition of the lodging businesses in the STMD is very similar to the composition of lodging businesses in the STID, the CBRE analysis provides a reasonable assessment of potential Assessment collections.

**Environmental Considerations:** At a public hearing on June 19, 2018, the City Council approved the SCC Project (which includes the Ballroom Project), certified the environmental-impact report for the SCC Project, and adopted the mitigation monitoring program for the SCC Project. The challenge period for the environmental-impact report has passed; there were no challenges.

**Sustainability:** The SCC Project has been designed utilizing energy-efficient standards that will reduce the project's carbon footprint, thereby helping the City meet its sustainability goal. The City is pursuing Leadership in Energy and Environmental Design (LEED) Silver certification with the U.S. Green Building Council for the SCC Project in accordance with City Policy LU 8.1.5 LEED Standard for City-owned buildings, which require LEED Silver or equivalent.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** Approval of the recommended actions will authorize the issuance of Bonds to provide financing for the Ballroom Project. In addition to directly conferring a specific benefit on the assessed lodging businesses, the Ballroom Project is expected to act as another catalyst for the City's downtown core (in addition to the Golden 1 Center) and to increase the number of users of the convention center.

**Financial Considerations:** The Bonds will be structured based on a pledge of the eligible "STID Revenues," as defined in the Indenture of Trust for the Bonds. It is currently projected that the Bonds will be issued on a tax-exempt basis. The diagram on the next page describes the anticipated flow of funds through the various lien levels and the other uses of the STID Revenues after the issuance of the Bonds.

### STID Flow of Funds Diagram

Each month while the Bonds are outstanding, the City will transfer to the trustee for the Bonds STID Revenues equal to  $\frac{1}{6}$  of interest payments and  $\frac{1}{12}$  of principal payments. Acting for the benefit of the Bond holders, the trustee will deposit these amounts in the Interest Account and the Principal Account. If the STID Revenues are not sufficient to make these transfers in any month (which could result from the seasonality of the lodging business), then the trustee will draw available funds from the Pledged Assessment Revenues Surplus Account. If that account is drawn on, and if the amount on deposit in it falls below the minimum required (50% of the maximum annual debt service), then the

shortfall will be made up from Assessment revenues in subsequent months. In any month where the Assessment revenues exceed the amount needed for debt service, the excess revenues will be used as needed to replenish the Debt Service Reserve Fund and the Pledged Assessment Revenues Surplus Account; any remaining excess revenues would then be available for other tourism infrastructure projects approved by the STID Tourism District Committee in accordance with the STID Management District Plan.

The Assessment is expected to be levied by both the City and Sacramento County beginning in September 2019, with collections beginning in October 2019. In accordance with the *Protocol for Implementation of the Sacramento Tourism Infrastructure District No. 2018-04 Management District Plan* currently being negotiated by the City and the County, the County will collect Assessment revenues on lodging businesses within the unincorporated area of the STID and remit the collections to the City. Additionally, the County has agreed to enforce collections in accordance with the Management District Plan-including penalties and interest on delinquent Assessments. By the 23<sup>rd</sup> of each month (or the next business day if the 23<sup>rd</sup> is a holiday or weekend), the City will send Assessment collections to the trustee.

The estimated sources and uses for the Bonds are shown in the following table.

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| <b>Estimated Sources and Uses<sup>(1)</sup></b>  |                   |
|--|-------------------|
| <b>Sources</b>   |                   |
| Bond Par Amount  | 45,675,000        |
| Premium  | 4,831,000         |
| Other Sources of Funds – TOT Funds   | 1,486,000         |
| <b>Total Sources</b>   | <b>51,992,000</b> |
| <b>Uses</b>  |                   |
| Project Fund   | 44,911,000        |
| Capitalized Interest   | 1,764,000         |
| Debt Service <sup>(2)</sup> Reserve  | 2,072,000         |
| Surplus Revenue Account  | 1,486,000         |
| Costs of Issuance  | 400,000           |
| Underwriter's Discount   | 456,700           |
| <b>Total Uses</b>  | <b>51,992,000</b> |
| (1) Estimates provided by Morgan Stanley based on market conditions as of July 10, 2019.                       |                   |
| (2) Currently represented as a cash funded reserve. Requested quotes for a debt service reserve not available. |                   |

| <b>Estimated Bond Statistics*</b>   |            |
|---|------------|
| Principal (Par amount)  | 45,675,000 |
| All-in True Interest Cost   | 4.306%     |
| Total Interest Payments to Final Maturity   | 15,211,000 |
| Total Debt Service to Final Maturity  | 60,886,000 |
| *Estimates provided are estimates provided by market conditions as of July 10, 2019. Actual results may vary. |            |

The City obtained the foregoing good-faith estimates from the underwriter for the Bonds, Morgan Stanley, to comply with Government Code section 5852.1.

Although City staff recommends that the City Council approve the issuance of the Bonds in a principal amount not to exceed \$55 million with an all-in true interest cost not to exceed 5%, the

current estimate is that the actual principal amount of the Bonds will be approximately \$46 million and that the all-in true interest cost will be less than 5%, resulting in an estimated average annual debt service of approximately \$3.02 million. The not-to-exceed amounts authorized by the resolution exceed these estimates to provide a cushion in case the original-issue premium is lower than expected or market fluctuations occur.

Legal fees owed to Jones Hall and Stradling Yocca Carlson & Rauth for their services as bond counsel and disclosure counsel, respectively, will be paid as a cost of issuance from the proceeds of the bonds.

**Local Business Enterprise (LBE):** Not applicable.