May 29, 2015

Council President Sherri Lightner
City of San Diego
202 “C” Street, 10th floor
San Diego, CA 92101

RE: Fifth Avenue Landing Lease Extension Action

Over the past two weeks staff of the San Diego Convention Center Corporation has worked with representatives of Fifth Avenue Landing (FAL) to convey the leasehold back to FAL subsequent to the May 6, 2015 default. During that process, FAL expressed an interest in offering the Corporation a one-year extension on the leasehold in exchange for a $500,000 payment and the approval by the Port of San Diego for a one year extension of The Amended, Restated and Combined (ARC) Lease to the San Diego Convention Center Corporation for the FAL site.

On May 28, 2015, the Corporation’s Board of Directors reviewed the proposal and voted unanimously to not extend the FAL leasehold and directed staff to work to complete the transfer of the lease back to FAL as soon as possible. Additionally, the Board directed staff to work with FAL representatives to, if possible, secure an operating agreement for the FAL property for a term of one year or less in order to accommodate events booked by the Corporation that had secured use of the FAL site. At this time, it is expected that both elements of the Board’s direction will be resolved within two weeks.

Representatives of the Corporation are scheduled to appear before the Budget and Government Efficiency Committee on Wednesday, June 17, 2015. In order to provide you with additional information and answer questions you or other members of the City Council may have in advance of that meeting, we will be working with your offices to schedule meetings the week of June 8, 2015. We look forward to providing you with any additional information you may request.

Sincerely,

Carol Wallace

Cc: Mayor Kevin Faulconer
Honorable Members of the San Diego City Council
Jaymie Bradford, Deputy Chief of Staff/Chief of Policy
Andrea Tevlin, IBA
SDCCC Board of Directors
May 15, 2015

Council President Sherri Lightner
202 “C” Street, 10th floor
San Diego, CA 92101

RE: San Diego Convention Center Corporation FY16 Budget Review Questions

Thank you for the opportunity to present at the Budget Committee last week. On behalf of the San Diego Convention Center Corporation we wanted to provide you with additional information on six questions raised by Council members during the May 7, 2015 Budget Review Committee. Additional information was requested on the following items:

1. Infrastructure Bank
2. Fifth Avenue Landing (FAL) Lease Default
3. Expansion Market Study
4. Merit Increases
5. Performance Audits
6. Room Nights

**Infrastructure Bank:** The Corporation’s Board voted on May 13, 2015 to direct staff to begin the application process to the California Infrastructure and Economic Development Bank (I-Bank) for funding of the convention center’s infrastructure capital needs. In moving forward with the application, the Board is concerned that the Corporation’s operating budget is not sufficient to cover the estimated $1.1 million in debt service for a $20 million I Bank loan for a 30 year borrowing term. Prior to finalizing any such loan, the Corporation’s staff and Board will need to discuss the potential ramifications of such a debt service with the City Council and Mayor’s office. The application is expected to be completed by June 17, 2015.

**Fifth Avenue Landing Lease Default:** Over the last year, the Corporation has provided detailed information on the FAL lease purchase to staff in the Office of Financial Management and Office of the Mayor. At the October 29, 2014 Budget and Government Efficiency meeting, Corporation staff answered numerous questions regarding the FAL lease following the court ruling invalidating the financing plan for the Phase III Expansion. In March, Corporation Board Chair Stephen Cushman was provided detailed legal and financial summaries regarding the FAL lease purchase which included specific information regarding the May 6, 2015 deadline. Between March and the end of May, Mr. Cushman worked with representatives of the Mayor’s office and representatives of FAL to negotiate an extension of the FAL lease. Those efforts were unsuccessful and on April 30, 2015, the Corporation notified Mayor Faulconer and members of the City Council that the Corporation was not in a position to make the final lump sum payment due on May 6, 2015 and would therefore default. On May 5, 2015 the Corporation notified FAL of our intent to default and included copies of the correspondence to both Mayor Faulconer and the City Council. The FAL lease purchase transaction was specifically structured to allow for such a default by the Corporation without any further recourse to the Corporation or the City in the event the Phase III Expansion process was not at a place to warrant the expenditure of public funds for the FAL lease.

**Expansion Market Study:** The San Diego Convention Center Corporation, in partnership with the City of San Diego and JMI Realty, retained Convention Sports and Leisure International in March to provide current market estimates on the financial and economic value of building additional exhibit and meeting space. The study will provide research on two options, one a
contiguous expansion plan that is scaled down from the initial plan approved by the California Coastal Commission and a second option for a non-contiguous facility on the Tailgate Park site located east of Petco Park and along Park Boulevard. The program elements for the two sites being studied are:

- the addition of 210,000 square feet of exhibit space contiguous to the existing convention center with an additional 59,000 in meeting space; and
- approximately 225,000 square feet of exhibit space, 80,000 square foot ballroom plus added meeting space in a new structure located approximately 2-3 blocks from the current convention center.

The results of the study are expected in August and will be shared with Mayor Faulconer and Council members at that time.

**Merit Increases for FY15 budgeted full time, non-represented staff:** The Corporation had 99 full time, non-represented staff in FY15. The breakdown of merit increases were:

- 14 employees received no merit increase. This included all four Vice-Presidents and the President and CEO
- 12 employees received merit greater than 0% but less than 3%
- 73 employees received merit = 3%

Merit increases to non-represented staff are based on performance reviews of staff conducted pursuant to the Corporation’s human resource policies.

**Performance Audits of the Corporation:** Beginning in 2007, the Corporation has contracted with several outside firms as well as the City of San Diego to provide a range of audits reviewing nearly every division of the Corporation, including governance, policies and procedures. The following is a list of audits, their focus, and the cost of each to the Corporation. The Corporation has spent more than $600,000 in a continuous effort to ensure the most efficient operation of the facility.

- Following the election of Mayor Sanders in 2005, the City of San Diego began a systematic “Business Process Review” to find ways to improve processes and procedures to identify efficiencies in how the various divisions of the City operate. The Corporation’s Board undertook a similar effort beginning in 2007 that continued through 2008. The process evaluated the sales, convention services, finance, human resources, and operations divisions. The cost to the Corporation was $452,459 and resulted in significant changes to improve their efficiency and work flows.

- In 2009, the Corporation, at the direction of the City of San Diego, undertook an audit to evaluate the Corporation’s procedures as they related to the “Standards of Excellence: An Ethics and Accountability Code for the non-profit sector”. The cost of the audit was $75,850.

- In 2011, the Corporation hired Intellibridge Partners to provide a risk assessment in preparation and creation of an internal audit plan. The cost of the audit was $35,000.

- In 2012, the Corporation, contracted with the City of San Diego Office of City Auditor, to conduct an audit focused on the IT Division. Cost of the audit was $17,125.
• In 2012, the Corporation hired Public Financial Management, Inc. to conduct a fiscal and organizational analysis audit to identify budget savings that could be implemented without adversely or significantly affecting client services. During the same period, the long-term sales and marketing responsibility was transferred from the Corporation to the San Diego Tourism Authority. Approximately 14 positions tied directly to sales and marketing were eliminated. An additional 16 positions were eliminated in areas across the organization. The elimination of positions resulted in an immediate savings of more than $1.5 million. The cost of the audit was $57,000.

• In 2014, the Corporation contracted with the City of San Diego, Office of the Auditor to conduct a performance audit of the Corporation’s Financial Systems. The audit was the second of four recommended audits. The audit made five recommendations in June 2014 and the Corporation has implemented all five recommendations. The cost of the audit was approximately $17,000.

• In 2014, the Corporation contracted with the City of San Diego, Office of the Auditor to conduct an audit of HR Contracted Information Systems. The audit was the third of four recommended audits identified through the Auditor’s high-level risk assessment. The cost of the audit was $17,165.

**Booked versus Actual Room Nights:** Below is a chart comparing projected block contracted room nights and final contracted block room nights for CY12-15 based on data provided to the Corporation by the San Diego Tourism Authority and clients of the convention center.

• Projected Contracted Block Room Nights (Booked Room Nights): This number represents estimated room nights contracted in future years by the meeting planner when an event is booked. This usually occurs 5-10 years into the future from the year the event is booked by the long-term sales team. The annual future room night goal is 900,000 room nights.

• Final Contracted Block Room Nights (Actual Room Nights): This figure represents the final contracted room nights booked by the meeting planner for the event attendees. This figure is reported to the Corporation by the event meeting organizer. Over the last four years, the average annual room night utilization in the contracted block is 709,250. This figure does not include rooms utilized by attendees outside of the contracted room block.

• Out-of-Block Room Night Utilization: Over the last decade an increasing share of event attendees stay in hotel rooms that are not part of a contracted room block arranged by the event planner. This dynamic is industry-wide and commonly referred to as “out-of-block” room utilization. Studies commissioned by the Corporation and the San Diego Tourism Authority indicate that 30-40 percent of event attendees are staying in rooms not contracted for the event attendee. For example, Comic Con has a contracted room block of approximately 60,000 hotel room nights. A 2008 study of Comic Con showed that attendees to the annual event consume 126,000 room nights. The Corporation, however, only reports the final contracted room block.
When the estimated out-of-block room utilization is included in the final contracted room night figure (estimated at 30 percent in the chart below), the estimated annual room night utilization from all events at the convention center is above the annual booking goal of 900,000.

Thank you for the opportunity to provide you with additional information. If you have further questions our CEO Carol Wallace will be happy to schedule a meeting with you to go over this information or any other concerns you may have. She can be reached at (619) 525-5101. We remain ready to provide any additional information as requested.

Sincerely,

[Signatures]

Rabbi Laurie Coskey
Gil Cabrera

Cc:  Mayor Kevin Faulconer
     Honorable Members of the San Diego City Council
     Jaymie Bradford, Deputy Chief of Staff/Chief of Policy
     Andrea Tevlin, IBA
     SDCCC Board of Directors
April 30, 2015

Honorable Mayor Kevin Faulconer
City Administration Building
202 “C” Street, 11th Floor
San Diego, CA 92101

RE: Notification Regarding the Lump Sum Payment due May 6, 2015 Related to the FAL Site

Dear Mayor Faulconer:

The purpose of this communication is to convey important information regarding acquisition of the Fifth Avenue Landing site in connection with the San Diego Convention Center Phase III Expansion Project (“Expansion”).

As you are no doubt aware, the proposed site for the Expansion was the subject of a lease from the San Diego Unified Port District (“Port District”) to Fifth Avenue Landing, LLC (FAL) and its predecessors in interest. In April 2010, the San Diego Convention Center Corporation (“Corporation”) purchased FAL’s lease and entered into an Amended, Restated and Combined Lease (“ARC Lease”) with the Port District. Since that time, the Corporation has paid $500,000 per year to FAL on the non-recourse, purchase money note secured by the leasehold. A final lump sum payment of $10.5 million plus any unpaid accrued interest is currently due on May 6, 2015. At the time the ARC Lease was entered, all parties anticipated that any then remaining lease payments and the lump sum payment would be made from proceeds intended to finance the Expansion.

On October 1, 2012, as contemplated in the ARC Lease, the right to construct Expansion was assigned to the City. The Corporation, however, remained contractually obligated to make annual lease payments as well as the lump sum payment at the end of the ARC Lease term. The funding stream for the Expansion having been ruled invalid, the lump sum payment on the ARC Lease is due with no access to anticipated Expansion funding. Failure to pay the amounts currently due will result in default of the ARC Lease entitled FAL to retake the property interest in satisfaction of the amounts remaining due on the note.
The Corporation is not in the position at this time to make the lump sum payment due on May 6, 2015. Although we understand that negotiations are currently underway in an effort to extend the ARC Lease and provide additional time for the all parties to more fully consider their options related to the FAL site and the Expansion, in the event the ARC Lease is not extended, the Corporation will not make the remaining lump sum payment and will be in default of the note. Since this may impact whether the City can exercise its assigned right to construct the Expansion, we are notifying the City prior to the due date.

Sincerely,

Carol Wallace  
President & CEO

Laurie Coskey  
Vice-Chair of the Board

cc: Honorable Members of the San Diego City Council  
    Jaymie Bradford, Deputy Chief of Staff/Chief of Policy
The City’s Debt Management Department has reviewed the California Infrastructure and Economic Development Bank’s (I-Bank) program parameters, funding criteria, indicative interest rates and cost assumptions. The following summarizes key features of the funding program including the loan structure, and financial considerations for SDCCC. Staff met with an I-Bank official and reviewed the borrowing cost estimates provided to us. Staff has also conducted extensive review of other public source documents such as the I-Bank ISRF Loan Documents, Bank Application templates and sample financing leases and site leases, I-Bank’s bond disclosure documents, credit rating reports, and legislative action process information of cities that have utilized the I-Bank program.

BACKGROUND. The I-Bank is a state agency and has broad powers to issue bonds, make loans, and provide credit enhancements for a variety of infrastructure and economic development projects. Programs managed by the I-Bank consist of the Infrastructure State Revolving Fund (ISRF) Program, which is the bank’s flagship program, the Small Business Loan Guarantee Program, and conduit Revenue Bond Financing Program. The ISRF program currently has a total of 56 pledged loans totaling $183 million. Localities that have loans with the ISRF program include cities of Hawthorne, San Luis Obispo, Fresno and Redlands.

INTEREST RATES. I-Bank offers long term loans for 10-30 years. I-Bank staff has provided to the Infrastructure Committee staff indicative interest rates for a 30 year borrowing scenario. The interest rate is estimated to be approximately 3.5% under current markets conditions with a 30 year term (this interest rate results in an estimated $1.1 million of annual debt service for a $20 million I Bank loan).
In addition to the annual loan repayments at the fixed loan rate, I-Bank loan program charges an annual administrative fee of approximately 0.30% of the outstanding loan amount over the life of the loan period. As an example, for a $20 million loan size, this is approximately $1 million over the life of a 30 year loan.

**PROJECTS AND ELIGIBILITY (FOR ALL I-BANK LOANS).** Categories of projects that are eligible for the ISRF include streets, facilities, and other infrastructure projects. In addition, I-Bank requires the following: 1) SDCCC must be able to confirm project readiness and feasibility to complete construction within 2 years of I-Bank loan approval; 2) all project funding sources (other than the I-Bank loan) to be identified at the time of loan application; and 3) projects are required to pay prevailing wages.

**LOAN TERMS AND STRUCTURE.** Loans typically range from $50,000 to $25 million, however larger loans may be approved. The term of the loan depends on the useful life of the project, with a minimum term of 10 years and can be up to 30 years. Most loans range from 15 to 30 years.

**Security/Pledge** – Loans secured by a lease agreement with a pledge of assets. The lease/lease-back agreement would be between the SDCCC and the I-Bank (no Joint Powers Authority). The loan could be structured as an asset-transfer (using existing SDCCC assets), or alternatively the financed CIP can be used as a security.

**Other Structuring Considerations**
- Loans are not subject to prepayment for the first ten years.
- Negative arbitrage is present.
- Loans do not need ratings.
- The I-Bank could require a debt service reserve fund (DSRF). If this is required, it would increase the loan amount to fund DSRF and thus increase the loan repayment costs.
- The I-Bank typically disburses proceeds on a reimbursement basis. Alternatively funds could be disbursed directly to vendors, for which SDCCC will need to determine if an approval of an I-Bank loan is sufficient to enter into contracts.

**Loan Approval** - Applications include detailed information on the project(s) and SDCCC’s financials. I-Bank staff has indicated typically loans can be executed within 60-120 days. Approval milestones include:
- SDCCC Board approval prior to applying for the loan, certifying consistency with I-Bank guidelines, as the sponsoring agency.
- The I-Bank Board’s approval of the loan via Board Resolution.
- SDCCC Board approval of the loan documents subsequent to the loan approval.

**Post Issuance Obligations** - The loans have certain post issuance obligations with respect to the pledged properties (insurance, maintenance, etc.). SDCCC would also need to submit annual financial statements to the I-Bank. Additionally, if SDCCC were deemed a significant borrower by the bank, the City would need to provide additional ongoing disclosures to I-Bank.
CONCLUSIONS

The I-Bank program represents a viable and cost effective financing tool to provide funding for smaller sized capital projects (less than $25 million) that are ready to break ground.

I-Bank Staff Contacts:

Teveia Barnes, Executive Director - (916) 324-6992
Ruben Rojas, Deputy Executive Director - (916) 539-4408
### IBank Financing Estimates
San Diego Convention Center Sails Pavilion

<table>
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<tr>
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<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
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### NOTES:

**Option 1:** Project scope consists of Sails Pavilion fabric structure replacement, tying chillers into chiller water loop, and fire cannon replacement (i.e., all project components with an estimated useful life of 20-25 years).

**Option 2:** Project scope consists of Sails Pavilion fabric structures only.

**Option 3:** Project scope consists of concrete replacement at the Sails Pavilion, tying chillers into chilled water loop, fire cannon replacement, rebuild of rooftop chillers, and Sails Pavilion boiler replacement

(1) 1% IBank origination fee included in project costs  
(2) Interest Rates as of 4/27/2015  
(3) Includes annual IBank fee