

REDEVELOPMENT AGENCY

2011 JUN -9 PM 3: 21 OF THE CITY OF OAKLAND

SUPPLEMENTAL AGENDA REPORT.

TO: Office of the City/Agency Administrator
ATTN: P. Lamont Ewell, Interim City/Agency Administrator
FROM: Community and Economic Development Agency
DATE: June 14, 2011

RE: A Supplemental Report Regarding An Agency Resolution Amending Resolution No. 2010-0099 C.M.S. to Increase the Funding Allocation for Capital Improvements to the George P. Scotlan Memorial Convention Center by \$3,750,000 for a Total Allocation of Up To \$7,750,000, and to Authorize the Agency Administrator to Negotiate and Execute an Amendment to the Management Agreement with Integrated Services Corporation to Increase the Original Construction Management Fee by Up To \$153,000 for a Total Fee of Up To \$306,000 for Construction Management Services

This supplemental report provides responses to questions from members of the Community and Economic Development Committee at its regular meeting of May 24, 2011. The report that was presented at the meeting recommended authorization of a resolution amending Resolution No. 2010-0099 C.M.S. to increase funding for capital improvements to the George P. Scotlan Memorial Convention Center (the "Scotlan") by \$3,750,000 for a total allocation of up to \$7,750,000, and to authorize the Agency Administrator to negotiate and execute an amendment to a management agreement with Integrated Services Corporation to increase the original construction management fee by up to \$153,000 for a total fee of up to \$306,000 for construction management services.

Members of the committee requested additional information on the following topics:

- An explanation as to whether the proposed reallocation of funds from the Agency's Central District Tax Allocation Bonds Series 2005 Fund (9533), Uptown Garage 21st & Telegraph (Project P128670) will have an adverse financial impact on projects that were previously identified to be funded from this source.
- A detailed list of all proposed additional capital improvements to the Scotlan, and an explanation of the financial return that the Agency could expect on its additional investment of \$3,750,000.

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FISCAL IMPACT

As stated in the May 24th staff report, approval of the proposed legislation will require that the Agency make available another \$3,750,000 for additional capital improvements and repairs to the Scotlan.

The Agency's proposed budget for FY 2011-13 includes a total allocation of approximately \$19.3 million (\$16.0 million in the Agency's Central District Tax Allocation Bonds Series 2005 Fund (9533) (Project P128670) and \$3.3 million in the Central District Tax Allocation Bonds Series 1989 Fund (9516) (Project P128690) of tax-exempt bonds for the development of new public parking in the Uptown and/or Broadway/Valdez districts, or for a new MLB ballpark at Victory Court. This allocation was reduced by \$1 million on June 7, 2011, when the Council approved the purchase of the 12th Street remainder site. As a result, there is now a total of \$18.3 million available.

The reallocation of \$3,750,000 from Uptown Garage 21st & Telegraph (Project P128670) to Scotlan Convention Center Capital Improvements - 9533 (Project T426210) for the proposed capital improvements to the Scotlan will initially reduce available funding for the Agency's plans to develop public parking in the Uptown and/or Broadway/Valdez districts or for a Major League Baseball ballpark at Victory Court from \$18.3 million to \$14.55 million.

However, a portion of this reduction in an amount of \$2,000,000 will be restored to bring total funding for these activities back to \$16.55 million, by moving \$1,350,000 from Downtown Streetscape Improvements (Project P128820) and \$650,000 from the Streetscape Master Plan (Project P128830) currently held in the Agency's Central District Tax Allocation Bonds Series 2005 Fund (9533) and in the Central District Tax Allocation Bonds Series 1989 Fund (9516) to Uptown Garage 21st & Telegraph (Project P128670) (Fund 9533) and to Uptown Garage (21st and Telegraph) (P128690) (Fund 9516). As stated in the previous report, these funds are no longer needed for these two streetscape projects because the Agency will use proceeds from a State of California Infill Infrastructure Grant (Proposition IC) instead. This adjusted total of \$16.55 million, which when added to the \$750,000 set aside in the Victory Court EIR Project (Project P130630) (Fund 9533) and the \$750,000 set aside for planning activities in Downtown Capital Project Support (Project P130620) (Fund 9504), was the amount discussed as being available for the Agency's assistance for the ballpark.

KEY ISSUES AND IMPACTS

Proposed Capital Improvements and Financial Returns on Cost

While convention centers, such as the Scotlan, often only generate marginal operating cash flows, their primary purpose is to attract more people from outside the region and state, which bring a larger amount of new spending to the community. In the case of the Scotlan, the City and Agency will generate a direct return on their investment through the tax and revenue streams listed below.

- **Transient Occupancy Tax:** The City of Oakland (“City”) receives a 14% tax on hotel room revenue through the transient occupancy tax (“TOT”). The City will gain a higher TOT after renovation of the Scotlan due to (i) increased room demand, and (ii) an increase in the average room rate the hotel is able to charge guests because of the quality of the facility.
- **Sales Tax:** The City will benefit from higher sales tax on food and beverage sales driven by additional demand for event space at the convention center.
- **Commission:** The Agency receives an 8% commission on all food and beverage sales (“F&B Sales”), which are projected to increase in conjunction with greater room demand.
- **Parking Revenue and Taxes:** An increase in booking convention and meeting space will create additional demand at the City-owned parking garage that is attached to the Scotlan. The Agency and City will benefit from higher parking revenues and tax receipts at the garage.
- **Energy subsidy:** As the building owner, the City is responsible for a separate annual payment to cover certain convention center facilities’ expenditures comprised of direct utility expenses, the City’s proportional share of the building’s central plant expenditures, equipment leases, and maintenance and replacement contracts. This annual payment, which is budgeted by the City each year, is an indispensable source of extra revenue for the Scotlan since these expenditures cannot be covered by regular operating revenues, although actual costs for these expenses have exceeded the City’s contribution over the last two years and were covered by the Scotlan’s operating reserve. An increase in the efficiency of the system may lower the required annual subsidy from the City in the future.

The additional funds requested can be divided into six categories of improvements:

- Energy Management System
- Airwall Upgrades
- Technology Upgrades
- ADA Compliance
- Kosher Kitchen
- Legal Resources Center

Each of these has been analyzed to determine the return on cost, as indicated below.

Energy Management System: The heating, ventilation and air conditioning system (HVAC) for the building includes cooling towers and boilers. These components were state-of-the-art technology in 1985, but are now nearing obsolescence as they do not include state-of-the-art energy efficiency technology. A PG&E energy efficiency analysis of the Scotlan performed in 2011 indicated that up to \$140,000 of annual savings could be achieved through upgrades to this equipment. In addition, automated control software would be added to manage the HVAC

system more effectively, and some fan units will be eliminated because they are no longer necessary after the proposed improvements to the system.

Investment: \$917,431
Projection of Annual Savings: \$110,000 (conservative)
Return on Cost: 12%.

Updating the Energy Management System has an additional benefit of allowing the project to qualify for LEED standard in the “Existing Building: Operations and Maintenance” category. This certification will also allow for additional marketing opportunities since inquiries about the LEED status of the Scotlan are increasing as potential clients are determining whether to hold an event at the Scotlan.

Airwall Upgrades: This improvement would add air walls to the East Hall, which would make it possible to divide the existing 15,000 square foot hall into two smaller multi-functional meeting rooms of 6,000 and 9,000 square feet each. The proposed upgrade will provide the flexibility to sell the space to mid-size groups and thus increase the revenue potential of the Scotlan.

Investment: \$630,734
Projection of Additional Annual Income: \$72,610
Return on Cost: 12%

Technology Upgrades: These upgrades include upgrades to substantially improve high speed internet access (hard wire and wireless) throughout the convention center. Bringing internet connectivity to current standards does not have a direct, measurable return on costs, but brings the property in line with other competing facilities and the expectations of contemporary customers. Investments in permanent house screens, rigging for hanging points and semi-permanent stage lighting would result in additional revenue since this equipment is rented for a fee which covers staff expenses and includes a profit for the Scotlan.

Investment: \$493,119
Projection of Additional Annual Income: \$44,450
Return on Cost: 9%

Kosher Kitchen: The Kosher Kitchen at the Scotlan is one of few facilities of its kind in the East Bay but it needs new ovens, broilers, dish washers and a refurbished refrigerator. This would bring the entire kitchen into compliance with the building code, improve productivity and reduce energy consumption. It is estimated that the proposed upgrades would bring the number of events using the kitchen up to 6 per year, increasing revenue generated by this asset.

Investment: \$160,550
Projection of Additional Annual Income: \$16,026
Return on Cost: 10%

Legal Resource Center: The Legal Resource Center is a small, narrow office area that has been rented periodically to law firms who have a big case in the local courts and need to bring in extra attorneys for an extended period of time. The present configuration of this area is inefficient and the décor is dated. This investment would convert the space into two new meeting rooms that are similar in size to other meetings rooms that are in demand at the hotel.

Investment: \$378,440
 Projection of Additional Annual Income: \$67,500
 Return on Cost: 18%

ADA Compliance: The last item to be funded from the \$3.75 million request is to bring the existing restrooms into compliance with the Americans with Disabilities Act (ADA) in conjunction with a required fixture count upgrade for \$458,716. This may add 20 to 44 fixtures. This would have a no return on cost because it is not anticipated to increase the number of convention center clients or hotel customers. This drives the overall Return on Cost down to 9.9% from 11.6%.

Table 1 is a summary of the estimated total return for the proposed \$3.75M investment

Table 1

City - TOT from Convention Related Hotel Demand from Airwall	\$55,188
City - Sales Tax from F&B Sales from Airwall	\$2,805
City - Sales Tax from LRC Room Rental	\$506
City - Sales Tax from Internet and Audio Visual	\$334
City - Sales Tax from Kosher F&B and Room Rental	\$119
Subtotal of City Revenue	\$58,952
Agency - Commission from F&B and Room Rental	\$15,907
Agency - Energy Cost Savings	\$110,000
Agency - Commission from F&B and Room Rental from Airwall	\$72,610
Agency - Commission from Internet & Audio Visual Revenue	\$44,450
Agency - Commission from LRC Room Rental Revenue	\$67,500
Subtotal of Agency Revenue	\$310,467
Total Annual City/Agency Revenue	\$369,419

Return on Cost: 9.9%

Table 2 is a summary of the estimated total returns for the proposed initial \$4.0 million investment:

Table 2

City - TOT from Additional Room Nights	\$166,600
City - Additional Parking Taxes	\$33,605
City - Sales Tax from Additional F&B Sales	\$3,375
City - Internet Sales Tax	\$750
Subtotal of City Revenue	\$204,330
Agency - Commission from Additional F&B	\$36,000
Agency - Additional Parking Revenue	\$125,339
Agency - Additional Meeting Room Tax Revenue	\$1,282
Agency - Additional Meeting Room Profit	\$93,141
Subtotal of Agency Revenue	\$255,762
Total Annual City/Agency Revenue	\$460,092

Return on Cost: 11.5%

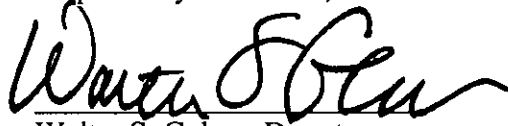
The increases in revenue to the City and Agency are on top of the increases in TOT revenues that will result from the \$17 million in improvements to the Marriott by CIM. Room sales at the Marriott Hotel have already improved by \$575,000 during the first quarter of 2011, which equates to \$80,856 in extra TOT revenue for the City. CIM estimates that their revenue will increase to \$6.1 million annually between 2010 and 2013 resulting in a gain of TOT receipts in an amount of \$860,000 over the same period.

Lastly, staff would like to reiterate comments that were made by John Mazzone, current manager of the Marriott, at the meeting which touched upon secondary benefits that would be created if the Scotlan was further improved. Mr. Mazzone explained that an improved Scotlan will be more competitive with similar facilities in other jurisdictions and currently attract more customers. An increase in bookings at the Scotlan will translate into additional hotel reservations at the Marriott. Once the Marriott runs out of vacancies, other downtown hotels will benefit and begin to generate a higher TOT for the City.

ACTION REQUESTED OF THE CITY COUNCIL/REDEVELOPMENT AGENCY

Staff requests that the City Council/Redevelopment Agency Board adopt the resolution as originally presented to the Community and Economic Development Committee on May 24, 2011.

Respectfully submitted,



Walter S. Cohen, Director
Community and Economic Development Agency

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**APPROVED AND FORWARDED
TO THE COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:**



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