

**Performance & Financial Analysis**  
Rio Nuevo Multipurpose Facilities District

**SUBMITTED TO**  
Office of the Auditor General  
State of Arizona

**SUBMITTED BY**  
C.H. Johnson Consulting, Incorporated

September 2016



**JOHNSON  
CONSULTING**

Experts in Convention, Hospitality,  
Sport and Real Estate Consulting.



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

October 13, 2016

The Honorable Doug Ducey, Governor  
State of Arizona

The Honorable Andy Biggs, President  
Arizona State Senate

The Honorable David Gowan, Speaker  
Arizona House of Representatives

Mr. Fletcher McCusker, Chairman  
Rio Nuevo Multipurpose Facilities District Board of Directors

Transmitted herewith is a report of the Auditor General, a performance and financial analysis of the Rio Nuevo Multipurpose Facilities District. This analysis was conducted by the consulting firm of Johnson Consulting under contract with the Auditor General and was in response to the requirements of A.R.S. §48-4231.01.

This analysis focused on evaluating (1) compliance with Arizona Revised Statutes and the District's intergovernmental agreement with the City of Tucson; (2) district policies and procedures for prioritizing and managing construction and financing activities; (3) the District's financial solvency; (4) the District's capital and operating costs; and (5) the District's multipurpose facility, the Tucson Convention Center. The District's response to the issues noted in this analysis must be adopted by the Board of Directors within 45 days of the release of this report.

My staff and I will be pleased to discuss or clarify the items in the report.

This report will be released to the public on October 14, 2016.

Sincerely,

Debbie Davenport  
Auditor General

## TABLE OF CONTENTS

### TRANSMITTAL

### LETTER SECTION I

EXECUTIVE SUMMARY | DISTRICT MISSION & PURPOSE .....1

### SECTION II

AUDIT FINDINGS ..... 10

### SECTION III

BENCHMARKING & COMPARABLE ANALYSIS ..... 18

### SECTION IV

RECOMMENDATIONS & LONG TERM STRATEGY .....61

### APPENDIX

SUPPORT SCHEDULES

### RIO NUEVO RESPONSE



September 30, 2016

Ms. Debbie Davenport  
Auditor General  
Arizona Office of the Auditor General  
2910 North 44th Street  
Suite 410  
Phoenix, Arizona 85018

Re: Rio Nuevo Multipurpose Facilities District Performance and Compliance Audit

Dear Ms. Davenport:

Johnson Consulting and Keegan, Linscott & Kenon, PC (the Consulting Team) are pleased to submit this report to the Arizona Office of the Auditor General regarding a performance audit of the Rio Nuevo Multipurpose Facilities District as required by A.R.S. §48-4231.01. The performance review began February 1, 2016 and this report presents the findings of the consulting team's analysis as of August 31, 2016.

We received substantial support from the Rio Nuevo Multi-Purpose Facilities District, the City of Tucson and the competitive set convention facilities analyzed in this report. The consulting team has enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely,

C.H. Johnson Consulting, Inc.

**SECTION I**

EXECUTIVE SUMMARY | DISTRICT MISSION & PURPOSE



## EXECUTIVE SUMMARY

As with the last performance audit in 2013, there has been continued improvement in the performance of the Rio Nuevo District (the “District”) through Fiscal Year 2016. In fact, the accomplishments of the District in the latest performance audit period are truly exceptional as a number of actions taken by the District have allowed for major projects to advance in the District and have also improved the long term outlook for the Tucson Convention Center (TCC). Major activities in support of the District’s mission include:

- TCC Arena and Hockey Renovations.
- 136-room AC Hotel by Marriott is under construction.
- A new Greyhound Terminal is being developed, allowing for the development of the Nor Gen mixed-use project (hotel, residential, dining, parking, retail) and a permanent exhibit hall for the Gem Show to proceed.
- Mercado Market Expansion.
- Developing Caterpillar’s Surface Mining Headquarters with a 25-year lease agreement covering the cost of the project.
- Four story mixed-use City Park Development (multiple restaurants, games, office space, and indoor and outdoor event space).
- Refinancing 2008 bonds saving \$5.4 million in interest costs that freed up \$3.6 million from a reserve fund.

The District has also worked towards addressing the key recommendations outlined in the 2013 performance audit. While there is still one area of non-compliance noted with regard to the applicable Arizona Revised Statutes, the issue is minor compared to the findings from the previous performance audit report. The remaining compliance issue results from two vacant Rio Nuevo Board positions that have not been filled. From a financial compliance perspective, the District was very active, and expended significant funds on capital projects during the performance audit period under the District’s leadership. Based on data and projections provided by the District, it is anticipated that the District will remain solvent in the short and long term.

Not compliance related, yet important for consideration, is the District’s improved monitoring of the tax revenue collections within the District. Under a Disclosure Agreement with the Arizona Department of Revenue (“ADOR”), dated October 23, 2014, detailed information about taxpayers is now being shared with the District and utilized by District Management to identify anomalies, which are communicated with ADOR and the City of Tucson. This communication provides the basis for follow up activities with taxpayers,



performed by the two taxing authorities, and has resulted in increased tax revenues during the performance audit period.

A key component of the performance audit requires evaluation with regard to how the TCC compares to nationally competitive convention center and arena facilities in terms of design and performance. As in the 2013 performance audit, the TCC is ranked either last or second to last in key performance metrics, including hotel room night generation, number of convention events, attendees, and the number of hotel rooms located within walking distance of the TCC. While this information indicates that there has not been much improvement in the performance of the TCC compared to its competitive set, three critically important events have occurred that will improve the long term outlook for the performance of the TCC due to the efforts of the District and the City of Tucson (COT):

1. Private management was brought in to operate the TCC complex.
2. An anchor tenant was secured for the arena with the 10-year lease for the American Hockey League (AHL) Tucson Roadrunners.
3. The 136-room AC Hotel by Marriott is under construction in close proximity to the TCC.

SMG was brought in relatively soon after the 2013 performance audit, which has helped improve the data and event tracking to industry standards and is helping remedy the reputation of the TCC from the perspective of event and meeting planners. The arena improvements helped attract an AHL team affiliate of the Phoenix Coyotes as an anchor tenant to the arena. This will help increase the overall attendance and revenue profile of the TCC and provide an increase in activity in the District from the increased visitors to the arena. The relocation of the Greyhound Bus Terminal paved the way for the 136-room AC Hotel by Marriott to be developed in close proximity to TCC, the first hotel in downtown for many decades. Its proximity to the TCC and the increase in hotel room supply will help the TCC be more competitive when targeting events that require a larger hotel room block size.

These events emphasize how important the District is in improving the competitive position of the TCC, and its surrounding support environment, when its resource base is used appropriately. Additional hotel supply and improvements to the TCC are still needed. As in 2013, Johnson Consulting estimates that addressing needs at the TCC, plus incentives to adjacent hotels, will cost \$100 million or more. The District does not currently have the projected resource base to address this capital requirement. In our report, we identify examples of activities and operational structures that peer facilities, comparable to the TCC, have used to achieve desired physical and operational improvements. As shown, sales and use taxes, like those utilized by the District, are common sources for cash investments in assets like the convention center and complimentary developments in support of enhancing the design and performance of the TCC.



The success of the District over the past few years indicates that there is merit in its existence and efforts to cause improvements in the District in support of the TCC. It was concluded in the 2013 performance audit that the District does not have enough resources to address the capital needs of the TCC. This is again confirmed in this report. A comprehensive plan should be developed outlining the most critical improvements needed for a successful TCC, and the associated costs, so a long term plan of action can be developed and implemented. This approach could position the TCC to continue to serve as a catalyst for overall District success and downtown revitalization; however, it will require significant capital commitments, continued operational improvements, lengthening of the life of the District, and supplemental funding sources.

## MISSION AND PURPOSE

Johnson Consulting has been retained by the Arizona Auditor General to conduct a performance review of the Rio Nuevo Multipurpose Facilities District (the “District” or “Rio Nuevo”) under the A.R.S. §48-4231.01. The performance review is intended to evaluate the Districts’ operational and financial performance, as well as its effectiveness in carrying out its mission. To effectively complete this assignment, Johnson Consulting has utilized the services of Keegan, Linscott & Kenon, PC (“KLK”) to address certain technical aspects of the required performance audit procedures.

## DISTRICT OVERVIEW

In 1999 voters approved the creation of the District through the passage of Proposition 400. The District is a municipal tax collection district, as well as a special taxing district. The voters authorized the District to receive an incremental portion of State-shared funds derived from sales taxes collected within the Tax Increment Financing (“TIF”) District boundaries of the City of Tucson (“COT” or the “City”). TIF is a special finance mechanism utilized by the State of Arizona to fund municipal improvement projects. Use of sales tax rather than property tax provides a stronger base to fund projects in the District since a sales tax TIF district generates a greater volume of revenue. In forming the District, the Tucson Convention Center was designated as the Primary Component (the “Primary Component” or “TCC”) in the District, with the expectation that all efforts would end in a funding framework to enhance the TCC to nationally competitive levels.

The District is a State municipal district with the powers, privileges, and immunities granted to governmental, municipal corporations for District purposes. These powers enable the District to plan multi-faceted development projects, including cultural and recreational amenities and improvements, unique historic recreations, mixed-use developments, and other projects that would enhance and support the TCC, and lead to the development of hotels within the District. Due to the fact that the TCC had not been enhanced to any significant degree since the inception of the District in 1999, the Arizona State Legislature reorganized the District in November of 2009 with Arizona House Bill 1003, and a reconstituted board was re-appointed in March of 2010. Expenditure of the TIF Funds collected is now managed by the reconstituted Rio Nuevo Multipurpose Facilities District Board of Directors, who as of 2010, are appointed by the State’s Governor, President of the Senate, and Speaker of the House of Representatives. At the time of the prior performance





Administratively, the Arizona Department of Revenue (“ADOR”) tracks sales tax collected within the Rio Nuevo District and the COT compares collections each month to sales taxes collected during the corresponding “base year” months of 1999. Rio Nuevo is then allotted the lesser of the incremental increase in sales taxes for the month in comparison to the base year, or 50% of the total sales tax collected in the District for the current month. It is the responsibility of the District and the COT to ensure that businesses within the District are making the election on their sales tax forms that identifies them as belonging in the TIF district.

## RIO NUEVO PERFORMANCE HISTORY AND PRIOR AUDIT FINDINGS

As previously noted, it was originally envisioned that downtown Tucson would be the beneficiary of strategic investments to stimulate the marketplace and support new private sector development. The additional TIF revenue generated as a result of this development would then be used to fund additional improvements within the District. The District’s TIF Funds were to be strategically invested in public and public/private projects focused on developing a vibrant Tucson city center. This did not occur in the initial 10-years of the District, and the District was off mission by not focusing on improvements to the TCC as its priority. Additionally, the estimated cost of each project was significantly underestimated, which, in many cases resulted in the projects being cancelled or delayed.

Consequently, the residents of Tucson experienced little overall improvement to the area given the level of expenditure by the District during this period. Other adverse consequences included a general lack of significant growth related to incremental sales tax revenues, few needed enhancements to the Primary Component of the District, and no significant movement towards the construction of a convention center hotel to create destination interest for the area, and infuse the District with additional sales tax and tourist dollars.

With available funds severely depleted, the 2010 reconstituted District Board demonstrated the desire to remediate past problems by suspending project/capital expenditures until key issues could be resolved. Nonetheless, there was an opportunity for the reconstituted District Board to improve performance related to its financial, operational, and compliance responsibilities. In the 2010 performance audit report, Crowe Horwath offered recommendations focused on enhancing compliance with applicable regulatory provisions, as well as development of appropriate policies and financial oversight necessary for the District. Furthermore, recommendations from the 2010 and 2013 performance audit reports gave specific attention to the need for the District to develop a comprehensive strategy that addresses the use of available funds. Specific recommendations from the 2013 report included:

- Improve demand, attendance and financial reporting for the TCC.
  - Completed.
- Fast track selection of a private management company.



- Completed.
- Develop a TCC improvement plan and budget that targets specific improvements that will improve its design and performance.
  - Not complete.
- Develop a long term strategic plan for the District.
  - Partially addressed in the 2014 ULI Downtown Panel Report.
- Improve District revenue collection and monitoring.
  - Completed.

## MAJOR ACTIVITIES SINCE THE LAST PERFORMANCE AUDIT

Members of the District Board have taken the findings of the previous performance audits seriously. The District has stabilized organizationally and has fully directed its energy and resources towards the fulfillment of its mission as a redevelopment authority, which has been successful in achieving its mission and purpose. Key activities over the past three fiscal years (the performance audit period) are highlighted below:

- Capital activity and significant project and redevelopment expenditures were reinstated.
- The District has received three unmodified audit opinions for the fiscal years ending June 30, 2013, 2014 and 2015.
- Prior to the performance audit period, the District came to an agreement with the COT regarding past disputes and resolution of issues related to land ownership and other areas of contention. An update of key terms contained in the Settlement Agreement (“Agreement”), executed February 7, 2013, that were relevant to the performance audit period, is as follows:
  - **Tucson Convention Center:** The District agreed to expend not less than \$6,000,000 on the renovation of the TCC. Approximately \$8,500,000 was expended on TCC renovations during the performance audit period.
  - **Hotel:** The parties agreed that the development of a hotel, or hotels, is critical to the success of the downtown area and the Primary Component (the TCC). A public/private partnership was developed with Marriott during the performance audit period, and construction began on a new hotel and parking garage facility.



- **Streetscape Development:** The District agrees to expend not more than \$750,000 on City approved streetscape improvements within the Downtown core of the District. Approximately \$5,000 was expended on these improvements during the performance audit period.
- **Payment of Suspended Contracts:** COT received \$2.18 million in unexpended 2008 revenue bond proceeds for the payment of outstanding invoices for various 2008 bond projects, with the balance of the \$6.43 million in 2008 unexpended bond proceeds being allocated to the District for its use. The entire \$6.43 million was expended for the renovation of the Primary Component during the performance audit period.
- Management of the TCC is under control of the COT. The City hired a third party company and tasked it with management of the TCC. Under the management of the third party company, the TCC has secured an anchor tenant, shown increased revenues and tracks event statistics in accordance with industry standards.
- The District Board has committed to \$74.1 million to various projects within the District, including renovations to the TCC, the construction of the AC Marriott hotel, the construction of the new Caterpillar Surface Mining Complex, and various public/private development partnerships for multi-use retail and office spaces. These actions are indicative of a re-focused and forward-looking strategy for the District.

## SCOPE OF WORK FOR CURRENT PERFORMANCE AUDIT

In accordance with A.R.S. §48-4231.01, which includes evaluations and certain required information for the District, the analysis by Johnson Consulting and KLK included consideration of:

- Capital costs, including debt service, of the TCC and other assets of the District.
- The level of the District's indebtedness, the amount of principal, interest and other debt service expenses paid in the preceding fiscal year and the remaining term to maturity with respect to each outstanding bond issue.
- Operation and maintenance costs of the Multipurpose Facility and other assets of the District.
- The District's overall expenditures in the preceding fiscal year, including the success of those expenditures in supporting and achieving the District's purposes.
- A description of, and the amount of, municipal payments pursuant to A.R.S. § 42-5031, subsection D during the performance audit period, and the cumulative amount of those payments through the end of the preceding fiscal year.



- The public use of each component of the Multipurpose Facility.
- Revenues derived from each component of the Multipurpose Facility and other revenues of the District.
- District projects that are currently under construction and that are included in the District's plans for capital improvements and investment.

In order to execute the engagement and related analysis we performed the following tasks:

- Met with the Arizona Auditor General's office to discuss the engagement scope, communication and reporting.
- Met with District Management and personnel from the COT to discuss activities during the performance audit period, as well as statutory requirements and the terms of operative agreements in place or executed during the performance audit period (i.e., fiscal years 2014 – 2016).
- Held discussions with the District's Independent Auditor, and reviewed reports issued by the Independent Auditor that cover fiscal years 2014 and 2015 of the performance audit period.
- From the District and/or COT, we requested and obtained relevant information and documents, including, but not limited to:
  - Intergovernmental Agreement (“IGA”) and Settlement Agreement executed between the District and the COT.
  - Financial statements, records, schedules and information related to District revenues, expenditures, assets and obligations during the performance audit period.
  - District budgets and projections related to future revenues and expenditures.
  - Policies and procedures related to the District.
  - District Board meeting minutes.
- Evaluated the District's compliance with significant statutory provisions, as well as the District's and the COT's compliance with operative IGA provisions.
- Evaluated the short-term solvency of the District, including its ability to cover operating costs, service debt obligations, and fund projects related to the Primary Component.



- Evaluated the long term solvency of the District and the merits of proposed projects in relation to other national convention centers and hotel districts.
- Benchmarked TCC performance and design to determine its competitive position among national peer facilities.

This report identifies findings and recommendations regarding the construction, financing, operation and maintenance of each component of the TCC, including whether the facility exceeds, meets or fails to meet nationally recognized design and performance standards.

In addition, this report includes the schedules covering the following topics:

- The District's projects currently under construction and that are to be included in the District's plans for capital improvements and investments. These schedules include costs of completed projects and assets owned by the District, and costs-to-date and estimated costs-to-complete for projects planned and currently under construction. The schedules identify capital activity during the performance audit period and as of June 30, 2013. (See Schedule A – Tables 1 and 2)
- The level of the District's indebtedness, the amount of principal, interest and other debt service expenditures paid during the performance audit period, and remaining term to maturity with respect to each. (See Schedule B – Tables 1 and 2)
- Revenues and operating expenses generated by the District during the performance audit period. (See Schedule C – Tables 1 and 2)
- A description of the amount of municipal payments made by the COT, pursuant to ARS §42-5031, subsection D, during the performance audit period, and the cumulative amount of those payments through the end of fiscal year 2016. These municipal payments represent the matching funds required to be committed by the COT. (See Schedule D)
- Solvency forecasts for the District that includes budget projections from District Management, planned capital expenditures, debt service costs, and known and projected sources of cash. (See Schedule E – Tables 1 and 2)

**SECTION II**  
AUDIT FINDINGS

## COMPLIANCE WITH STATUTORY AND INTERGOVERNMENTAL AGREEMENT PROVISIONS

The District is responsible for meeting the requirements of applicable provisions of the Arizona Revised Statutes (“A.R.S.”) and the operative Intergovernmental Agreement (“IGA”) with the City of Tucson (“COT”). We have reviewed applicable statutory and IGA provisions and evaluated compliance related to the District and the COT. In consideration of the issues identified in the previous performance audit report, we note improvement related to compliance during the current performance audit period (i.e., fiscal years 2014 – 2016). Following is a discussion of significant statutory and agreement provisions, as well as instances of non-compliance noted.

### COT PAYMENTS

Through the operative IGA with the District, and in accordance with A.R.S. §42-5031 (D), the COT has agreed to make direct payments to the District from any lawful source, or to expend monies “for land, infrastructure or other improvements directly related to the multipurpose facility or the multipurpose facility site, in an aggregate amount equal to the amount received by the district pursuant to this section” (A.R.S. §42-5031). That is, the COT has agreed to make matching expenditures in an amount equal to the TIF revenue distributed to the District.

Per inspection of the Office of the Arizona State Treasurer website, aggregate sales tax distributions made to the District from inception through June 30, 2016 approximates \$137 million. In response to our inquiries the COT provided the payment information presented in Schedule D after the end of the performance audit period, but prior to the issuance of this report. It is the position of the COT that they have made expenditures of approximately \$304 million directly related to the multipurpose facility or the multipurpose facility site, which exceeds the match requirement as it is in excess of the aggregate sales tax revenue distributed to the District (see **Schedule D**).

### MONITORING OF TAX REVENUE COLLECTIONS

In accordance with A.R.S. §48-4203 (A) (3) the District and the COT entered into the operative IGA. Furthermore, the District has adopted Administrative Rules in operation during the performance audit period pursuant to A.R.S. §48-4203 (A) (4) and (5).

Article 4.3 of the operative IGA states that the COT “shall work with the Arizona Department of Revenue (“ADOR”) and the District to facilitate ADOR’s collection and remittance of the tax increment funds on behalf of the District, to include: monitoring of the collection of the tax by businesses located within the multipurpose facilities site; providing outreach and education within the multipurpose facilities site to promote and ensure proper collection of the tax; and otherwise assisting ADOR and the District with proper collection and accounting of the tax increment funds.”

Through the performance audit we noted that the District's Management is currently performing outreach activities aimed at ensuring businesses within the District are appropriately remitting taxes. District Management also receives monthly detailed information related to taxpayer filings directly from the ADOR, under a Disclosure Agreement, dated October 23, 2014. The detailed information is input into a database and filings are tracked by District Management in order to identify anomalies. Anomalies are communicated with the City of Tucson and ADOR and these tax authorities follow up with the taxpayers.

We also made inquiries of COT personnel regarding the City's efforts to stimulate filling out required tax forms and monitor the collection and remittance of TIF revenue. We noted the COT does perform education and monitoring activities aimed at ensuring proper collection of tax increment funds from businesses within the District. We also noted monitoring activities performed by the COT include review of detailed information provided by ADOR regarding taxes remitted by businesses within the District and identification of anomalies. In addition, COT personnel indicated they are now able to locate businesses within the District by generating a list by address, which is utilized to facilitate further communication with businesses to help ensure further compliance.

### DATABASE OF EXPENDITURES ON THE OFFICIAL DISTRICT WEBSITE

A.R.S. §48-4231.02 requires the District to maintain an official website with a database of expenditures made by the District. The statute identifies specific expenditure information and functionality that should be part of the website database. Per review of the database and discussion with District Management, the database was available on the District's official website beginning in October 2013 and following, which constituted the majority of the performance audit period. It was noted that the database was fully functional and contained all of the information and functionality elements required by the applicable statute.

### REQUIRED ANNUAL BUDGETS

Each fiscal year the District is required to submit an annual budget to the Clerk of the County Board of Supervisors. The provisions of A.R.S. §48-4232 identify specific elements and information to be included in annual budgets. Per review of the District's budgets prepared and submitted during the performance audit period it was noted the budgets included all elements and information required by the statute and all were submitted to the Clerk of the County Board of Supervisors in a timely manner.

### BOARD OF DIRECTORS MEMBERSHIP

A.R.S. §48-4202 establishes the composition of the Board of Directors for the District, and notes that the Board shall consist of nine (9) members based upon appointments to be made by the Governor, the President of the Senate, and the Speaker of the House of Representatives. There are currently only seven (7) members of the District Board. Both remaining appointments are the responsibility of the Governor.

## COMPLIANCE WITH FINANCIAL PROVISIONS

As specified in A.R.S. §48-4204 (B) there are specific purposes for which taxes and charges raised by the District can be used.

*From the taxes and charges levied or identified pursuant to section 48-4237 for use with respect to multipurpose facilities and from other monies lawfully available to the District, the District may acquire land and construct, finance, furnish, maintain, improve, operate, market and promote the use of multipurpose facilities and other structures, utilities, roads, parking areas or buildings necessary for full use of the multipurpose facilities and do all things necessary or convenient to accomplish those purposes. Public funds identified in section 48-4237, including funds distributed pursuant to section 42-5031, may only be used for the components for a multipurpose facility which are owned by the District or which are publicly owned, except that monies paid to the District pursuant to Section 42-5031 may only be used for the following purposes until a notice to proceed is issued for a hotel and convention center located on the multipurpose facility site:*

- 1. Debt service for bonds issued by the District before January 1, 2009.*
- 2. Contractual obligations incurred by District before June 1, 2009.*
- 3. Fiduciary, reasonable legal and administrative expenses of the District.*
- 4. The design and construction of the hotel and convention center located on the multipurpose facility site.*

From the District's inception through 2009, many of the expenditures made by the District were for purposes and/or projects other than those statutorily required or intended. Specifically, many of the expenditures made during this time period failed to provide new or additional tax revenues, nor were they incurred in relation to the Primary Component (i.e., the TCC).

Per discussion with District Management and review of historical documentation it was noted that remediation of this compliance deficiency was a significant focus of the reconstituted District Board, and many related recommendations were put forth in the previous performance audits. Our examination of the following performance sections was based on the statutory requirements discussed above, and was influenced by our knowledge of the District's past performance.

## CAPITAL EXPENDITURES

As a result of the District's completion of restructuring activities and settlements of the legal disputes with the City and State, the Rio Nuevo Board of Directors significantly increased capital expenditure and construction activity during the performance audit period. This policy is reflected in **Schedule A - Table 1** which shows capital expenditures of \$3,016,723 in 2014, capital expenditures of \$4,769,435 and capitalization of assets placed in service of \$7,630,429 in 2015, and capital expenditures of \$1,595,709 and capitalization of assets placed in service of \$201,814 in 2016. Expenditures were evaluated for proper initiation, approval, disbursement, and recording in accordance with applicable statutory and internal policy provisions.

In reviewing capital expenditures, it was noted that of the approximately \$8,700,000 of total expenditures, all but approximately \$290,000 were expended in support of the Primary Component. The \$290,000 not expended in support of the Primary Component were expended on other projects within the District, including the hotel project and the relocation of the public bus station, which provides benefit to the District. All capital expenditures during the performance audit period appeared reasonable and in accordance with statutory provisions. See further discussion of planned capital expenditures in *Expenditures in Support of the District's Purpose* to follow.

## DEBT SERVICE EXPENDITURES

Throughout the life of the District a series of debt instruments have been issued/entered into to fund asset acquisition, design studies, infrastructure improvements, and the repayment of loans, with the expectation that these investments would generate future TIF revenues. During the performance audit period three unique debt obligations were in existence, one of which was refunded (the Revenue Bonds, Series 2008) and two that remain outstanding as of June 30, 2016.

Through procedures performed it was noted that TIF revenues due to the District are deposited directly into Wells Fargo or Zion Bank accounts by ADOR, and the required debt service payments are automatically made to the appropriate party. Any remaining TIF revenue is then provided to the District for use in carrying out its mission. Per inquiry of Management and observation of the debt service process, it appears that District Management plays an active role in monitoring the debt service payments and the activity within the Wells Fargo and Zion Bank accounts. The debt balances at June 30, 2016 appeared to be accurate, current, and payments of principal and interest were made in a timely manner during the performance audit period. See **Schedule B – Table 1** for debt service payments made during the performance audit period, and **Schedule B – Table 2** for debt service payments through 2025.

With regard to the debt obligations satisfied during the performance audit period, the final principal and interest payments on 2008 series of Revenue Bonds were made in fiscal year 2016 as the entire issuance of these bonds was refunded in order to take advantage of lower interest rates. The refunding resulted in savings by the District on future interest payments and a release of funds from the required reserve, which will be utilized to fund various projects in the District.

## UNEXPENDED SERIES 2008 BOND PROCEEDS

Per section thirteen (13) of the executed Settlement Agreement, during the previous performance audit period, there remained approximately \$6.429 million of unexpended 2008 Revenue bond proceeds ("Unexpended Proceeds"). From the Unexpended Proceeds, COT received \$2.180 million as reimbursement for COT's payments previously made to satisfy outstanding invoices for those contracts relating to various 2008 bond projects (to include Depot Garage; Cushing St. Bridge; Origins Infrastructure). Consistent with the 2008 Revenue bond provisions, COT made the balance of the Unexpended Proceeds available to the

District for its use. Per discussions with District Management and procedures performed over capital expenditures, the approximate \$4.250 million of Unexpended Proceeds was used toward the renovation of the TCC. As the TCC is the “Primary Component” per A.R.S. §42-5031, expenditures on the renovation of the TCC are considered to be an effective and beneficial use of the Unexpended Proceeds.

## EXPENDITURES IN SUPPORT OF THE DISTRICT’S PURPOSE

In consideration of whether the District’s expenditures for the period successfully supported and achieved the District’s purposes, we note that legal and administrative expenses of the District appear reasonable in light of activities and circumstances (see **Schedule C – Table 1**). We also note that significant project expenditures were made during the period (see **Schedule A**) and these capital expenditures appeared reasonable and in accordance with statutory provisions.

Pursuant to the Settlement Agreement, the District has committed to fund certain projects, which include Mission Gardens, Downtown Streetscapes, and other smaller improvement projects. The District has also committed to fund other projects through public/private development partnerships, which include the AC Marriott Hotel, the Caterpillar Surface Mining Complex, Gadsden, and the City Park projects (see Project Expenditures in **Schedule E**). The District has identified these planned expenditures in its most recent budget for fiscal year 2016-2017. Due to the fact that these expenditures were planned, but did not occur during the performance audit period, we have not assessed the expenditures in relation to the provisions of A.R.S. §48-4204 (B).

## DISTRICT SOLVENCY

A core issue impacting the District’s development of the TCC and its potential as a catalyst for growth in the downtown area, is the District’s solvency and availability of residual cash flow for significant capital expenditures. Solvency of the District was considered in two different tiers:

- District’s ability to pay operating and debt service obligations as they come due.
- After paying operating and debt service obligations, the District’s ability to fund new capital projects or provide funds to spur commercial development in accordance with statutory provisions.

From the District’s inception through 2009 over 50 percent of the District’s revenues had been generated through debt and bond issuances. During the performance audit period (fiscal years 2014 -2016) no additional debt was issued, however the 2008 revenue bonds were refunded in order to take advantage of lower interest rates. Throughout the performance audit period annual TIF revenues have approximated \$10.2 million, and have consistently grown each year resulting in TIF revenues of approximately \$11.8 million in 2016. As such District Management conservatively anticipates FY 2017 TIF revenues of \$12 million, with the expectation for future growth based upon increased development in the District and greater efforts in the monitoring and collection of TIF revenue.

While the District is currently reliant primarily on TIF revenues, the substantial amount of outstanding debt remains a major financial obligation of the District. Principal and interest payments on debt are approximately \$9.2 million per year from 2017 – 2024, with a payment of \$14.1 million due in 2025 (see Debt Service Schedule at **Schedule B – Table 2**). Additionally, to maintain operations the District expended an average of \$1,072,000 per year during the performance audit period; a significant portion of which was for legal and accounting services in connection with the bond refunding and related proceedings (see Operating Expenditures at **Schedule C – Table 1**). District Management anticipates a decreased but consistent level of operating expenditures throughout the life of the District.

To determine the District's solvency, we compiled and evaluated (i) a three-year solvency schedule for the District that reflects Management's estimated revenues and expenses (see **Schedule E – Table 1**), and (ii) a long-term solvency projection based on actual debt service requirements, historical revenues and expenses, and other items budgeted/projected by District Management (see **Schedule E – Table 2**).

**Note:** Excluded from the three-year solvency projection is the amount of restricted cash that is the property of the District but that is currently held in accounts by Zions Bank, the Fiscal Agent. These restricted funds are reserved for debt service requirements in the event of default. The District's restricted cash balances approximate \$6 million at June 30, 2016. It can be expected that these funds will be automatically applied to final debt service payments, or will be released from restrictions and returned to the District upon the full payment of the associated debt (both of which would be expected to occur in close proximity to June 30, 2025).

### THREE-YEAR SOLVENCY

Based upon our analysis and managements projections (see **Schedule E – Table 1**), the District appears to have the necessary funds to pay obligations including administrative costs, debt service expenses, and planned capital expense commitments through FY 2019. The District plans to finance the AC Marriott parking garage and the construction of the Greyhound depot in the amount of \$7 million. The debt service payments are intended to be paid with the AC Marriott parking garage rental income and the Greyhound depot rental income. As illustrated in **Schedule E – Table 1**, it is estimated that as of June 30, 2019 the District will have accumulated unrestricted cash on hand of approximately \$17.2 million, and total cash (restricted and unrestricted) of approximately \$23.2 million. It appears as though this accumulated unrestricted cash would also be sufficient to cover unexpected decreases in revenue or increased capital outlays during the three-year period ending June 30, 2019.

### LONG-TERM SOLVENCY

To gauge the District's long-term solvency and ability to fund currently unbudgeted capital projects or provide funds to spur commercial development in accordance with statutory provisions, we compiled and assessed a schedule of expected cash flows from FY 2017-2025 (see **Schedule E – Table 2**). This projection

was based on management’s estimates, actual debt service requirements, historical revenues and expenses, and other items budgeted/projected by District Management.

Per evaluation of the long-term solvency projection, it appears that the revenues expected to be collected throughout the remaining life of the District are sufficient to support the operations of the District, and fund all required debt service obligations and capital projects that are currently budgeted. As illustrated in **Schedule E – Table 2**, it is estimated that as of June 30, 2025 the District will have accumulated unrestricted cash on hand of approximately \$45.4 million.

The District has budgeted the construction of the Caterpillar Surface Mining Complex for 2020. Currently, the District plans to finance the construction of the Caterpillar Complex in the amount of \$50 million as the District’s financial position in 2020 would not be sufficient to maintain solvency and cover the cost of construction. The debt service payments are intended to be paid with the Caterpillar rental income.

Additionally, when considering the District’s ability to undertake currently unbudgeted projects that would substantially improve the design quality and performance of the TCC (i.e., the full renovation of the TCC and additional hotel development); it does not appear as though the District’s financial position would be sufficient to maintain solvency and cover the costs of construction. See additional discussion in Section 3 - *Benchmark Analysis* to follow.

## RECOMENDATIONS

Based on procedures performed related to compliance with statutory, intergovernmental, and financial provisions, the consulting team has developed the following recommendations:

- **District Budget Information:** While the District is in compliance with the statutory requirements of A.R.S. §48-4232 in relation to annual budgets, we recommend the District develop budget projections that extended beyond the upcoming fiscal year. Management should consider developing five-year budget projects; however, at a minimum should consider developing three year budget projections. This will help in developing and achieving long-term strategic goals.
- **Formalization of Capital Planning:** In achieving the long-term strategic goals of the District and evaluating the success of the projects previously implemented its critical that the District Board and Management revisit their capital planning process and formalize key components. A comprehensive capital improvement plan may consider the following:
  - Policies and procedures for the evaluation, planning, funding, approval, and execution of capital projects. This should include development of policies and procedures for potential projects that are three to five years out that are not currently being evaluated/considered.



- Financial evaluation tools such as long and short term cost budgets and revenue projections, return on investment calculations, and analysis of financing options (e.g., internally funded, private/public partnership, bond issuance, etc.).
- Reporting and monitoring practices that will make data available related to the impact and performance of projects (i.e., costs, revenues, attendance, increase in property value, etc.).

**SECTION III**  
BENCHMARKING & COMPARABLE ANALYSIS

## BENCHMARKING AND COMPARABLE ANALYSIS

One of the requirements of the performance audit is to evaluate the competitive position of the TCC among peer and national facilities. The specific requirements of A.R.S. §48-4231.01 state that the TCC facility needs to be evaluated to determine if it exceeds, meets or fails to meet nationally recognized design and performance standards. For the purpose of this analysis Johnson Consulting defines “design” as the overall quality of convention facilities and support environment in relation to the TCC’s competitive set. “Performance” is defined by the quality of management, the level of demand, revenue and expenses profile, and hotel room night generation caused by the facility. The following benchmarking analysis updates the comparison of specific organizational and operational factors of the TCC with a set of five peer facilities conducted in 2013 by Johnson Consulting. The peer set comprises a mix of publically and privately managed facilities that exhibit either similar geographic, economic, and/or physical attributes to the TCC. All facilities within the peer set are consistent with the facilities analyzed in the 2013 performance audit and are all publically owned at the City or County government level. Competitive set facilities include:

- Albuquerque, NM Convention Center (ACC)
  - This facility was selected due to its role as a primary competitor of the TCC, recent upgrades to the facility, and its operating structure.
- Palm Springs, CA Convention Center (PSCC)
  - Palm Springs was chosen because it is a competitor for convention and tradeshow events, as well as the quality of its facilities, adjacent headquarters hotel and the overall quality of the destination.
- Spokane, WA Convention Center within Spokane Public Facilities District (SPFD)
  - Spokane is a best in class facility for the TCC to emulate given its program of spaces, ability to execute appropriate expansion and upgrades, and the public/private partnership to develop a large headquarters hotel. The oversight and management structure of the Spokane Public Facilities District is also a primary reason why this facility was chosen for analysis.
- Fort Worth, TX Convention Center (FWCC)
  - While larger than the TCC, this convention center has effectively upgraded a facility of the same generation as the TCC, and is well run by the City of Fort Worth. There are also plans for an expansion and a headquarters hotel, if feasible.
- Phoenix, AZ Convention Center (PCC)
  - The Phoenix Convention Center was included due to its presence in the same regional market as the TCC.



While the information in the below table indicates that there has not been much improvement in the performance of the TCC since the 2013 performance audit, three critically important events have occurred that will improve the long-term outlook for the performance of the TCC:

1. Private management was brought in to operate the TCC complex.
2. An anchor tenant was secured for the arena with the 10-year lease for the American Hockey League Tucson Roadrunners.
3. The 136-room AC Hotel by Marriott is under construction in close proximity to the TCC.

SMG was brought in soon after the 2013 performance audit, which has improved the revenue profile of the facility, increased the data and event tracking up to industry standards, and helped remedy the reputation of the TCC from the perspective of event and meeting planners. The arena improvements helped attract an AHL team affiliate of the Phoenix Coyotes as an anchor tenant to the arena. This will help increase the overall attendance and revenue profile of the TCC and provide an increase in activity in the District from the increased visitors. The relocation of the Greyhound Bus Terminal paved the way for the 136-room AC Hotel by Marriott to be developed in close proximity to TCC, the first hotel in downtown for many decades. This increase in hotel room supply will help the TCC be more competitive when targeting events that require a significant room block size.

The attendance, demand and financial data presented in the table are from most recent year of available data for all of the facilities. A summary of key attributes of the facilities is provided in Table 3-1. Key facility space attributes include a Convention Center (CC), Arena, and/or a Performing Arts Center (PAC).



Table 3-1

Key Characteristics of Comparable Facilities and Markets						
	Tucson Convention Center	Palm Springs Convention Center	Spokane Convention Center	Albuquerque Convention Center	Fort Worth Convention Center	Phoenix Convention Center
<b>Location</b>						
Location	Tucson, Arizona	Palm Springs, California	Spokane, Washington	Albuquerque, New Mexico	Ft. Worth, Texas	Phoenix, Arizona
Metropolitan Area	Tucson, AZ Metro	Riverside-San Bernardino-Ontario, CA Metro	Spokane, WA Metro	Albuquerque, NM Metro	Dallas-Fort Worth-Arlington, TX Metro	Phoenix - Mesa - Glendale, AZ Metro
<b>Demographic Characteristics (2015)</b>						
Metropolitan Area Population	1,010,025	4,489,159	547,824	907,301	7,102,796	4,574,531
Median Household Income	\$46,092	\$49,440	\$51,093	\$49,651	\$53,490	\$54,993
<b>Primary Facility</b>						
Key Facility Components	Convention Center, Performing Arts Center, Arena	Convention Center	Convention Center, Arena, Performing Arts Center	Convention Center, Auditorium	Convention Center, Arena	Convention Center
<b>Function Space (SF)</b>						
Exhibit Space	113,940	92,545	120,000	166,546	253,226*	584,500
Ballroom(s)	20,164	20,016	50,564	31,164	27,904	118,800
Meeting Room(s)	10,640	15,789	29,800	47,478	56,486	162,655
Other	Arena: 29,520 SF	na	PAC: 96,342 SF	na	na	na
<b>Total Facility Space (SF)</b>	<b>174,264</b>	<b>128,350</b>	<b>296,706</b>	<b>245,188</b>	<b>337,616</b>	<b>865,955</b>
Recent/ Planned Developments	\$3.69 Million Phase II Renovations; 136 room AC Hotel Arena, Convention Center, Performing Arts Center	\$32 million expansion in 2005	HQ Hotel & Recent Expansion	\$23.5 million upgrade/ Auditorium	Evaluating Expansion; Arena, Exhibition and Ballroom	\$600 Million Expansion Complete in 2008
Facilities	Convention Center, Performing Arts Center	Convention Center Only	Arena, Convention Center, Performing Arts Center	Convention Center Only	Arena and Convention Center	Convention Center Only
<b>Events and Attendance</b>						
	<b>FYE 2016</b>	<b>FYE 2015</b>	<b>FYE 2015</b>	<b>FYE 2015</b>	<b>FYE 2015</b>	<b>FYE 2015</b>
# of Convention Events (per annum)	192	91	706	301	62	-
Total Convention Attendance (per annum)	216,217	100,722	400,359	256,567	354,952	-
# of Arena Events (per annum)	89	-	575	-	-	-
Total Arena Attendance (per annum)	168,644	-	699,212	-	-	-
Facility Room Night Generation	36,174	65,994	59,121	-	94,462	-
<b>Revenue and Expenses</b>						
Net Income (Loss) (\$'000s)** - Most Recent Year	(\$2,273)	(\$1,441)	\$1,984	(\$1,390)	(\$1,816)	(\$2,858)
<b>Locational Attributes</b>						
# Hotel Rooms Citywide	15,800	14,755	7,892	17,616	32,145	64,632
# Hotels in Walking Distance	0	8	17	7	10	10
# Hotel Rooms within Walking Distance	0	1,627	3,304	1,378	3,007	3,139
# Hotel Rooms Directly Adjacent to Facility	0	410	1,096	0	1,001	693
Air Service	Tucson International Airport (TUS)	Palm Springs International Airport	Spokane International Airport (GEG)	Albuquerque International Sunport (ABQ)	Dallas/Fort Worth International Airport (DFW); Dallas Love Field (DAL)	Phoenix Sky Harbor International Airport (PHX); Phoenix-Mesa Gateway (IWA)
Annual Passengers (2015)***	1,549,114	947,713	1,515,349	2,323,850	DFW: 31,589,832 DAL: 7,040,921	PHX: 21,351,445 IWA: 666,168
Convention and Visitor Bureau Budget	\$7.3 million	\$14.8 million	\$4.7 million	\$6.45 million	\$9.9 million	\$10 million

\*Includes the Exhibit Hall Annex and the Arena floor.

\*\*Please see corresponding facility profiles on Page 24 through Page 57 for detailed revenue and expense information. The figure for Phoenix CC excludes depreciation.

\*\*\*Calendar Year 2015 is most recent available data (published in June 2016). Source: US Department of Transportation, Federal Aviation Administration.

(-) Indicates data was either unavailable or not provided

Source: Relevant Facilities, Smith Travel Research, Environmental Systems Research Institute



Since the 2013 report, Tucson has seen its population in the metropolitan area increase by just under 10,000 people. Population increases were also experienced in Palm Springs, CA, Spokane, WA, Ft. Worth, TX, and Phoenix, AZ, with only Albuquerque experiencing population decline. Tucson ranks 4<sup>th</sup> in population out of the competitive set and last in terms of median household income. From a facility perspective, Tucson is the second smallest convention center from a total space perspective and has invested the least amount of money in upgrades or expansion. However, the improvements that have been made to the arena component of the TCC have already proved their value by helping to attract an AHL franchise as an anchor tenant to the building. Looking to the future, a masterplan should be developed for the TCC complex as a whole so that cost and benefits of expansion and upgrade options can be evaluated relative to each other so that priorities and budgets can be set and implemented over a set period of time.

In 2016, the TCC complex had total attendance of 476,573, including performing arts attendees. Compared to the prior report, using 2012 event statistics, the number of convention events declined from 242 events to 192 events in 2016. Despite the decline in the number of events, overall convention attendance increased from 172,908 in 2012 to 216,217, an increase of 43,409 attendees. This is a positive development indicating increased efficiency and attractiveness of events held at TCC.

Regarding the Arena, in 2012 the arena held 320 unique events with 282,655 attendees while in 2016, 89 events were held with attendance of 168,644 people. The 2016 information includes data from concerts, family shows and sporting events. For the 2012 data, it is our opinion that the large number of events is attributable to how events were counted compared to how they are counted under current management. For example, in 2012, 208 of the 320 arena events are listed as sporting events, compared to 65 in 2016. The decline in arena attendance is also largely attributable to these same factors and to the transition and ramp up of SMG which has been there for only a few years. To provide further emphasis on this point, 2013 arena event demand provided by COT was 159,817 compared to the 282,655 reported in 2012 and 346,617 reported in 2011.

In terms of demand and attendance relative to the peer set, TCC is still in the lower quartile of performers but with improved prospects for both the convention center and arena. Net operating income support needed for the facility is the second highest of the peer set, after Phoenix Convention Center.

In terms of hotels supply directly adjacent to convention facilities, Spokane's supply increased significantly from 375 rooms to 1,096 rooms. Tucson is still lacking a much needed headquarters hotel. A positive development is the 126-room AC Hotel that will be located at East Broadway Boulevard and South 5<sup>th</sup> Avenue, a half mile from the TCC. More proximate hotel supply is still needed to attract larger, higher impact events. For example, assuming the AC Hotel can contribute up to 80 percent of its room supply to a TCC event, 100 new rooms have been added to the potential room block supply. There will be stiff competition for rooms at the new hotel and its management may decide to commit a significantly smaller share of its rooms. With the addition of the AC Hotel, Tucson will have 6 fewer hotels within walking distance from the



next closest benchmark destination. Tucson is competitive in terms of total citywide hotel rooms with the two most comparable destinations, Palm Springs and Albuquerque, but is last in number of hotels and hotel rooms in walking distance. Hopefully the successful development of the AC Hotel will prove the strength of the downtown market and spur additional downtown hotels.

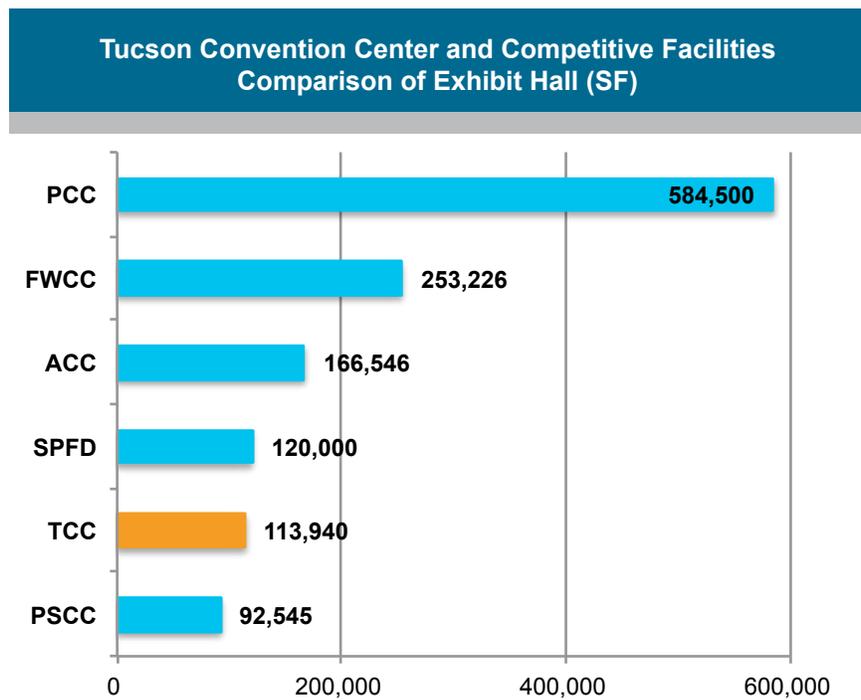
Facility quality and room block supply are the two biggest challenges facing the competitive position of the TCC.

## FACILITY COMPARISON

### EXHIBIT SPACE

The Tucson Convention Center ranks fifth among the competitive set. Ft. Worth serves as an aspirational size for the TCC over its future, while the Albuquerque and Spokane facilities are truly comparable with Albuquerque being one of the strongest competitors for the TCC.

Figure 3-1



Source: Respective Facilities, Johnson Consulting

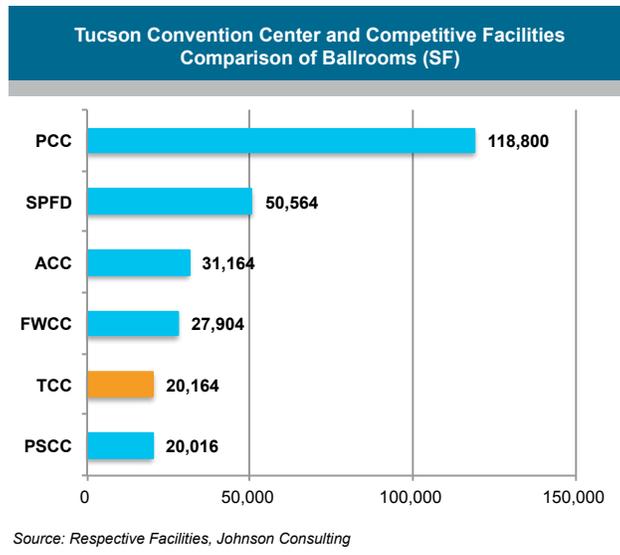
### BALLROOM AND MEETING SPACE

The Tucson Convention Center ranks fifth with respect to ballroom space (20,164 square feet), after the Phoenix Convention Center, Spokane Convention Center, Albuquerque Convention Center, and Fort Worth

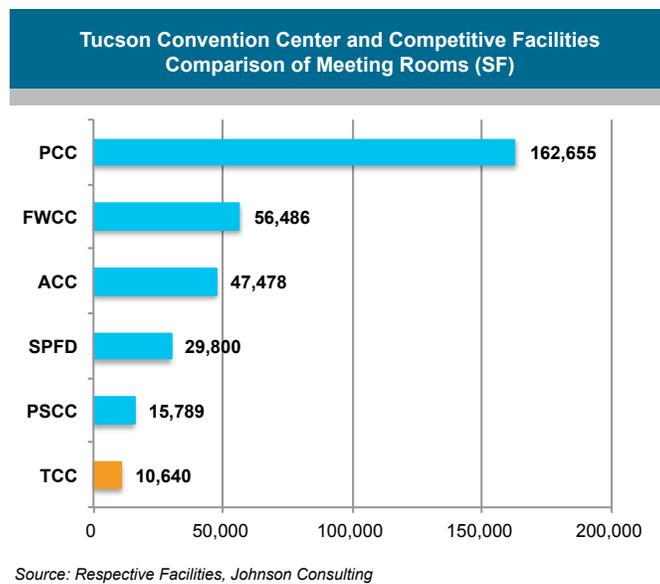


Convention Center. Meeting room space at the TCC ranks last at 10,640 square feet, which is significantly undersized from a facility space ratio perspective. A well balanced facility would see the total of ballroom space and meeting room space matching the size of the exhibit hall. Figure 3-2 and 3-3 show Ballroom and Meeting space comparison among competitive sets.

**Figure 3-2**



**Figure 3-3**



The following subsections provide detailed description of Tucson Convention Center and its benchmark facilities.

### TUCSON CONVENTION CENTER COMPLEX TUCSON, ARIZONA

**LOCATION:** Located in the downtown core of Tucson, the TCC was built in 1971 and includes the convention center, the 8,962-seat Arena, the 2,289-seat Music Hall, and the 511-seat Leo Rich Theater.

**OWNERSHIP/ MANAGEMENT:** The TCC is owned by the District and is leased by the COT and operated by SMG.

**VISION/ MISSION:** The overall mission for the TCC is to be an economic driver for the community. No codified vision/mission statement was available from the COT at the time of this report regarding the facility. The mission of the District is “to facilitate and participate in the development of a vibrant downtown Tucson.”



**FACILITIES:** The Arena, Convention Center, and Performing Arts Center are summarized as follows:

- **Arena:** An 8,962-seat multi-purpose arena, with a 29,520 square foot arena floor. Recent \$7.3 million renovation. The Arena is home to the Arizona Wildcats ice hockey program and the AHL Tucson Road Runners.
- **Leo Rich Theater:** An intimate 511-seat theater venue.
- **Tucson Convention Center:** The following table provides a breakdown of exhibit and meeting space at the venue.

Table 3-2

<b>Tucson Convention Center Summary of Exhibit and Meeting Space</b>					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Exhibit Halls</b>					
Halls A-C		89,760	6,000	1,500	2,100
Hall A	29,920	-	2,000	500	700
Hall B	29,920	-	2,000	500	700
Hall C	29,920	-	2,000	500	700
North Exhibit Hall*	24,180	24,180	1,600	1,000	1,000
<b>Subtotal Exhibit Hall SF</b>		<b>113,940</b>			
<b>Ballroom</b>					
Grand Ballroom**	-	20,164	1,600	900	1,200
Turquoise Ballroom	5,041	-	400	200	250
Crystal Ballroom	5,041	-	400	200	250
Copper Ballroom	10,082	-	800	500	500
<b>Subtotal Ballroom SF</b>		<b>20,164</b>			
<b>Meeting Rooms</b>					
Number of Rooms	8	2	-	-	-
Smallest Room	700	-	50	30	40
Largest Room	-	7,000	700	360	400
<b>Subtotal Meeting Room SF</b>		<b>10,640</b>			
<b>Other</b>					
Tucson Arena (Floor Area)	-	29,520	8,962	-	-
Tucson Music Hall	-	-	2,289	-	-
Leo Rich Theater	-	-	511	-	-
<b>Subtotal Other SF</b>		<b>-</b>			
<b>Total</b>		<b>174,264</b>			

\*North Exhibit Hall is not contiguous with Halls A-C.

\*\*Grand Ballroom is divisible into Turquoise, Crystal, and Copper Ballrooms.

Source: TCC, Johnson Consulting

The arena improvements have helped improve the image and perception of the TCC complex, and to secure an anchor tenant, however, the convention center and ballroom facilities are still in need of improvement to remain competitive with other buildings of this size and communities with a similar profile. Additional meeting room space is needed from a programmatic perspective.

The following figure provides an overview of facilities at the Convention Center Campus.

Figure 3-4



It is also important to note that there are two additional public venue facilities in the District, the Fox Theater and Rialto Theater. Both of these facilities are entertainment venues.

**DEMAND SCHEDULE:** Table 3-3 summarizes the TCC event demand and attendance between FYE 2013 and FYE 2015. In FYE 2014 for the TCC complex as a whole there was a decrease in overall events by 4.4 percent over the prior year, primarily due to the renovation progress that took place during the year. The number of event increased by 7 percent and 21 percent on the following two years. The significant room night generating events at the facility were Jehovah’s Witness meetings.

Table 3-3

Tucson Convention Center Historical Event Demand and Attendance								
	FYE 2013		FYE 2014		FYE 2015		FYE 2016	
	# of Events	Attendance						
Assemblies	42	65,505	30	72,031	37	86,250	48	103,709
Banquets	11	8,010	19	9,750	22	10,649	36	16,470
Consumer/ Public Shows	5	4,234	5	8,159	16	19,854	22	60,817
Concerts	7	17,404	5	4,664	16	16,825	19	41,031
Conventions	5	25,039	9	56,500	7	20,800	4	2,100
Family Shows	7	77,353	6	54,477	4	70,442	5	58,401
Meetings	44	18,875	46	13,420	45	8,515	50	10,417
Sporting Events	64	65,060	55	77,442	55	53,203	65	69,212
Trade Shows	12	60,167	14	57,658	10	50,635	10	11,800
Performing Arts	51	163,705	50	79,624	55	90,929	53	91,712
Other	22	24,928	19	20,218	9	14,385	22	10,904
<b>TOTAL</b>	<b>270</b>	<b>530,280</b>	<b>258</b>	<b>453,943</b>	<b>276</b>	<b>442,487</b>	<b>334</b>	<b>476,573</b>
% Increase (Decrease) over Prior Year			(4.4%)	(14.4%)	7.0%	(2.5%)	21.0%	7.7%

Source: Tucson Convention Center, Johnson Consulting

**LOST BUSINESS – YEARLY:** The Tucson Convention Center provided records of lost business from leads and/or event bookings intended for FYE 2013 through FYE 2015 that did not materialize. The records include information of event name and type, start date, end date, and estimated number of attendees. This information is important to track so that year over year the building will know what type of events it is turning away. What is not currently tracked is the reason why the event was lost. It is typical in the convention industry to track lost business by reason. Typical lost business reason categories include date availability, insufficient room block, cost, size, air lift, support environment, etc. It is recommended that in the future lost reasons should be tracked. Table 3-4 below summarizes the number of events lost, along with the associated event-days lost and attendance lost compiled from the data.

Table 3-4

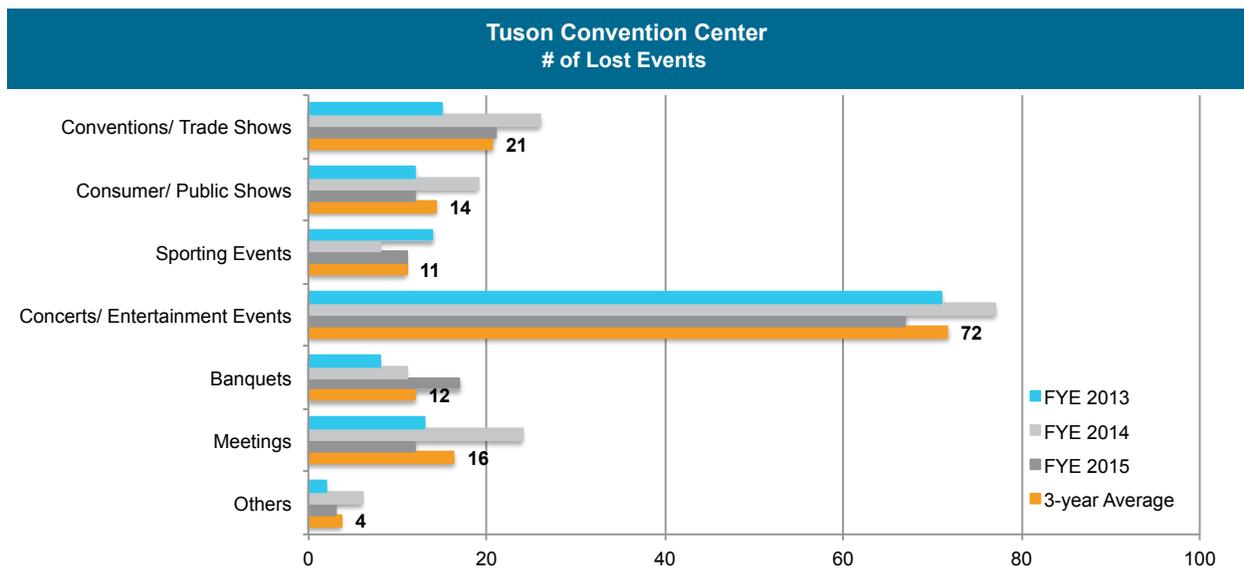
Tucson Convention Center Lost Business					
	FYE 2013	FYE 2014	FYE 2015	3-Year Average	CAGR*
Lost Events	135	171	143	150	2.9%
Lost Event-Days	471	378	428	426	(4.7%)
Lost Attendance	296,019	286,839	384,093	322,317	13.9%

\*CAGR = Compounded Annual Growth Rate, from FYE 2013 thru FYE 2015.  
Source: Tucson Convention Center, Johnson Consulting



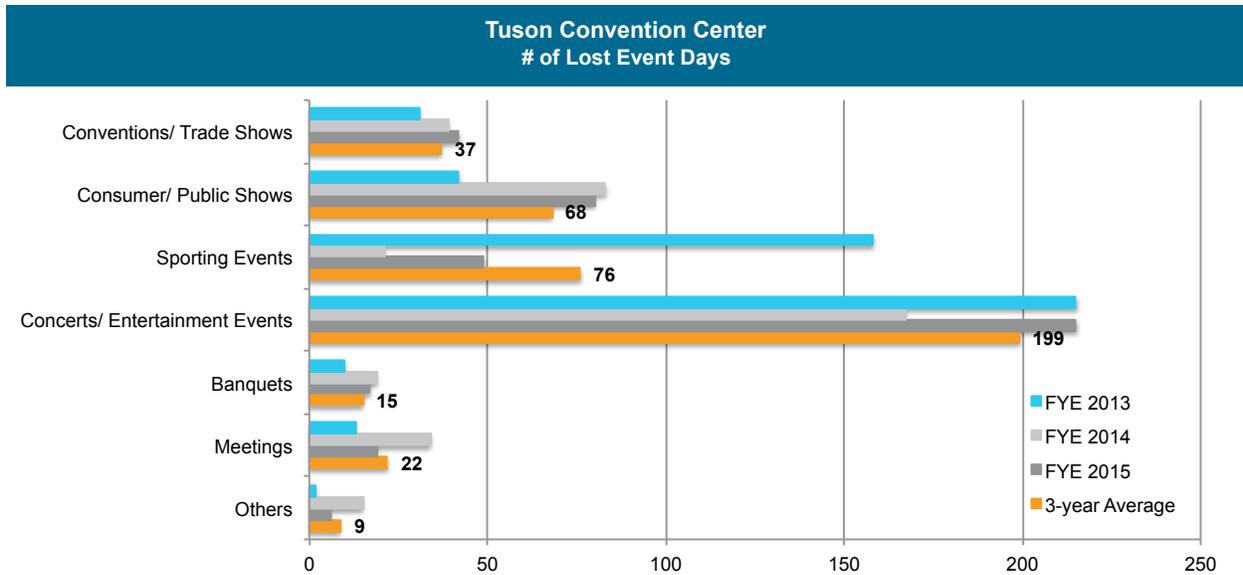
From FYE 2013 through FYE 2015, TCC lost an average of 150 events, 426 event-days, and 322,317 attendees, which is not uncommon in the convention industry given the high level of competition. Overall lost events increased from 135 events in FYE 2013 to 171 events in FYE 2014, before SMG took over the management of the TCC on October 1<sup>st</sup> 2014. Figure 3-5 to 3-7 summarize the TCC lost events, event days and attendance from FYE 2013 through FYE 2015 and three-year average, by type of events.

**Figure 3-5**



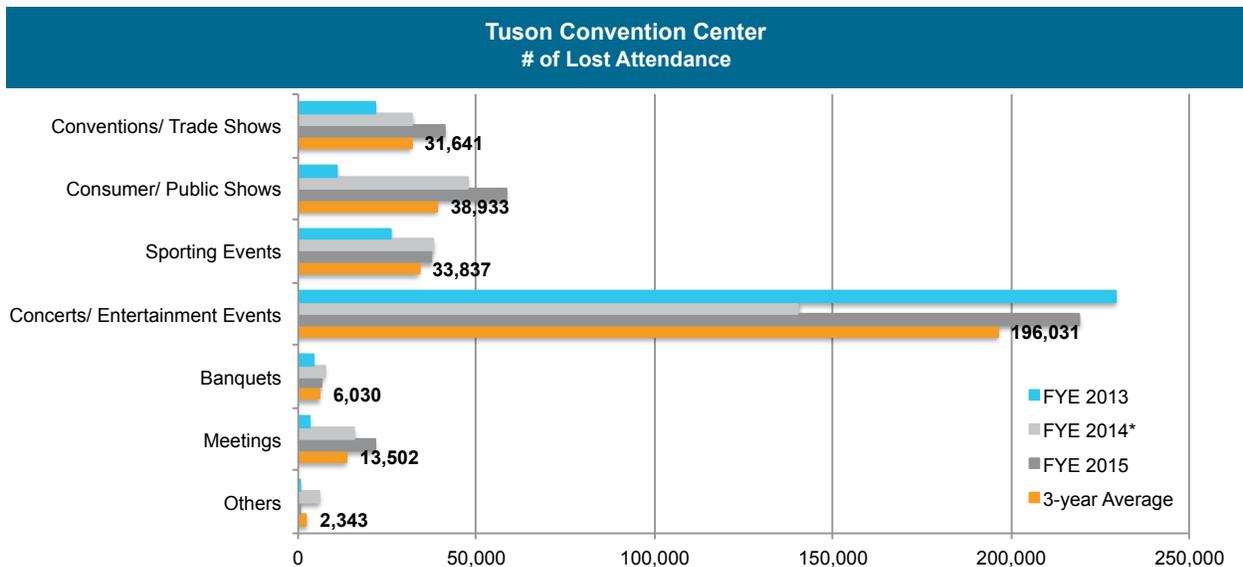
Source: Tucson Convention Center, Johnson Consulting

Figure 3-6



Source: Tucson Convention Center, Johnson Consulting

Figure 3-7



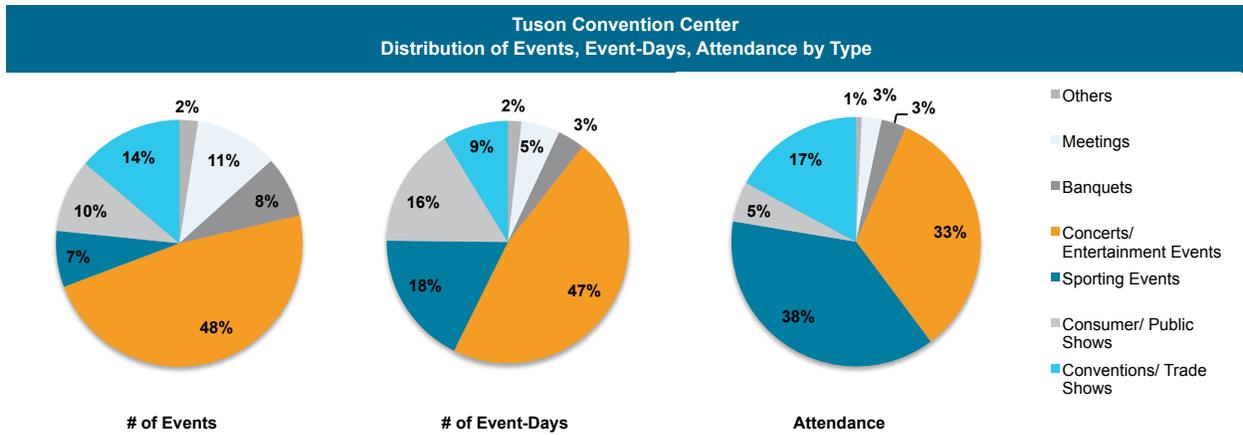
\*Lost attendance data for nine events in FYE 2014 is not available.

Source: Tucson Convention Center, Johnson Consulting

**LOST BUSINESS – THREE YEARS COMBINED:** Based on the same lost business data from SMG, Figure 3-8 to 3-10 provide total percentages of lost events, event days and attendance at the TCC from FYE 2013 through FYE 2015. Between FYE 2013 and FYE 2015, the TCC lost the most events from the

Concerts/Entertainment events category, representing a loss of 127 events, or 271 event days, on average annually. Lost sporting events resulted in the most attendance lost at 38 percent during these defined years (689,605 attendees).

**Figure 3-8**



Source: Tucson Convention Center, Johnson Consulting

**REVENUE AND EXPENSES:** Table 3-5 summarizes the facility’s financial statement as reported by COT for FYE 2011 through FYE 2016, of which FYE 2011-2015 have been audited.

Table 3-5

Tucson Convention Center Revenue and Expense Statements (\$000)						
	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
<b>Operating Revenues</b>						
Facilities Rental	\$1,214	\$1,429	\$1,258	\$1,090	\$1,172	\$1,282
Other Rentals/Leases	49	61	65	69	73	46
Box Office	136	123	126	187	7	0
Ticketmaster	145	116	144	33	72	190
Catering/Concessions	363	345	274	218	1,298	1,820
Novelty Sales	22	38	28	4	14	39
Miscellaneous	64	59	235	108	869	1,290
Commission	145	130	111	135	54	5
Facility User Fees	233	161	151	167	434	397
Arena User Fees	193	142	178	119	0	0
Industrial Insurance Refund	19	4	0	5	0	0
Parking	832	953	777	709	682	858
<b>Total Operating Revenues</b>	<b>\$3,415</b>	<b>\$3,561</b>	<b>\$3,346</b>	<b>\$2,846</b>	<b>\$4,673</b>	<b>\$5,926</b>
<b>Operating Expenses</b>						
Personnel	\$2,342	\$1,954	\$2,281	\$2,019	\$2,395	\$3,202
Services	2,970	3,380	3,280	3,025	4,804	4,160
Supplies	102	144	155	145	941	834
<b>Total Operating Expenses</b>	<b>\$5,414</b>	<b>\$5,478</b>	<b>\$5,716</b>	<b>\$5,189</b>	<b>\$8,141</b>	<b>\$8,196</b>
<b>Net Operating Income (Deficit)</b>	<b>(\$1,999)</b>	<b>(\$1,917)</b>	<b>(\$2,370)</b>	<b>(\$2,343)</b>	<b>(\$3,467)</b>	<b>(\$2,270)</b>
<b>Rent Payment to Rio Nuevo</b>	<b>\$3,789</b>	<b>\$3,794</b>	<b>\$1,288</b>	<b>\$1,348</b>	<b>\$1,313</b>	<b>\$1,316</b>

Source: The City of Tucson

As shown, revenues have increased significantly since SMG has taken over operation, most notably in catering and concessions and facility user fees. Operating expenses have also increased significantly in all three reported expense categories with service expenses increasing by \$1.8 million from FYE 2014 to FYE 2015 and then declining by \$644,000 from FYE 2015 to FYE 2016. Personnel expenses increased by \$807,000 from FYE 2015 to FYE 2016. The net operating income reported in 2016 was approximately \$1.2 million higher than FYE 2015, while FYE 2015 saw a major increase in the subsidy needed by \$1.1 million over FYE 2014. Increased operating support is common during a management transition year.

**FUNDING:** The COT funds any annual operating subsidy that the TCC needs as well as a lease payment to the District and the overall up keep of the facility. The District was designed to implement an expansion and improvements to the TCC complex and develop a headquarters hotel. Designs for the expanded TCC and hotel were developed but the project was not executed due to overall mismanagement of the District. Since that point in time the governance structure of the District has been reformatted to allow for improved oversight of the District. This has caused the District to settle past disputes and reorient its focus on its core mission of improving the TCC and bringing a hotel to the District.

The following facilities, and their operating profile and management structure, offer insights regarding performance of competitive facilities and the marketplace that the TCC competes in for convention and tradeshow events.

### ALBUQUERQUE CONVENTION CENTER ALBUQUERQUE, NM

**LOCATION:** Located in downtown Albuquerque, the Albuquerque Convention Center (“ACC”) opened in 1972. The ACC had finished its two-phase renovation at the end of 2014.

**OWNERSHIP/ MANAGEMENT:** The ACC is owned by the City of Albuquerque and operated by SMG.

**VISION/ MISSION:** Building on its unique location between the Rio Grande River and the Sandia Mountains in the heart of the Southwest, the ACC seeks to provide planners, exhibitors, and attendees with a “Uniquely Unconventional” experience.



**FACILITIES:** Facilities at the ACC include over 245,000 square feet of meeting space. Total area of the facility is up from 230,380 square feet, which was renovated and expanded in 2014.

The following table provides a breakdown of meeting and event space at the ACC.

Table 3-6

Albuquerque Convention Center Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Fran Hill Exhibit Hall</b>					
NE Hall	48,600	-	3,262	1,842	3,080
SE Hall	57,600	-	5,170	2,604	2,450
Subtotal Fran Hill Ex Hall		106,200			
<b>NW/SW Exhibit Hall</b>					
NW Hall	30,173	-	-	-	-
SW Hall	30,173	-	-	-	-
Subtotal NW/SW Ex Hall		60,346	9,048	4,566	7,178
<b>Total Exhibit Hall SF</b>		<b>166,546</b>			
<b>Ballroom</b>					
A	9,996	-	642	408	460
B	8,880	-	300	320	300
C	12,348	-	801	544	550
<b>Total Ballroom SF</b>		<b>31,164</b>			
<b>Meeting Rooms</b>					
Number of Rooms	31	16	-	-	-
Smallest Room	567	-	60	43	40
Largest Room	-	14,210	1,155	648	910
<b>Subtotal Meeting Room SF</b>		<b>47,478</b>			
<b>Total</b>		<b>245,188</b>			

Source: ACC, Johnson Consulting

The following figure provides the floorplan of the ACC.

Figure 3-9





**DEMAND SCHEDULE:** The following tables provide a summary of events held from 2009 to 2015 and followed by corresponding attendance information.

**Table 3-7**

Albuquerque Convention Center Summary of Event Demand						
	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2014	FYE 2015
Conventions/ Trade Shows	35	34	25	18	17	17
Consumer/ Public Shows	12	12	9	11	13	22
Meetings	115	66	56	67	59	85
Banquets	67	36	37	55	42	49
Concerts/ Entertainment Events	57	46	49	46	32	40
Sporting Events	12	11	12	11	13	21
Others	45	61	55	64	50	67
<b>Total</b>	<b>343</b>	<b>266</b>	<b>243</b>	<b>272</b>	<b>226</b>	<b>301</b>

Source: Albuquerque Convention Center

Demand declined from FYE 2010 through FYE 2014, but saw an increase in FYE 2015 to 301 events although still far below peak event demand in FYE 2009 of 343 events. The most significant observation is

the decline in conventions and tradeshow, which are the high impact and room night generating events. The decline in conventions and tradeshow is due to the building being under construction from 2012 to 2014 and the improved and expanded facilities have created increased interest in this category of event demand into the future. An increase in consumer and public shows has most likely materialized to fill the vacancies created by the lower number of conventions and tradeshow.

**Table 3-8**

<b>Albuquerque Convention Center Summary of Attendance</b>						
	<b>FYE 2009</b>	<b>FYE 2010</b>	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2014</b>	<b>FYE 2015</b>
Conventions/ Trade Shows	46,310	41,765	84,735	54,305	35,381	17,418
Consumer/ Public Shows	36,984	28,300	32,010	22,638	18,855	70,285
Meetings	32,500	16,665	23,600	33,315	26,039	25,706
Banquets	27,808	14,046	16,124	24,147	22,347	24,588
Concerts/ Entertainment Events	65,779	45,634	58,328	61,017	31,529	46,628
Sporting Events	18,432	29,946	26,420	26,665	17,154	21,640
Others	44,940	55,635	48,611	64,924	49,407	50,302
<b>Total</b>	<b>272,753</b>	<b>231,991</b>	<b>289,828</b>	<b>287,011</b>	<b>200,712</b>	<b>256,567</b>

*Source: Albuquerque Convention Center*

The peak year of attendance over the FYE 2009 to 2015 span was in FYE 2011 with 289,828 attendees. This is largely attributable to a high level of attendees for the conventions and tradeshow category. FYE 2014 was the year with the lowest attendance due to the construction activity at the building. FYE 2015 saw a significant increase in consumer and public show attendance due to the increased programming of this event category. FYE 2015 also saw the lowest level of convention and tradeshow attendance over this study period. As meeting planners and show owners now know that the expansion is complete, this is anticipated to increase significantly in future years.

**REVENUE AND EXPENSES:** The following table provides details of the facility's operating statement in FYE 2011, 2012, 2014 and 2015.

Table 3-9

<b>Albuquerque Convention Center Summary of Operating Revenues</b>				
	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2014</b>	<b>FYE 2015</b>
<b>Direct Event Income</b>				
Rental Income	\$999,876	\$954,271	\$1,101,408	\$1,233,018
Service Revenue	183,520	185,659	205,195	257,984
Service Expenses	(\$339,503)	(\$338,607)	(\$358,380)	(\$459,147)
<b>Subtotal</b>	<b>\$843,893</b>	<b>\$801,323</b>	<b>\$948,223</b>	<b>\$1,031,855</b>
<b>Ancillary Revenue</b>				
F&B Concessions	\$290,778	\$390,979	\$310,518	\$424,410
F&B Catering	\$1,656,256	\$1,147,425	\$989,729	\$1,612,916
Novelty Sales	3,240	11,282	13,076	3,259
Parking	1,039	460	3,896	209,657
Electrical Services	191,224	169,012	186,481	176,610
Audio Visual	279,784	239,906	258,196	248,810
Internet Services	18,026	25,000	80,244	54,509
<b>Subtotal</b>	<b>\$2,440,347</b>	<b>\$1,984,064</b>	<b>\$1,842,140</b>	<b>\$2,730,171</b>
<b>Other Operating Income</b>				
Advertising	\$2,382	\$22,600	\$10,000	\$20,000
Other Income	1,537	1,214	6,209	8,582
<b>Subtotal</b>	<b>\$3,919</b>	<b>\$23,814</b>	<b>\$16,209</b>	<b>\$28,582</b>
<b>Total Revenue</b>	<b>\$3,288,159</b>	<b>\$2,809,201</b>	<b>\$2,806,572</b>	<b>\$3,790,608</b>
<b>Salaries &amp; Wages</b>				
Salaries & Wages	\$2,119,430	\$2,003,369	\$2,069,863	\$2,631,617
Payroll Taxes & Benefits	505,578	472,482	466,265	558,047
Labor Allocations to Events	(559,780)	(534,437)	(594,923)	(842,149)
<b>Subtotal</b>	<b>\$2,065,228</b>	<b>\$1,941,414</b>	<b>\$1,941,205</b>	<b>\$2,347,515</b>
<b>Indirect Expenses</b>				
Contracted Services	\$260,074	\$260,455	\$275,379	612,640
General & Administrative	221,025	204,867	298,713	513,010
Operating	106,588	121,165	174,091	291,443
Repairs & Maintenance	169,758	301,772	146,766	316,645
Operational Supplies	208,272	186,812	152,553	283,623
Insurance	99,250	93,564	101,344	97,825
Utilities	772,279	800,726	746,932	786,642
Other	9,902	10,494	6,728	2,644
SMG Management Fee	300,480	207,896	244,224	241,808
Allocated Expenses	(34,013)	(147,373)	(109,914)	(313,517)
<b>Subtotal</b>	<b>\$2,113,615</b>	<b>\$2,040,378</b>	<b>\$2,036,816</b>	<b>\$2,832,763</b>
<b>Total Expenses</b>	<b>\$4,178,843</b>	<b>\$3,981,792</b>	<b>\$3,978,021</b>	<b>\$5,180,278</b>
<b>Net Operating Income</b>	<b>(\$890,684)</b>	<b>(\$1,172,591)</b>	<b>(\$1,171,449)</b>	<b>(\$1,389,670)</b>

Source: Albuquerque Convention Center

Based on the prior report, in FY 2012, the ACC had a net deficit of \$1.17 million, increasing from \$890,000 in FY 2011. FY 2013 facility revenue and expense information was not provided by SMG. In FY 2014, the facility's net deficit was again \$1.71 million and \$1.39 million in FYE 2015. This was caused by a substantial increase in indirect expenses of 39 percent, while total revenue increased by 35 percent. Areas experiencing

revenue declines include Novelty Sales, Electrical Services, Audio Visual and Internet Services, while areas experiencing a significant expense increase include Contracted Services, Repairs and Maintenance. Two areas of note in the expense section of Table 3-10 relate to the Labor Allocations to Events and the Allocated Expenses which show a credit towards expenses. This is a reimbursement for event related labor and expenses that the building charges back to users.

**FUNDING:** To fund Phase I of the ACC’s renovation project, the City of Albuquerque issued \$20 million in bonds, which effectively refinanced the existing \$69.8 million debt on the ACC. The bonds are serviced through a 5 percent lodging tax and a 1 percent hospitality tax from metro lodging establishments. The facility hosted the 33<sup>rd</sup> annual “Gathering of Nations” in April 2016, which was held for three days. This one event was expected to bring a \$20 million economic impact in the Albuquerque metro area, with restaurant and hotels being the primary beneficiaries of the event.

**OBSERVATIONS:** Albuquerque is a primary competitor of the TCC. The construction activity completed in 2014 has set the stage for the facility to remain competitive. As it rebounds from the construction facility management anticipates an increase in convention and tradeshow events and attendance and reduced reliance on consumer and public show activity now that construction is complete.

**Table 3-10**

Comparison of TCC vs. Albuquerque CC		
	Tucson	Albuquerque
Total Convention Events	192	301
Total Convention Attendance	216,217	256,567
Net Operating Income	(\$2,605,210)	(\$1,389,670)
# Hotels in Walking Distance	0	7
# Hotel Rooms within Walking Distance	0	1,378
Convention and Visitor Bureau Budget	\$7.3 million	\$6.45 million

*Source: Respective Facility, Johnson Consulting*

Albuquerque had both greater event demand and attendance for the convention center, which is only anticipated to widen with the upgraded and expanded facility at ACC. ACC’s operating subsidy was also lower than TCC’s. Tucson is also at a disadvantage regarding hotels within walking distance. Tucson has a CVB budget \$850,000 greater than Albuquerque.

## PALM SPRINGS CONVENTION CENTER PALM SPRINGS, CA

**LOCATION:** Built in 1988, the Palm Springs Convention Center (“PSCC”) is located in downtown Palm Springs, California. Originally sized at 111,000 square feet, the City of Palm Springs expanded the facility by 47,000 square feet in 1992. In the fall of 2005, the PSCC underwent a \$32 million renovation and expansion to its current size of 261,000 gross square feet.



**OWNERSHIP/ MANAGEMENT:** The PSCC is owned by the City of Palm Springs and operated by SMG. The Palm Springs CVB has a significant role in booking events at the PSCC.

**VISION/ MISSION:** Built on the slogan “Like no place else” because of its temperate climate, scenic views, and relaxing and rejuvenating atmosphere, the PSCC strives to provide a memorable meeting venue.

**FACILITIES:** Facilities at the PSCC include over 128,000 net square feet of meeting space. The following table provides a breakdown of meeting and event space at the PSCC.

**Table 3-11**

Palm Springs Convention Center Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Oasis Halls</b>					
Oasis Hall 1	21,265	-	2,126	1,417	1,180
Oasis Hall 2	21,099	-	2,110	1,407	1,170
Oasis Hall 3	21,120	-	2,112	1,408	1,170
Oasis Hall 4	29,061	-	2,906	1,937	1,610
<b>Total Exhibit Hall SF</b>		<b>92,545</b>	<b>9,524</b>	<b>6,169</b>	<b>5,140</b>
<b>Primrose Ballroom</b>					
A	6,337	-	528	352	350
B	7,669	-	639	426	420
C	2,825	-	235	157	160
D	3,185	-	265	177	180
<b>Total Ballroom SF</b>		<b>20,016</b>	<b>1,668</b>	<b>1,112</b>	<b>1,110</b>
<b>Meeting Rooms</b>					
Number of Rooms	16	4	-	-	-
Smallest Room	412	-	-	10	-
Largest Room	-	4,680	324	224	200
<b>Subtotal Meeting Room SF</b>		<b>15,789</b>			
<b>Total</b>		<b>128,350</b>			

Source: ACC, Johnson Consulting

The following figure provides the floorplan of the PSCC.

Figure 3-10



**DEMAND SCHEDULE:** Table 3-12 summarizes event demand and attendance at the PSCC for FYE 2013 thru FYE 2015. In FYE 2013, the PSCC had a total of 106 events and 131,970 event attendees, but experienced a decline in demand, ending FYE 2015 with 91 events and 100,722 attendees.

Table 3-12

Palm Springs Convention Center Summary of Event Demand and Attendance			
	FYE 2013	FYE 2014	FYE 2015
Number of Events	106	103	91
Attendance	131,970	111,385	100,722

Source: Palm Springs Convention Center, Johnson Consulting



**REVENUE AND EXPENSES:** In Fiscal Year 2014, the PSCC generated \$2.1 million in revenue and \$3.7 million in expenses, resulting in a net operating deficit of \$1.5 million (an improvement of 16.7 percent from the 2012 record). Total revenues continued increasing by 27 percent to \$2.7 million in FY 2015. A substantial increase was shown by Information Technology (282.2 percent), followed by Service Revenue (98.5 percent) and Outside Catering (67.9 percent). Total expenses grew at a slower rate of 14 percent over FY 2014. The following table provides details of the PSCC’s summary of operating revenues and expenses.

Table 3-13

<b>Palm Springs Convention Center Summary of Operating Revenues and Expenses</b>				
	<b>FYE 2011</b>	<b>FYE 2012</b>	<b>FYE 2014</b>	<b>FYE 2015</b>
<b>Direct Event Income</b>				
Rental Income	\$867,270	\$821,233	\$871,582	\$1,072,531
Service Revenue	89,817	100,346	36,304	72,049
<b>Subtotal</b>	<b>\$957,087</b>	<b>\$921,579</b>	<b>\$907,886</b>	<b>\$1,144,580</b>
<b>Ancillary Revenue</b>				
A/V	\$88,534	\$128,314	\$114,226	\$168,533
Information Technology	0	0	28,783	110,000
Concessions	77,701	119,981	135,043	121,105
Catering	535,369	501,274	639,548	820,651
Parking	44,591	56,752	65,055	68,060
Electrical	75,646	53,200	66,888	53,751
<b>Subtotal</b>	<b>\$821,841</b>	<b>\$859,521</b>	<b>\$1,049,543</b>	<b>\$1,342,100</b>
<b>Other Operating Income</b>				
Outside Catering	\$95,019	\$101,935	\$78,691	\$132,118
Other Income	50,000	60,262	108,241	109,296
<b>Subtotal</b>	<b>\$145,019</b>	<b>\$162,197</b>	<b>\$186,932</b>	<b>\$241,414</b>
<b>Total Revenue</b>	<b>\$1,923,947</b>	<b>\$1,943,297</b>	<b>\$2,144,361</b>	<b>\$2,728,094</b>
<b>Expenses</b>				
Employee Wages & Benefits	\$1,997,870	\$2,137,157	\$2,074,909	\$2,165,017
Contracted Services	303,011	346,538	\$347,133	355,597
Operating Expenses	24,191	23,384	25,683	40,324
Repairs & Maintenance	127,427	103,451	\$159,644	\$181,919
Supplies	34,592	80,998	38,240	78,652
Insurance	41,997	49,953	49,727	65,716
Utilities	482,388	408,538	491,877	525,668
Marketing & Public Relations	176,599	197,921	133,500	211,274
Admin Expenses	128,676	139,665	138,960	156,867
SMG Management Fee	297,640	204,393	210,000	210,000
Depreciation	50,411	62,898	0	178,317
<b>Total Expenses</b>	<b>\$3,664,802</b>	<b>\$3,754,896</b>	<b>\$3,669,673</b>	<b>\$4,169,351</b>
<b>Net Operating Income</b>	<b>(\$1,740,855)</b>	<b>(\$1,811,599)</b>	<b>(\$1,525,312)</b>	<b>(\$1,441,257)</b>

Source: Palm Springs Convention Center

**FUNDING:** As a non-profit organization whose focus is to increase tourism activity in Palm Springs, the PSCC had the right to voluntarily increase room taxes to fund the facility expansion, as well as to increase tourism advertising.

The facility's 1992 expansion was financed through \$50.7 million in bond issuance by the City of Palm Springs. For PSCC's 2005 expansion, the City issued \$62.4 million in bonds to support the project. To help service its debt, the voters in Palm Springs approved ballot measures to increase the City's transient occupancy tax rate in both November 2001 and November 2003. The City's current transient occupancy tax rate is 13.5 percent for Group Meeting hotels and 11.5 percent for all other hotels.

**OBSERVATIONS:** The Palm Springs Convention Center and the Palm Springs area have significant destination appeal and its proximity to Los Angeles is also material in its demand profile. As in the 2013 report, the TCC has more total events and attendance than the PSCC, despite Palm Springs having a larger hotel inventory in walking distance and a larger CVB budget. From operating income perspective, the PSCC recorded a lower deficit of \$1.4 million.

**Table 3-14**

<b>Comparison of TCC vs. Palm Springs Convention Center</b>		
	<b>Tucson</b>	<b>Palm Springs</b>
Total Convention Events	192	91
Total Convention Attendance	216,217	100,722
Net Operating Income	(\$2,605,210)	(\$1,441,257)
# Hotels in Walking Distance	0	8
# Hotel Rooms within Walking Distance	0	1,627
Convention and Visitor Bureau Budget	\$7.3 million	\$14.8 million

*Source: Respective Facility, Johnson Consulting*

## SPOKANE ARENA AND CONVENTION CENTER CAMPUS SPOKANE, WA

**LOCATION:** Located in downtown Spokane, the Spokane Arena opened in 1995 at a total cost of \$62.6 million. The Arena was built on City-owned land to south of the original Coliseum. The Convention Center Campus, which includes Spokane Convention Center and the INB Performing Arts Center (“PAC”), is located to the south of the Arena, on the opposite side of Canada Island, adjacent to the Spokane River and 100-acre Riverfront Park. The Convention Center Campus opened in 2006.



**OWNERSHIP/ MANAGEMENT:** The Arena, Convention Center and PAC are all owned and operated by the Spokane Public Facilities District (“SPFD”), which is a municipal corporation created in 1989 to “acquire, construct, own, and operate sports and entertainment facilities, with contiguous parking facilities”.



A 5-member Board of Directors oversees the SPFD. Spokane City Council and the Board of Spokane County Commissioners are authorized to appoint 2 members each to the Board, and those 4 members are authorized to select 1 additional member. The legislation that created the Board specifies that 1 member must be a representative of the lodging industry within the County. A staff of 37 full-time employees is responsible for the day-to-day operation of the SPFD’s facilities.

**VISION/ MISSION:** The SPFD’s vision is to “create event experiences that make our guests say WOW!” Their mission statement is “to operate the finest public assembly facilities and provide the highest quality of Guest Services in a manner that ensure profitable operations and financial sustainability, returns value to the stakeholders, and maximizes economic impact to the Inland Northwest.”

**FACILITIES:** The Arena, Convention Center, and Performing Arts Center are summarized as follows:

- **Spokane Arena:** An 11,661-seat multi-purpose arena, with a 17,000 square foot arena floor that can be increased to 32,000 square feet when retractable seating is removed. One configuration of the Arena creates the 5,900-seat Star Theatre. The Arena is home to the Spokane Chiefs of the Western Hockey League, and the Spokane Shock of the Arena Football League.
- **Spokane Convention Center:** The following table provides a breakdown of exhibit and meeting space at the venue.

Table 3-15

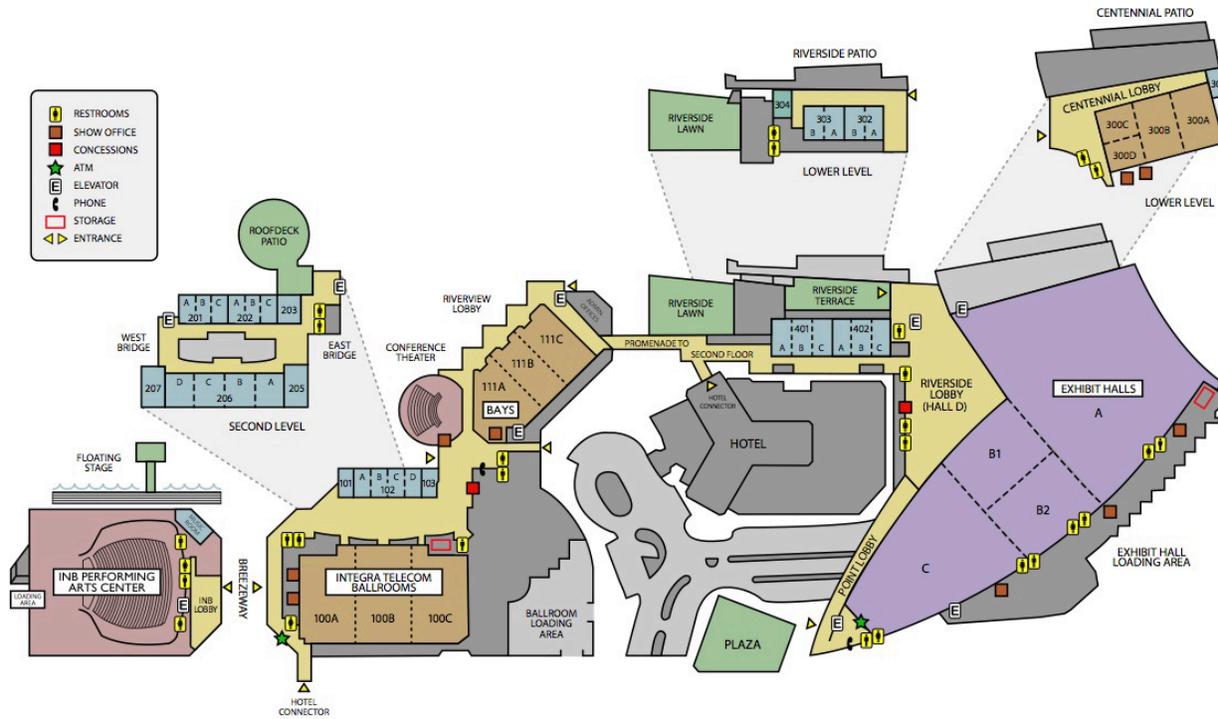
Spokane Convention Center and INB Performing Arts Center Summary of Exhibit and Meeting Space					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>Exhibit Hall</b>					
Hall A	33,470	-	2,781	1,900	2,150
Hall B	21,790	-	2,160	1,200	1,400
Hall C	27,510	-	2,750	1,600	1,800
Riverside (Hall D)	20,000	-	2,316	900	1,000
<b>Subtotal Exhibit Hall SF</b>	<b>120,000</b>				
<b>Ballrooms</b>					
100A	8,370	-	840	456	530
100B	8,570	-	900	520	570
100C	8,370	-	830	456	530
100ABC	-	25,310	2,525	1,483	1,630
111A	4,990	-	450	244	304
111B	4,224	-	437	236	296
111C	4,224	-	437	236	296
111ABC	-	13,438	1,320	752	896
300A	3,865	-	374	230	265
300B	3,985	-	374	230	265
300C	2,027	-	186	115	133
300D	1,939	-	186	115	133
300ABCD	-	11,816	1,120	690	796
<b>Subtotal Exhibit Hall SF</b>	<b>50,564</b>				
<b>Meeting Rooms</b>					
Number of Rooms	32	10	-	-	-
Smallest Room	533	-	50	32	40
Largest Room	-	5,476	580	320	320
<b>Subtotal Meeting Room SF</b>	<b>29,800</b>				
<b>Other</b>					
Conference Theater		5,782	270		
INB Performing Arts Center Auditorium		90,560	2,683		
<b>Subtotal Other SF</b>	<b>96,342</b>				
<b>Total</b>	<b>296,706</b>				

Source: SPFD, Johnson Consulting

- **INB Performing Arts Center:** A 2,700-seat performing arts venue.

The following figure provides an overview of facilities at the Convention Center Campus.

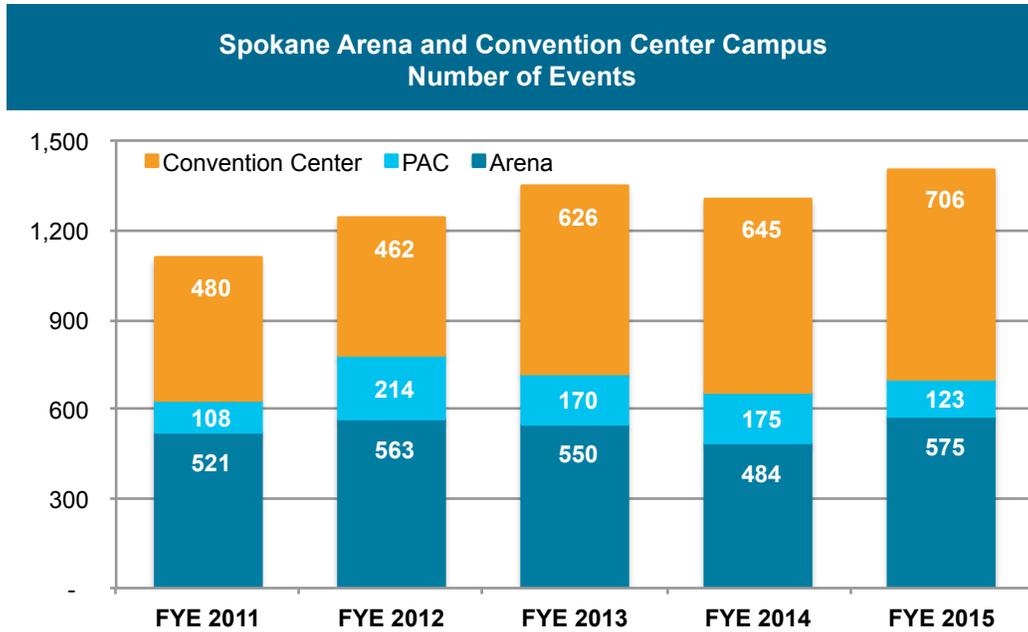
Figure 3-11



The facility has just finished its expansion in the beginning of 2015, which added 90,000 square feet of exhibit hall, meeting room and support space, while still maintaining its Silver LEED certification. Initially connected to only the 375-room Double Tree Spokane City Center Hotel, the Complex is now connected by a skywalk to the 716-room Davenport Grand Hotel. As of now, the expansion of the complex has received positive feedback from visitors and clients. Some of the positive comments that were pointed out were the natural light, the huge number of breakout rooms, as well as its adjacency to the Spokane River.

**DEMAND SCHEDULE:** In 2015, the Spokane Arena and Convention Center Campus hosted a total of 1,404 events, of which 50.3 percent were held at the Convention Center, hitting an all-time high in an 8-year period of time. Between 2011 and 2015, the total number of events held at the facility increased at an average annual rate of 6.1 percent and Convention Center events recorded a very positive growth rate at an average annual rate of growth of 10.1 percent. Conversely, the Arena and Convention Center increased at a much slower rate of 2.5 and 3.3 percent, respectively, which is still very healthy. The following figure provides a breakdown of events by facility between FY 2011 and FY 2015.

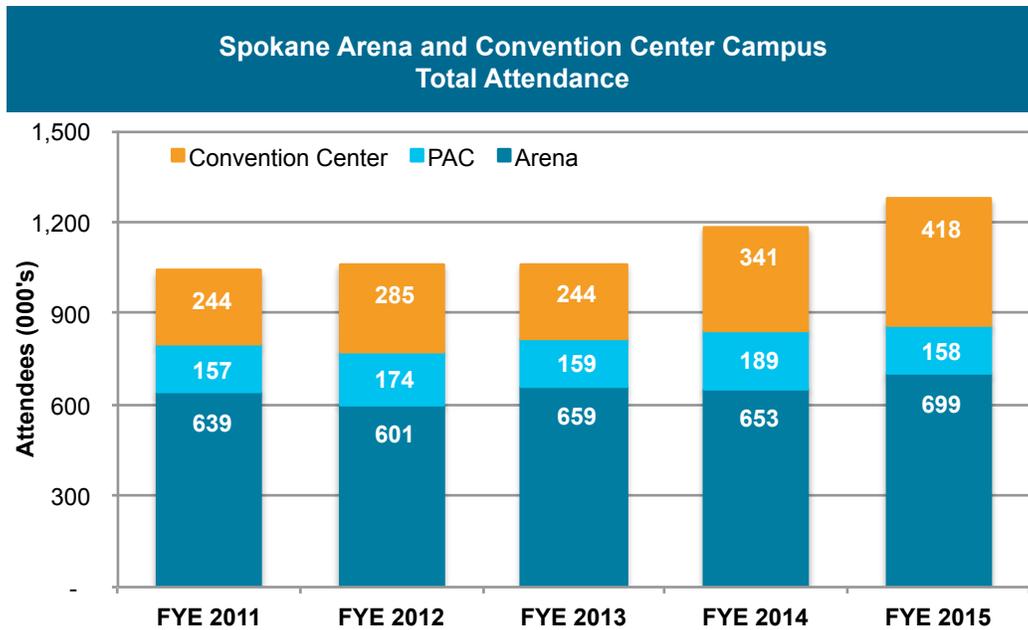
Figure 3-12



Source: SPFD, Johnson Consulting

In FY 2015, the Campus attracted a total of 1,275,292 attendees, representing an increase of 7.8 percent from FYE 2014. Between FY 2011 and 2015, the PAC had the lowest average annual rate of growth of 0.1 percent per annum, in comparison to the Convention Center (14.5 percent per annum) and the Arena (2.3 percent per annum). In March 11-13 2015, the Arena hosted the Washington Middle School Basketball Championship, which is estimated to have drawn over 150,000 people for the weekend. The following figure provides a breakdown of total attendance by facility between FY 2011 and FY 2015.

Figure 3-13



Source: SPFD, Johnson Consulting

In FY 2015, despite its lower number of events, total attendees at the Arena were recorded as the highest level of the study period (699,212 attendees). During the same year for specified event types, the predominant event type, as measured by total attendance, were Sports (449,357 attendees), followed by concert and entertainment events (299,500 attendees) and Conventions/ Trade Shows (140,719 attendees). The following table provides a breakdown of total attendance, by event type, for FY 2015.

Table 3-16

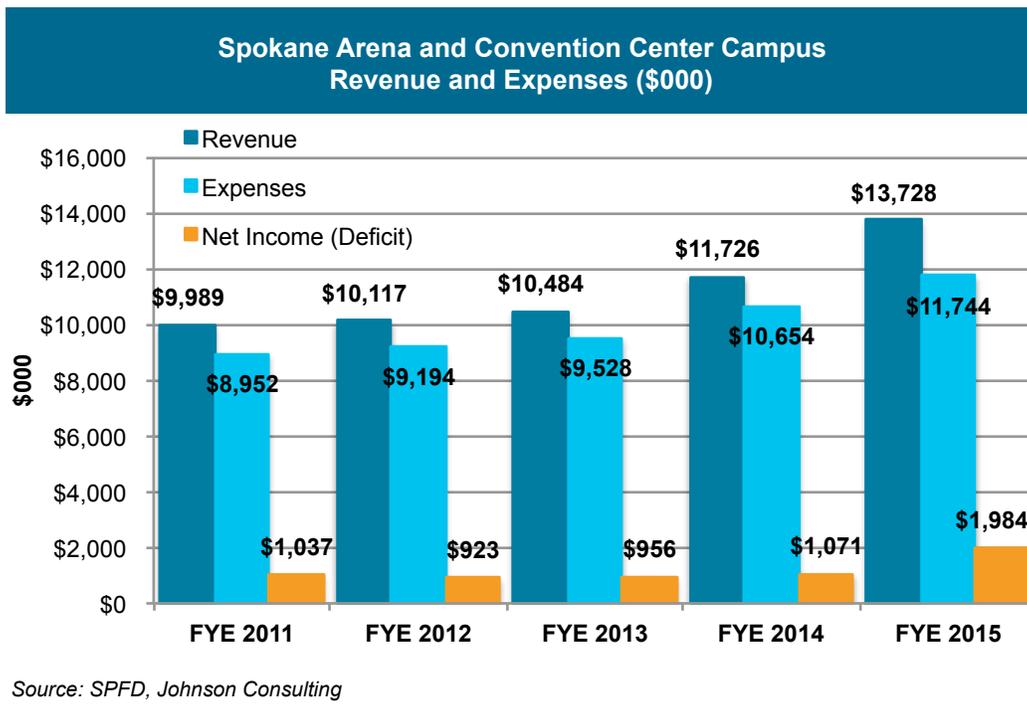
	Arena	PAC	Convention Center	Total	% Total
Conventions/ Trade Shows	0	24,220	116,499	140,719	11%
Consumer/ Public Shows	0	0	81,608	81,608	6%
Meetings	981	0	0	981	0.1%
Concerts/ Entertainment Events	240,211	59,289	0	299,500	24%
Sporting Events	358,837	0	90,520	449,357	36%
Others	99,183	74,582	111,732	285,497	23%
<b>Total</b>	<b>699,212</b>	<b>158,091</b>	<b>400,359</b>	<b>1,257,662</b>	<b>100%</b>

Source: SPFD, Johnson Consulting



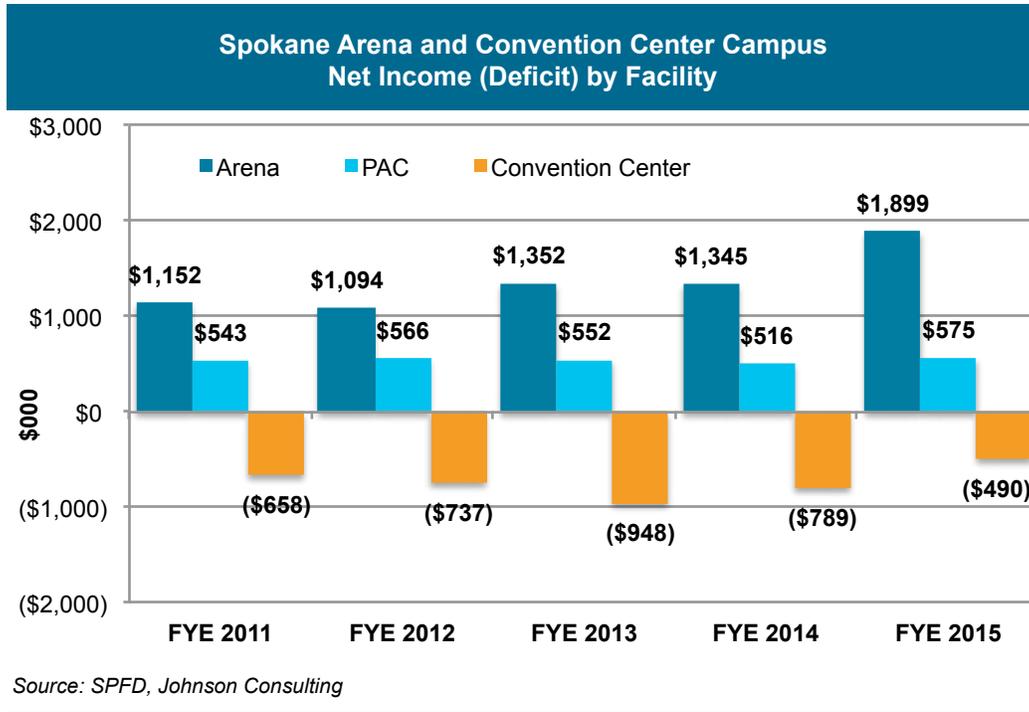
**REVENUE AND EXPENSES:** In FY 2015, the Spokane Arena and Convention Center Campus generated \$13.7 million in revenues, with \$11.7 million of expenses, resulting in a net profit of nearly \$2 million. This income represents an upward trend observed in net income ever since its lowest level of income of \$923,143 in FY 2012 during the past four years. This resulted from a faster average annual rate of net income increase of 13.3 percent at the Arena, followed by the PAC (1.4 percent). The following figure shows revenues, expenses, and the resulting net income (deficit) at the Campus between FY 2011 and FY 2015.

**Figure 3-14**



At the facility level, the highest revenue generator at the Campus has consistently been the Arena, with total revenue of nearly \$7 million in FY 2015, compared to \$5.3 million at the Convention Center and \$1.4 million at the PAC. The Convention Center had always recorded a net loss since FY 2009, though it is starting to decrease, with total net loss of \$490,112 in FY 2015. Both, the Arena and PAC achieved net profits in FY 2015 of \$1.9 million and \$575,447, respectively. The following figure provides a breakdown of net income and deficits, by facility, between FY 2011 and FY 2015.

Figure 3-15



As the above table indicates, the Arena and PAC operating surplus helps to off set the loss occurred by the Convention Center. The Arena and the PAC are lower impact event facilities, meaning they do not have the same economic impact profile of the convention center, which is why these three facility types work so well together. The following table provides a detailed breakdown of revenues and expenses at the Spokane Arena and Convention Center Campus in FY 2015.

Table 3-17

<b>Spokane Arena and Convention Center Campus Revenue &amp; Expense Statement (FY 2015) (\$'000s)</b>				
	<b>Arena</b>	<b>PAC</b>	<b>Convention Center</b>	<b>TOTAL</b>
<b>Revenues</b>				
Facilities Rental	\$1,231	\$372	\$1,829	\$3,432
Concessions/ Catering	1,403	85	913	2,400
Event Parking	625	400	34	1,059
Merchandise	150	29	6	185
Event Miscellaneous	339	32	256	626
Advertising	508	162	0	669
Suite Income	704	0	0	704
Club/ Membership	527	0	0	527
Box Office	558	132	6	696
Daily/Pass Parking	190	0	0	190
Miscellaneous	17	2	5	23
Admission Tax	686	217	37	940
Lodging Tax	0	0	2,275	2,275
<b>Total Revenues</b>	<b>\$6,938</b>	<b>\$1,430</b>	<b>\$5,360</b>	<b>\$13,728</b>
<b>Expenses</b>				
Salaries & Benefits	\$1,275	\$364	\$1,972	\$3,611
Supplies	154	24	180	357
Contractual Services	1,164	228	2,364	3,756
Commissions	300	0	0	300
Hockey/ Football/ Co-Promotes	643	0	0	643
Utilities	639	106	703	1,448
Insurance	33	14	66	113
Advertising/ Marketing	231	7	97	334
Repairs & Maintenance	174	58	186	419
Suite & Club Tickets	187	0	0	187
Other Services & Charges	156	36	241	432
Taxes	82	18	41	142
<b>Total Expenses</b>	<b>\$5,039</b>	<b>\$854</b>	<b>\$5,850</b>	<b>\$11,744</b>
<b>Net Income (Deficit)</b>	<b>\$1,899</b>	<b>\$575</b>	<b>(\$490)</b>	<b>\$1,984</b>

Source: SPFD, Johnson Consulting

As shown, the largest revenue generators across all three facilities are Facilities Rental, totaling \$3.4 million in FY 2015, of which \$1.9 million was resulted from the Convention Center. Major expenses were incurred by all three facilities relate to Contractual Services, accounting \$3.7 million and Salaries and Benefits, totaling \$3.6 million. The Convention Center itself had an overall economic impact of approximately \$51 million.

**FUNDING:** Most recently the SPFD is proposing a Sportsplex, north of the Spokane River, which is estimated to cost \$27 million. The facilities district will be seeking \$15 million from the State. Along with the Convention Center, this Sportsplex is expected to be an economic driver in the region. The Convention Center deficit in FY 2015 will be subsidized by the Arena and PAC's surplus in net operating income.

**OBSERVATIONS:** The table below provides a side-by-side comparison of the destinations.

**Table 3-18**

<b>Comparison of TCC vs. Spokane Convention Complex</b>		
	<b>Tucson</b>	<b>Spokane</b>
Convention Events	192	706
Convention Attendance	216,217	417,989
Arena Events	89	575
Arena Attendance	168,644	699,212
Net Operating Income	(\$2,605,210)	\$1,984,116
# Hotels in Walking Distance	-	17
# Hotel Rooms within Walking Distance	-	3,304
Convention and Visitor Bureau Budget	\$7.3 million	\$4.7 million

*Source: Respective Facility, Johnson Consulting*

Being a true regional hub for Eastern Washington and Western Idaho, Spokane has more than triple the volume of convention events and significantly higher convention attendance, arena events and attendance compared to the TCC. Spokane also makes a profit of nearly \$2 million in net operating income, while the TCC lost more than \$2 million in 2015. Total hotel rooms supply is also significantly higher in Spokane than in Tucson. In spite of this, the Tucson CVB has a budget greater than that of Spokane's CVB by \$2.7 million.

## FORT WORTH CONVENTION CENTER FORT WORTH, TX

**LOCATION:** Located in downtown Fort Worth, the Fort Worth Convention Center (“FWCC”) opened in 1968. The City of Fort Worth purchased the FWCC from Tarrant County in 1997 and subsequently renovated and expanded it in 2002-03, at a total cost of \$75.0 million.



**OWNERSHIP/ MANAGEMENT:** The FWCC is owned by the City of Fort Worth and operated by the City’s Public Events Department, which also oversees operations at the Will Rogers Memorial Center in the Cultural District of downtown Fort Worth. The FWCC has no Board oversight, with the staff of 59 full-time employees reporting directly to the City Manager’s office.

**VISION/ MISSION:** With a convenient downtown location within close proximity to hotels, restaurants and entertainment, and a wealth of state-of-the-art business technologies, the FWCC seeks to provide successful meetings.

**FACILITIES:** Facilities at the FWCC include over 270,000 square feet of exhibit, ballroom, and meeting space, along with an 11,200-seat arena. The following table provides a breakdown of meeting and event space at the FWCC.

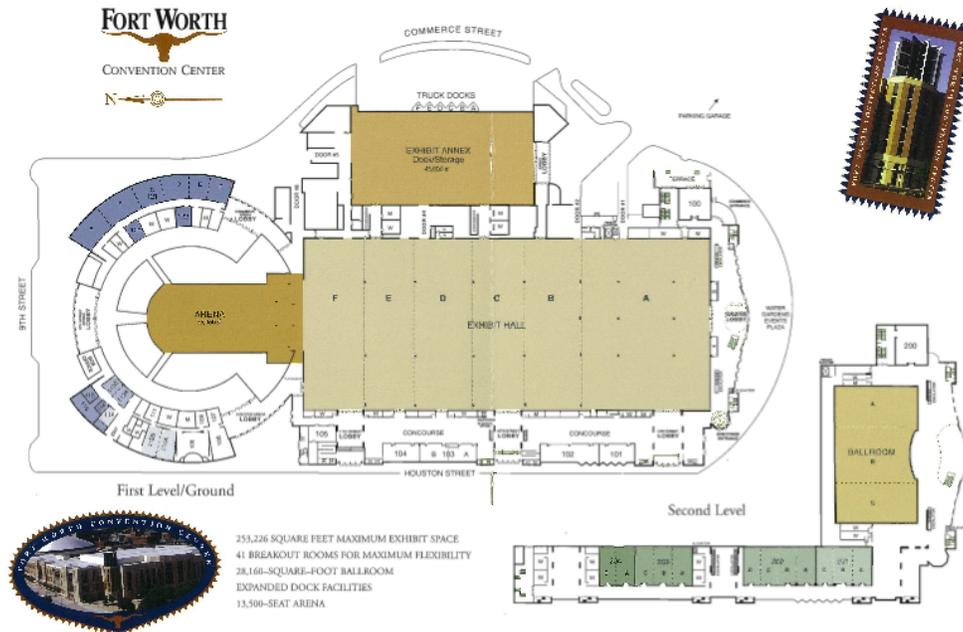
Table 3-19

Fort Worth Convention Center Summary of Exhibit and Meeting Space						
	Size (SF)		Capacity (# of Persons)			
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet	# Booths
<b>Exhibit Hall</b>						
Hall A	56,508	-	5,600	4,000	3,288	280
Hall B	27,700	-	2,500	1,784	1,464	124
Hall C	22,160	-	2,500	1,784	1,464	124
Hall D	27,700	-	2,500	1,784	1,464	124
Hall E	22,160	-	2,500	1,784	1,464	124
Hall F	26,038	-	2,500	1,784	1,464	124
<b>Subtotal Exhibit Hall SF</b>		<b>182,266</b>				
<b>Exhibit Hall Annex</b>						
Hall A	12,900	-	1,290	920	752	60
Hall B	12,000	-	-	-	-	-
Hall C	7,350	-	-	-	-	-
Hall D	12,750	-	-	-	-	-
<b>Subtotal Exhibit Hall SF</b>		<b>45,000</b>				
<b>Arena</b>						
Arena		-	11,200	-	-	-
Arena Floor	25,960	-	2,596	1,476	1,336	125
<b>Subtotal Arena Floor SF</b>		<b>25,960</b>				
<b>Ballroom</b>						
Ballroom A	8,192	-	930	504	480	45
Ballroom B	11,520	-	1,378	752	720	60
Ballroom C	8,192	-	930	528	480	45
<b>Subtotal Ballroom SF</b>		<b>27,904</b>				
<b>Meeting Rooms</b>						
Number of Rooms	41	25	-	-	-	-
Smallest Room	483	-	44	24	24	-
Largest Room	-	6,670	667	416	400	-
<b>Subtotal Meeting Room SF</b>		<b>56,486</b>				
<b>Total</b>		<b>337,616</b>				

Source: FWCC, Johnson Consulting

The following figure provides the floor plan of the FWCC.

Figure 3-16



**DEMAND SCHEDULE:** The table below provides the past three years of event demand information.

Table 3-20

Fort Worth Convention Center Number of Events by Event Type			
Event Type	FYE 2013	FYE 2014	FYE 2015
Conventions	51	58	62
Concerts	3	3	3
Conferences	0	1	2
Consumer Shows	9	9	7
Family Events	2	3	4
Sporting	18	12	16
Meetings, Banquets, Receptions, Trade Shows	29	100	77
<b>TOTAL</b>	<b>112</b>	<b>186</b>	<b>171</b>

Source: FWCC, Johnson Consulting

Events were slightly lower overall in FYE 2015 but continued the trend of a dramatic increase in the total number of events overall, lead primarily in increases in the meetings, banquets, receptions, and tradeshow category. There were four additional convention events in FYE 2015 compared to the prior year and 11 more over FYE 2013. The table below provides attendance information for these same categories.

Table 3-21

Fort Worth Convention Center Total Attendance by Event Type			
Event Type	FYE 2013	FYE 2014	FYE 2015
Conventions & Conferences	518,065	438,773	354,952
Concerts	10,215	14,699	14,217
Conferences	0	60	8,000
Consumer Shows	183,927	137,900	57,828
Family Events	46,638	49,058	36,272
Sporting	23,258	10,008	16,500
Meetings, Banquets, Receptions, Trade Shows	116,976	122,622	182,941
<b>TOTAL</b>	<b>899,079</b>	<b>773,120</b>	<b>670,710</b>

Source: FWCC, Johnson Consulting

Even though event volume increased overall, attendance has declined significantly from FYE 2013 thru FYE 2015 in all categories with the exception of Meetings, Banquets, Receptions, and Tradeshow. Convention and Conference attendance declined the most, resulting in approximately 355,000 attendees in FYE 2015, or 163,113 less attendees compared to FYE 2013. This loss of attendance is significant because this pool of attendees is predominately from out of town.

**REVENUE AND EXPENSES:** Net operating deficit of the FWCC is continuously improving, reaching \$1.8 million in FYE 2015 (a 54.6 percent decrease over FYE 2014). In spite of a decrease in total operating revenues, the FWCC was able to reduce total expenses by 26.6 percent to \$7.2 million.

Table 3-22

Fort Worth Convention Center Revenue and Expense Statement (\$000's)			
	FYE 2013	FYE 2014	FYE 2015
<b>Operating Revenues</b>			
Outdoor Rental	\$0	\$15	\$0
Commercial Exhibit Building	3,102	2,956	2,848
Concessions	296	321	300
Recovery of Labor	175	175	202
Miscellaneous	718	881	484
Equipment Rental	26	51	48
Merchandise Commission	10	12	15
Catering	1,299	1,327	1,160
Sale Capital Asset	0	16	2
Miscellaneous Revenue	7	1	293
Sales Tax Adjustment	0	13	1
<b>Total Operating Revenues</b>	<b>\$5,633</b>	<b>\$5,769</b>	<b>\$5,353</b>
<b>Operating Expenses</b>			
Personnel	\$4,125	\$4,118	\$3,975
Supplies	394	257	228
Contractual	9,025	5,030	2,944
Capital Outlay	35	373	22
<b>Total Operating Expenses</b>	<b>\$13,579</b>	<b>\$9,777</b>	<b>\$7,169</b>
<b>Net Operating Income (Deficit)</b>	<b>(\$7,946)</b>	<b>(\$4,008)</b>	<b>(\$1,816)</b>

Source: FWCC, Johnson Consulting

**FUNDING:** The City is currently planning on adding a 14,000-seat multipurpose arena and sports facility in the Cultural District. The plans also include replacing the “flying saucer” arena with a multistory building, containing 50,000 square feet of ballrooms, 97,387 square feet of exhibit space and 46,480 square feet of meeting room space. The renovation and expansion is expected to be done by 2020, funded by private sources through Event facilities Fort Worth, a nonprofit group that will lease and operate the arena. In addition to this, the City is currently developing a plan for a second FWCC hotel, comprising 1,400 rooms. In order to pay half of the project, the City will issue \$200 million in debt in 2017.

**OBSERVATIONS:** With the proposed expansion of the convention center and replacement of the existing arena with a new facility, Ft. Worth will be in a much stronger competitive position with other facilities in its aspirational peer set, like Austin, Denver, and Nashville. There have been a number of convention center projects developed in the greater Dallas marketplace that have taken market share from FWCC, including the relatively new facility in Irving, TX and the Gaylord Texan in Grapevine, TX.

**Table 3-23**

Comparison of TCC vs. Ft. Worth Convention Complex		
	Tucson	Ft. Worth
Total Convention and Arena Events	281	171
Total Convention and Arena Attendance	384,861	670,710
Net Operating Income	(\$2,605,210)	(\$1,816)
# Hotels in Walking Distance	-	10
# Hotel Rooms within Walking Distance	-	3,007
Convention and Visitor Bureau Budget	\$7.3 million	\$9.9 million

*Source: Respective Facility, Johnson Consulting*

## PHOENIX CONVENTION CENTER PHOENIX, AZ

**LOCATION:** Located in downtown Phoenix, the Phoenix Convention Center (“PCC”) opened in 1972. It has tripled in size since undergoing multiple renovations, including a multi-phased \$600 million expansion project that was completed in 2008. The design of the convention center was inspired by the Arizona landscape.



**OWNERSHIP/ MANAGEMENT:** The PCC is owned by the City of Phoenix operated by the Phoenix Convention Center Department. The City of Phoenix and the State of Arizona split the \$600 million cost of the complex with the State share expected to be paid back through an increase in collected tax revenues from the expanded facility.

**VISION/ MISSION:** The Convention Center is the centerpiece of a Downtown Phoenix revitalization project and aims to bring new life and economic activity to the Downtown area.

**FACILITIES:** Facilities at the PCC include over 900,000 square feet of meeting and pre-function space. The following table provides a breakdown of meeting and event space at the PCC.

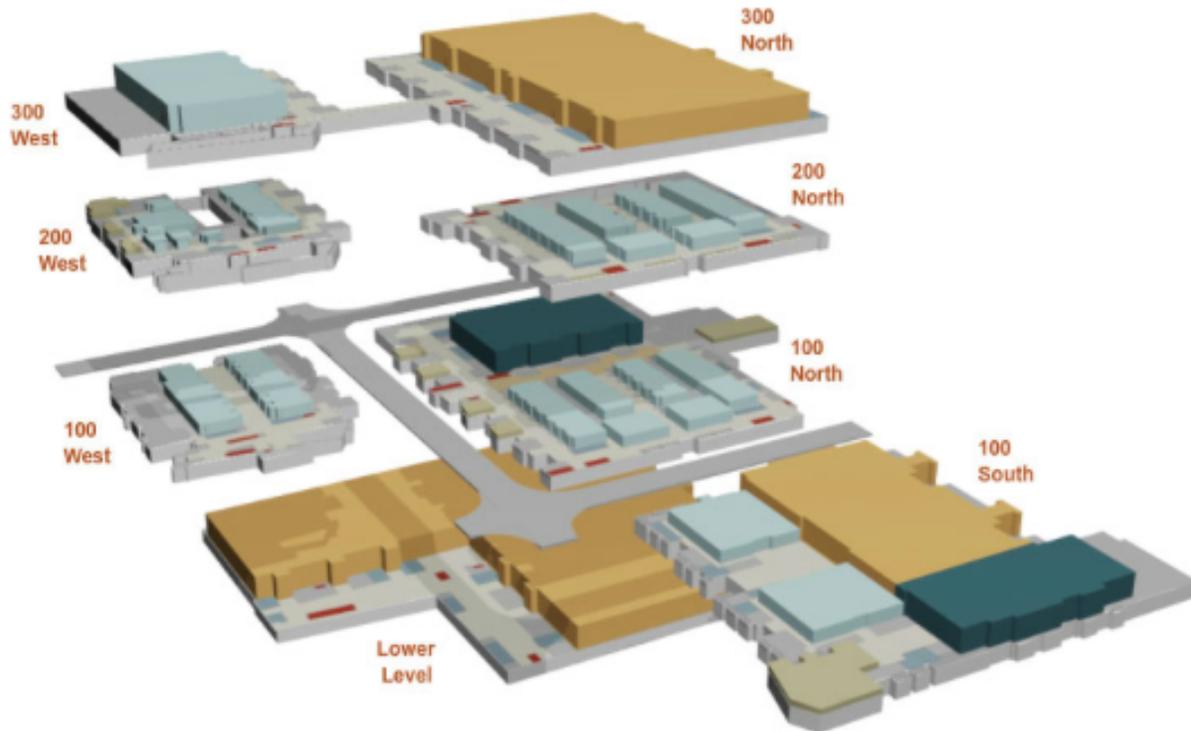
Table 3-24

Phoenix Convention Center Summary of Exhibit and Meeting Space (Before Expansion)					
	Size (SF)		Capacity (# of Persons)		
	Individual (Smallest)	Combined (Largest)	Theater	Classroom	Banquet
<b>North Building Ex Hall 300 Level</b>					
Hall A	48,600	-	3,960	2,672	1,890
Hall B	27,900	-	1,000	1,000	1,000
Hall C	27,900	-	1,000	1,000	1,000
Hall D	27,900	-	1,000	1,000	1,000
Hall E	57,700	-	4,000	3,325	2,410
Subtotal Ex Hall 300 Level	-	<b>190,000</b>	10,960	8,997	7,300
<b>North Building Ex Hall Lower Level</b>					
Hall 1	43,000	-	-	-	-
Hall 2	21,600	-	-	-	-
Hall 3	21,600	-	-	-	-
Hall 4	123,500	-	-	-	-
Hall 5	33,500	-	-	-	-
Hall 6	69,300	-	-	-	-
Subtotal Ex Hall Lower Level	-	<b>312,500</b>	-	-	-
<b>South Building Ex Hall 100 Level</b>					
Hall F	48,000	-	4,200	3,000	2,700
Hall G	34,000	-	3,800	2,800	1,900
Subtotal Ex Hall South Building	-	<b>82,000</b>	8,000	5,800	4,600
<b>Total Exhibit Hall SF</b>		<b>584,500</b>	-	-	-
<b>North Ballroom</b>					
A	15,000	-	4,200	2,750	2,470
B	7,800	-	740	450	380
C	7,800	-	740	450	380
D	15,000	-	4,200	2,750	2,470
Subtotal North Ballroom	-	<b>45,600</b>	9,880	6,400	5,700
<b>South Ballroom</b>					
South Ballroom	28,000	-	2,989	2,112	1,700
Subtotal South Ballroom	-	<b>28,000</b>	-	-	-
<b>West Ballroom</b>					
A	14,800	-	1,464	876	700
B	5,000	-	384	324	220
C	10,000	-	942	577	450
D	15,400	-	1,504	884	700
Subtotal West Ballroom	-	<b>45,200</b>	4,294	2,661	2,070
<b>Total Ballroom SF</b>		<b>118,800</b>	-	-	-
<b>Meeting Rooms</b>					
Number of Rooms	105	42	-	-	-
Smallest Room	277	-	-	-	-
Largest Room	-	17,000	2,230	1,282	1,020
<b>Subtotal Meeting Room SF</b>		<b>162,655</b>			
<b>Total</b>		<b>865,955</b>			

Source: PCC, Johnson Consulting

The following figures provide the floor plan of the multiple buildings that makeup the PCC.

Figure 3-17



**DEMAND SCHEDULE:** Full event data on Phoenix Convention Center is not available. Table 3-25 shows the historical event demand and attendance of regional and national conventions and trade shows at the Phoenix Convention Center.

Table 3-25

Phoenix Convention Center Regional and National Conventions and Trade Shows		
	# of Events	Attendance
2009	69	310,474
2010	62	228,975
2011	52	210,934
2012	61	164,673
2013	42	118,332
2014	65	198,523
2015	65	248,278

Source: Greater Phoenix CVB

**REVENUE AND EXPENSES:** In FYE 2014, the PCC generated the majority of its revenues from Concessions, \$9 million, followed by Rentals, \$8.9 million, resulting in total revenues of \$37 million. The facility incurred total expenses of \$71 million, of which, 37 percent of it were deducted from depreciation and amortization. Going forward to FYE 2015, the PCC managed to decrease its net operating deficit by 14 percent to \$29 million. Without depreciation, the facility’s net operating deficit was \$7.4 million in FYE 2014 and \$2.8 million in FYE 2015. The following table provides details of the PCC’s statement of operating revenues and expenses in FYE 2014 and 2015.

**Table 3-26**

<b>Phoenix Convention Center Revenue and Expense Statement (\$000's)</b>		
	FYE 2014	FYE 2015
<b>Operating Revenues</b>		
Rentals	\$8,914	\$11,776
Concessions	9,076	13,623
Other	18,874	17,360
<b>Total Operating Revenues</b>	<b>\$36,864</b>	<b>\$42,759</b>
<b>Operating Expenses</b>		
Administration and Engineering	\$24,169	\$26,458
Operation and Maintenance	13,407	13,187
Promotion	2,775	2,598
Depreciation and Amortization	26,403	26,344
Staff and Administrative	2,258	2,330
Other	1,693	1,044
<b>Total Operating Expenses</b>	<b>\$70,705</b>	<b>\$71,961</b>
<b>Net Operating Income (Deficit)</b>	<b>(\$33,841)</b>	<b>(\$29,202)</b>
<b>NOI without Depreciation</b>	<b>(\$7,438)</b>	<b>(\$2,858)</b>

*Source: City of Phoenix, Johnson Consulting*

**FUNDING:** In 2005, the City of Phoenix issued \$600 million in bonds, 50 percent of which were to be paid from the state share of funding, with payments beginning in FY 2012 for a term of 33 years. By the end of FY 2015, the PSCC had an outstanding state debt of \$260.1 million.

**OBSERVATIONS:** The PCC expansion, which nearly tripled its original facility, accompanied with state-of-the-art technology, has enabled the facility to attract high profile conventions and events, such as the National Rifle Association (NRA), MLB All Star Fanfest and support the 2015 NFL Super Bowl. As of 2015, the PCC had also welcomed more than 1 million delegates to the City of Phoenix. Though the Center’s event demand and attendance were impacted during the recession, the facility is now seeing a positive improvement toward its business, back to pre-recession levels. The facility’s access to light rail makes it an ever more convenient destination and NOI without depreciation is below \$3 million.



## BENCHMARK CONCLUSIONS

As stated at the beginning of this section, there have been significant activities that have occurred since the 2013 performance audit that have improved the outlook for the performance of the TCC. The under construction AC Hotel is the most significant of these accomplishments given that no hotels have been developed in downtown Tucson for several decades. This project will hopefully pave the way for additional downtown hotel rooms, which are needed for the long-term viability of the TCC.

From a facility management perspective, SMG has improved the tracking of event demand and attendance statistics, which will make tracking the performance of the TCC easier to do going forward. Bringing in an outside management company with a solid reputation will also continue to help improve and restore the reputation of the TCC among event planners and show owners. Finally, securing a new anchor tenant for the renovated arena is a major win for the TCC and will help improve its revenue earning opportunities and provide a very positive way for the people of Tucson to reengage with the improved facility.

The design component of the balance of the TCC does still need to be addressed, including the exhibit hall, ballroom, meeting room and pre-function areas. As was indicated in the 2013 performance audit a number of the benchmark facilities were expanding or considering expansion and upgrades, as well as new headquarter hotel projects. Since then Spokane has both expanded its convention center and added a 700-room Marriott HQ hotel. Albuquerque just recently completed their renovation project and Ft. Worth has made a series of steps to dramatically expand and improve the quality of their facility offerings. As these and other venues continue to improve the quality of their convention facilities, the disparity between them and the TCC continues to increase, decreasing the competitive position of the TCC significantly as time goes on. The recommended next step for the TCC would be to develop a masterplan that outlines priorities for convention center upgrades and analyzes the current space offerings from a market demand perspective to see if additional exhibit, ballroom and/or meeting space is needed.

**SECTION IV**

RECOMMENDATIONS & LONG TERM STRATEGY

## RIO NUEVO GOING FORWARD

It is still clear that the TCC does not currently meet nationally recognized performance and design standards. Having hired SMG and having made incremental improvements in the arena have been great strides forward. Operationally, no major issues exist anymore. The City, Rio Nuevo, the Convention and Visitors Bureau and SMG are communicating and have developed a positive spirit regarding the TCC, especially by equipping the TCC's arena to accommodate the newly attracted hockey team.

Nevertheless, the campus around the Center still suffers. Hotel Arizona is still blighted and La Placita is not a strong offering for retail, office or support to the TCC. As noted in our prior report, District resources alone are not sufficient to provide incentives sufficient to address required hotel incentives, stimulating redevelopment of La Placita or causing a venue for the Gem and Mineral show to evolve. Section 2 of this report identified accumulated cash on hand as of June 30, 2025 of approximately \$45.4 million.

It is still our considered opinion that the investment requirement to make the TCC competitive is in excess of \$100 million to address long term capital needs of the convention center and attracting additional hotel supply to support the TCC.

As has been the case, The District can continue to make smaller investments, making the TCC better and making the broader downtown a better environment, as it is doing quite successfully. These investments alone make Tucson more competitive, but until the two biggest issues facing the District are addressed, the absence of a competitive hotel supply and competitive design standards, market penetration of the convention and tradeshow market will continue to be hampered.

## TCC PERFORMANCE STRATEGY

### Short-Term Strategy

In the immediate future, management of the TCC should consider the following recommendations:

- Continue to push SMG and the CVB in developing both local and out of town events. SMG's annual reports should report prior year performance and set goals for future demand by event type, revenue enhancements and expense reductions. As noted above, critical to their annual reporting should be a capital budgeting request rated by essential/ life safety, important and non-essential.
- Since SMG only has not even two years under its belt for the TCC, no comparative data for trend line analysis and strategy actions is available yet. This report provides good benchmark information. SMG should provide analysis and strategies and targets to continue to improve demand and attendance by

event category and for each venue so that it is clear what components of the campus are responsible for specific revenue and expense generation.

- Continue tracking attendance for each of the event categories for the arena and the convention center. This will allow management, COT and the District to understand what events are having the most significant impact on tax revenue generation and hotel room night demand. It will also provide direction in terms of a more robust sales and marketing plan to target underperforming event categories.
- Both SMG and Visit Tucson should continue to perform satisfaction surveys and track lost business, by reason, and by event type, and incorporate this information in their annual reporting. This will continue to highlight strengths and weaknesses of management, the building and the market. These factors can then be assessed and prioritized by the COT and the District.
- Develop a masterplan and budget to identify and evaluate the most critical improvement needs for the TCC.

### **Long-Term Strategy**

The COT and the TCC, via SMG and the City's contract administrator, currently have a good team overseeing TCC operations. These efforts are still subject to COT administrative policy and while good stewardship of the TCC is currently in place, it is still subject to changing administrations and COT priorities. If a recession comes or a less inclined City administration evolves, the TCC could once again be at risk, putting the District at risk by consuming resources too great for its capacity or required investment balance among all its responsibilities. As discussed in our prior analysis, there are stewardship models in place that accomplish the intent of the District better, notably the Spokane PFD, the Metropolitan Pier and Exposition Authority (MPEA) in Chicago and the Convention Center Authority in Erie, PA. We continue to advocate for an operating model similar to

the MPEA in Chicago or in Erie, PA., where there is an oversight authority with dedicated funding to protect the asset and purpose of the venue, and a private management company running direct operations.

## GENERAL RIO NUEVO RECOMMENDATIONS

It cannot be emphasized at how much has been gained since the prior audit to this one, by both the District and the COT.

Except for addressing the stewardship model for the TCC, almost all other recommendations have been addressed or are in process of being improved. In our prior report, it was recommended that the District develop a longer-term strategic and capital spending plan that considers the following points:

- Revenues of all types (e.g., TIF, AC Hotel, Rent, etc., including incremental growth projections as the District is developed)
- Expenses (e.g., Operations and capital spending for the Primary Component and any secondary projects)
- Consider multiple scenarios (e.g., best case if District gets full funding from alternative sources vs. what the District would do if it only generates and receives the current projected revenues)

This generally exists, but still is not as formalized as needed.

The District has been effective at leveraging resources. They report that the following expenditures have resulted in significant private sector investment that would not have occurred without the District:

**Table 4-1**

Rio Nuevo Multipurpose Facilities District Projects participated in by Rio Nuevo		
Project	Rio Nuevo Commitment	Total Project Cost
AC Marriott Hotel	\$4,300,000	\$34,000,000
Mercado Annex	2,200,000	5,200,000
City Park	2,600,000	17,000,000
Marist on Cathedral Square	1,350,000	24,000,000
Greyhound Depot	1,900,000	
Project on former Greyhound Depot site		100,000,000
<b>Total</b>	<b>\$12,350,000</b>	<b>\$180,200,000</b>

Source: Rio Nuevo

For expending and planning to expend \$12.35 million in District resources, over \$180 million in project development. To highlight the impact of this, the Caterpillar Headquarters project is anticipated to have a \$2 billion impact on the area.

If the above leverage ratios are accurate, which, based on secondary data reviewed by us, seem to reasonably be, then the outcome for Rio Nuevo is superior to the leverage seen on other projects nationally, where incentives may range from 15 to 40 percent, depending on the type of project. As such, it is recommended that the District continue to pursue public/private partnership development opportunities, therefore leveraging private investment dollars to help significantly enhance the impact of the District.

### **A Thoughtful TIF District Tourism Plan**

There is still need for a specific plan to be developed, visualizing the future of the TCC District. This plan should address:

- SMG's recommended 10-year capital budget for the TCC, organized by- Essential/ Life Safety; Important; and Desirable.
- A TCC sub district masterplan addressing expansion, headquarters hotel(s), adjacent edges and land assemblage.
- A sources and uses funding plan recognizing revenue sources from tax growth, COT contributions, private sector investment targets and a spending schedule that addresses the TCC masterplan, hotel and other investment incentives and infrastructure requirements. This plan is needed to protect the primary asset, the TCC, and the only resources actually committed to this are those by the District. By action, the City has demonstrated support for the TCC, but such support is not planned for in the long term and this vision is required to allow for the COT's capital planning and to solve for gaps that may exist in the future.
- A vision for the future- As the District is currently structured, neither the amount of time remaining in the District's legal life, nor the amount of estimated funding available at the District sufficiently support the required efforts that will make the TCC nationally competitive. Since both the District and the COT are viewed positively in regards to Rio Nuevo at this point in time, thinking about the future stewardship of the district and the TCC is timely.

Regardless of which strategic option is selected for the District, the concept of the District is sound, and the District still provides potential for significant downtown Tucson revitalization and growth. If the District gives consideration to the issues and recommendations outlined above, and develops a robust strategic plan to execute required improvements, the TCC can achieve nationally competitive status and serve as a catalyst for overall District success.

**APPENDIX**  
SUPPORT SCHEDULES



**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Construction in Progress and Depreciable Assets - Schedule A (Table 1)**  
**For the Period July 1, 2013 to June 30, 2016**

	2013	Increases	Decreases	Transfers	2014	Increases	Decreases	Transfers	2015	Increases	Decreases	Transfers	2016
Construction in Progress													
Tucson Convention Center	\$ 101,547	\$ 2,878,996	\$ -	\$ -	\$ 2,980,543	\$ 4,673,219	\$ -	\$ (7,570,764)	\$ 82,998	\$ 908,063	\$ -	\$ (201,814)	\$ 789,247
Arena Lot	-	135,640	-	-	135,640	12,012	-	-	147,652	-	(147,652)	-	-
Westside	43,374	2,087	-	-	45,461	14,204	-	(59,665)	-	-	-	-	-
Greyhound	-	-	-	-	-	-	-	-	-	113,235	-	-	113,235
AC Marriott	-	-	-	-	-	10,000	-	-	10,000	-	-	-	10,000
	144,921	3,016,723	-	-	3,161,644	4,709,435	-	(7,630,429)	240,650	1,021,298	(147,652)	(201,814)	912,482
Land	9,089,564	-	-	(973,983)	8,115,581	-	(1,095,240)	59,665	7,080,006	574,411	-	-	7,654,417
Land held for sale	-	-	-	973,983	973,983	60,000	-	-	1,033,983	-	(1,033,983)	-	-
Buildings	34,662,809	-	-	-	34,662,809	-	(842,520)	6,665,444	40,485,733	-	-	201,814	40,687,547
Equipment	5,800	-	-	-	5,800	-	-	905,320	911,120	-	-	-	911,120
	43,903,094	3,016,723	-	-	46,919,817	4,769,435	(1,937,760)	-	49,751,492	1,595,709	(1,181,635)	-	50,165,566
Less: Accumulated Depreciation	(8,630,244)	(883,404)	-	-	(9,513,648)	(1,150,851)	243,188	-	(10,421,311)	(1,382,178)	-	-	(11,803,489)
Total Capital Assets	\$ 35,272,850	\$ 2,133,319	\$ -	\$ -	\$ 37,406,169	\$ 3,618,584	\$ (1,694,572)	\$ -	\$ 39,330,181	\$ 213,531	\$ (1,181,635)	\$ -	\$ 38,362,077

Source - Rio Nuevo general ledger, fiscal year 2014 and 2015 audited financial statements.

Note - As of the date of this performance audit report, the fiscal year 2016 financial statements had not been audited by an independent external accountant.



**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Status of Construction in Progress - Schedule A (Table 2)**  
**As of June 30, 2016**

Project	June 30, 2013	Capitalized FY			June 30, 2016	Budget	Estimated Costs to Complete	Status	Notes
		Additions	2015 & FY 2016	Sales of Property					
Tucson Convention Center Renovations	101,547	8,460,279	(7,772,578)	-	789,248	\$ 11,700,802	\$ 2,349,728	In Process	Phase I of the renovations has been completed and Phase II is in process, which includes renovations to the hockey facilities. Renovations are expected to be completed by October 2016.
Arena Lot	-	147,652	-	(147,652)	-	N/A	N/A	Sold	This property was sold to a developer in FY 2016 for a sales price of approximately \$5.5M.
Westside	43,374	16,291	(59,665)	-	-	TBD	TBD	In Planning	This property is not able to be developed in its current state. Options are being developed for future plans of this site.
Greyhound	-	113,235	-	-	113,235	1,900,000	1,786,765	In Process	Ground breaking on the new site for the bus depot took place during FY 2016 and completion is expected in January 2017.
AC Marriott Hotel	-	10,000	-	-	10,000	4,300,000	4,290,000	In Process	Construction of the parking garage is in process.
City Park	-	-	-	-	-	2,600,000	2,600,000	In Planning	Funding has been approved for this project, which consists of a multi-use retail and office space. Construction is expected to begin in FY 2017.
Caterpillar Surface Mining Complex	-	-	-	-	-	52,000,000	52,000,000	In Planning	This project has been agreed to between the parties. Land is being purchased from the City of Tucson and plans for the building are being developed. Expected completion in FY 2019.
Gadsden	-	-	-	-	-	2,200,000	2,200,000	In Planning	Funding has been approved for this project, which consists of a container village. Construction is set to begin and the facility is expected to be operational in FY 2017.
<b>Totals</b>	<b>\$ 144,921</b>	<b>\$ 8,747,457</b>	<b>\$ (7,832,243)</b>	<b>\$ (147,652)</b>	<b>\$ 912,483</b>				

Sources - Rio Nuevo general ledger, fiscal year 2014 and 2015 Audited Financial Statements.

Note - As of the date of this performance audit report, the fiscal year 2016 financial statements had not been audited by an independent external accountant.



**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Debt Service Payments - Schedule B (Table 1)**  
**For the Period from Inception to June 30, 2016**

	<b>Inception to June 30, 2013</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>Inception to June 30, 2016</b>
Revenue Bonds Refunded, Series 2016					
Principal	\$ -	\$ -	\$ -	\$ 2,835,000	\$ 2,835,000
Interest	-	-	-	480,836	480,836
COPs, Series 2009:					
Principal	760,000	785,000	810,000	845,000	3,200,000
Interest	1,907,455	498,600	471,125	438,725	3,315,905
Revenue Bonds, Series 2008:					
Principal	8,695,000	3,870,000	4,020,000	63,415,000	80,000,000
Interest	21,395,809	4,349,819	4,136,969	2,960,352	32,842,949
Total Principal Paid	9,455,000	4,655,000	4,830,000	64,260,000	83,200,000
Total Interest Paid	23,303,264	4,848,419	4,608,094	3,399,077	36,158,854
Total Debt Service Payments	<u>\$ 32,758,264</u>	<u>\$ 9,503,419</u>	<u>\$ 9,438,094</u>	<u>\$ 67,659,077</u>	<u>\$ 119,358,854</u>

*Source - Rio Nuevo general ledger.*

*Note - As of the date of this performance audit report, the fiscal year 2016 financial statements had not been audited by an independent external accountant.*



**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Debt Service Schedule - Schedule B (Table 2)**  
**For the Fiscal Years ending June 30**

Date	Series 2008		Series 2009		Series 2016		Series 2009		Total	Fiscal Year
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
7/1/2012	\$ -	\$ -	\$ -	\$ 260,700	\$ -	\$ -			\$ 260,700	
7/15/2012	2,620,000	2,334,516							4,954,516	
1/1/2013				260,700					260,700	\$ 9,404,432 FY 13
1/15/2013		2,269,016							2,269,016	
7/1/2013			760,000	260,700					1,020,700	
7/15/2013	3,585,000	2,269,016							5,854,016	
1/1/2014				249,300					249,300	\$ 9,503,418 FY 14
1/15/2014		2,174,909							2,174,909	
7/1/2014			785,000	249,300					1,034,300	
7/15/2014	3,870,000	2,174,909							6,044,909	
1/1/2015				235,563					235,563	\$ 9,438,094 FY 15
1/15/2015		2,068,484							2,068,484	
7/1/2015			810,000	235,563					1,045,563	
7/15/2015	4,020,000	2,068,484							6,088,484	
1/1/2016				219,363					219,363	\$ 71,055,053 FY 16
1/15/2016		1,967,984							1,967,984	
3/29/2016	63,415,000	992,368							64,407,368	
7/1/2016			845,000	219,363					1,064,363	
7/15/2016					2,835,000	560,975			3,395,975	
1/1/2017				202,463					202,463	\$ 9,189,456 FY 17
1/15/2017						922,265			922,265	
7/1/2017			880,000	202,463					1,082,463	
7/15/2017					6,060,000	922,265			6,982,265	
1/1/2018				184,863					184,863	\$ 9,195,788 FY 18
1/15/2018						838,031			838,031	
7/1/2018			910,000	184,863					1,094,863	
7/15/2018					6,240,000	838,031			7,078,031	
1/1/2019				166,663					166,663	\$ 9,210,916 FY 19
1/15/2019						751,295			751,295	
7/1/2019			950,000	166,663					1,116,663	
7/15/2019					6,425,000	751,295			7,176,295	
1/1/2020				147,069					147,069	\$ 9,223,114 FY 20
1/15/2020						661,988			661,988	
7/1/2020			990,000	147,069					1,137,069	
7/15/2020					6,615,000	661,988			7,276,988	
1/1/2021				126,031					126,031	\$ 9,237,140 FY 21
1/15/2021						570,039			570,039	
7/1/2021			1,030,000	126,031					1,156,031	
7/15/2021					6,815,000	570,039			7,385,039	
1/1/2022				103,500					103,500	\$ 9,252,622 FY 22
1/15/2022						475,311			475,311	
7/1/2022			1,075,000	103,500					1,178,500	
7/15/2022					7,020,000	475,311			7,495,311	
1/1/2023				79,313					79,313	\$ 9,269,092 FY 23
1/15/2023						377,733			377,733	
7/1/2023			1,125,000	79,313					1,204,313	
7/15/2023					7,230,000	377,733			7,607,733	
1/1/2024				54,000					54,000	\$ 9,282,470 FY 24
1/15/2024						277,235			277,235	
7/1/2024			1,175,000	54,000					1,229,000	
7/15/2024					7,445,000	277,235			7,722,235	
1/1/2025				27,563					27,563	\$ 14,127,626 FY 25
1/15/2025						173,750			173,750	
7/1/2025			1,225,000	27,563					1,252,563	
7/15/2025					12,500,000	173,750			12,673,750	
	<b>\$ 77,510,000</b>	<b>\$ 18,319,686</b>	<b>\$ 12,560,000</b>	<b>\$ 4,373,482</b>	<b>\$ 69,185,000</b>	<b>\$ 10,656,269</b>			<b>\$ 192,604,437</b>	

Sources - 1) Rio Nuevo general ledger, 2) Certificates of Participation - Series 2002, 3) Junior Lien Excise Tax Revenue Bonds - Series 2005, 4) Subordinate Lien Excise Tax Revenue Bonds - 2008, 5) Certificates of Participation - Series 2009, 6) Subordinate Lien Excise Tax Revenue Refunding Bonds, Series 2016A and 2016B

Note 1 - For purposes of financial reporting, debt service payments made within close proximity to year end are deemed to have been made in the recently ended fiscal year (e.g., debt service payments made July 1st through 15th of 2016 (FY 2017) are considered to be FY 2016 debt service costs.

Note 2 - As of the date of this performance audit report, the fiscal year 2016 financial statements had not been audited by an independent external accountant.

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Schedule of Operating Expenditures - Schedule C (Table 1)**  
**For the Fiscal Years Ending June 30,**

	2014	2015	2016
Professional Services			
Legal	\$ 351,629	\$ 411,263	\$ 458,467
Audit & Accounting	120,055	40,000	33,976
Consulting & Engineering	139,889	157,811	117,367
Other professional services	23,985	17,918	488,998
Total Professional Services	<u>635,558</u>	<u>626,992</u>	<u>1,098,808</u>
Administration Expenses			
Fiscal Agent Fees	6,500	6,500	7,500
Payroll and benefits	74,779	70,457	78,619
Rent	15,096	26,253	41,660
Office expense	6,136	3,789	4,054
Insurance	54,091	54,553	53,773
Repair & Maintenance	-	-	-
Travel	-	-	-
Public Relations	61,301	113,296	175,096
Licenses, Permits & Fees	90	267	581
Total Administrative Expenses	<u>217,993</u>	<u>275,115</u>	<u>361,283</u>
Total Operating Expenses	<u>\$ 853,551</u>	<u>\$ 902,107</u>	<u>\$ 1,460,091</u>

*Source - Rio Nuevo general ledger.*

*Note 1- Rio Nuevo general ledger is maintained on the accrual basis of accounting and as such, expenses are recorded when incurred not when cash is disbursed.*

*Note 2 - As of the date of this performance audit report, the fiscal year 2016 financial statements had not been audited by an independent external accountant.*

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Schedule of Revenues - Schedule C (Table 2)**  
**For the Fiscal Years Ending June 30,**

	2014	2015	2016
Sales taxes	\$ 9,116,855	\$ 9,768,292	\$ 11,810,957
Rentals and leases	1,376,478	1,393,789	1,383,839
Interest income	43,777	13,392	21,265
Investment earnings	10,438	14,069	-
Sale of Property	-		4,377,603
<b>Total Revenues</b>	<b>\$ 10,547,548</b>	<b>\$ 11,189,542</b>	<b>\$ 17,593,664</b>

*Source - Rio Nuevo general ledger.*

*Note 1- Rio Nuevo general ledger is maintained on the accrual basis of accounting, and as such revenues are recorded when earned, not when cash is received.*

*Note 2 - As of the date of this performance audit report, the fiscal year 2016 financial statements had not been audited by an independent external accountant.*

**RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT**  
**Schedule of Municipal Payments (City Match) - Schedule D**  
**Inception-to-Date as of June 30, 2016**

	<u>As of</u> <u>June 30, 2013</u>	<u>Performance</u> <u>Period</u>	<u>As of</u> <u>June 30, 2016</u>
<b>Multipurpose Facility Projects</b>			
TCC Elevator and Escalator Repair/Replacement	\$ 3,561,753	\$ -	\$ 3,561,753
TCC Solar Panels	2,605,114	-	2,605,114
TCC Facility Improvements	1,166,814	846,746	2,013,560
TCC Arena Bleachers	1,054,097	-	1,054,097
TCC Roof Improvements	572,984	-	572,984
TCC Box Office	59,763	-	59,763
	<u>9,020,525</u>	<u>846,746</u>	<u>9,867,271</u>
<b>Multipurpose Facility Site Projects</b>			
Modern Streetcar	70,550,463	24,591,699	95,142,162
Firestation 1 Relocation	36,604,349	-	36,604,349
City Hall Annex Parking Garage	12,018,038	-	12,018,038
Central Energy District Heating and Cooling Loop	9,122,482	-	9,122,482
Central Plant Expansion	8,813,001	-	8,813,001
Water Review Developer Financed Projects	8,560,390	657,982	9,218,372
Barraza-Aviation Parkway - Downtown	7,737,733	18,842,070	26,579,803
Plaza Centro Garage	6,580,359	-	6,580,359
Transit Headquarters Build Improvements	6,250,816	-	6,250,816
Downtown Intermodal	5,728,687	-	5,728,687
MLK Amenities	3,393,027	-	3,393,027
MacArthur Building Acquisition	2,394,350	-	2,394,350
Diamond Snake Bridge	2,374,825	-	2,374,825
Broadway: Euclid to Country Club	2,359,600	5,189,998	7,549,598
Court Structural Improvements	1,747,634	-	1,747,634
Broadway/Euclid/Camp	1,606,517	-	1,606,517
Fox Theatre Special	1,000,000	-	1,000,000
Depot Tenant Improvements	976,498	-	976,498
El Paso and Southwestern Greenway	617,330	344,457	961,787
Mercado District Rentals - EL Portal	562,914	-	562,914
Rio Nuevo Housing Site	554,594	-	554,594
City Staff Time Spent on Capital Projects	511,772	-	511,772
Stone Ave Corridor Phase II	443,890	-	443,890
Broadway Turn Lane @ El Con	384,550	-	384,550
City/State Parking Garage Improvements	329,022	-	329,022
City Hall Annex Communications	301,126	-	301,126
Pedestrian Impl Plan	288,647	-	288,647
Clean Renewable Energy Bonds Solar Panels	276,243	-	276,243
Police Headquarters Expansion	223,341	-	223,341
Broadway and 5th Parking Structure	140,803	-	140,803
Armory Park Pedestrian Enhancements	126,877	-	126,877
6th Street Improvements	121,216	-	121,216
Downtown Wayfinding Improvements	119,906	-	119,906
WWII Downtown Memorial	-	105,300	105,300
S Stone Ave and Cushing st. Hawk	95,095	-	95,095
Main Library Parking Garage Improvements	83,747	-	83,747
Main Library Plaza	72,685	-	72,685
Congress Improvements	57,394	-	57,394
Ronstadt Transit Center	49,186	-	49,186
Jacome Plaza Historical Marker	38,057	-	38,057
B2B Mayor - Rialto Marque	21,000	-	21,000
Building Main & Improvements	20,260	-	20,260
Depot Plaza	15,000	-	15,000
Council Chambers	12,936	-	12,936
Broadway/Alvernon Intersection	11,305	-	11,305
Country Club: Broadway to 22nd	9,928	-	9,928
Euclid Ave - Broadway to Grant D	8,123	-	8,123
Misc Street & Spot Improvements	5,013	-	5,013
Broadway-Tucson/Country Club	1,986	-	1,986
	<u>193,322,715</u>	<u>49,731,506</u>	<u>243,054,221</u>
<b>Projects Partly In Site, In District</b>			
Barraza/Aviation Phase I	44,166,915	-	44,166,915
Arroyo Chico Drainage Improv	6,945,273	-	6,945,273
	<u>51,112,188</u>	<u>-</u>	<u>51,112,188</u>
<b>Total</b>	<u>\$ 253,455,428</u>	<u>\$ 50,578,252</u>	<u>\$ 304,033,680</u>

Source - City of Tucson, Finance Department

Note - The website for the Office of the Arizona State Treasurer identifies sales tax distributions made by the State Treasurer to the District. Aggregate sales tax distributions made to the District from inception through June 30, 2016 is identified as \$137,141,274 on the State Treasurer website.

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT			
Three Year Solvency Schedule - Schedule E (Table 1)			
Projections for the Fiscal Years Ending June 30			
	2017	2018	2019
<b>Cash Inflows:</b>			
TIF Revenue	\$ 12,000,000	\$ 12,240,000	\$ 12,484,800
City of Tucson Lease payments (TCC)	1,284,926	1,279,726	1,283,326
AC Marriott parking garage rental income	-	192,000	192,000
Proceeds from sale of AC Marriott garage	-	-	-
Greyhound depot rental income	86,000	76,000	76,000
Caterpillar rental income	-	-	-
Other Rental Income - US Parking	20,000	20,000	20,000
Investment Earnings	18,000	18,000	18,000
Depot Garage	296,400	308,256	320,586
Projected financing proceeds	7,000,000	-	-
<b>Total Cash Inflows</b>	<b>20,705,326</b>	<b>14,133,982</b>	<b>14,394,712</b>
<b>Cash Outflows:</b>			
<b>Operating Expenditures</b>	1,383,000	1,274,660	1,276,353
<b>Debt Service Payments</b>			
COPs Series 2009 Hotel Projects Financing:			
Principal	880,000	910,000	950,000
Interest	404,926	369,726	333,326
2008 Revenue Bonds, refunded in 2016:			
Principal	6,060,000	6,240,000	6,425,000
Interest	1,844,530	1,676,062	1,502,590
<b>Total Debt Service Payments</b>	<b>9,189,456</b>	<b>9,195,788</b>	<b>9,210,916</b>
<b>Project Expenditures</b>			
TCC Renovation	3,000,000	-	-
AC Marriott Parking Garage	4,300,000	-	-
AC Marriot Debt Service Payments	-	192,000	192,000
Mission Gardens	1,000,000	-	-
Downtown Streetscapes	750,000	-	-
Marist College	1,350,000	-	-
Gadsden	-	2,200,000	-
Bourne - Citypark	-	2,600,000	-
Greyhound Depot Construction	1,900,000	-	-
Greyhound Depot Debt Service Payments	-	76,000	76,000
Caterpillar Headquarters Construction	-	-	-
Caterpillar Headquarters Debt Service Payments	-	-	-
Caterpillar Relocation	2,000,000	-	-
Other Fixed Assets	-	-	-
<b>Total Project Expenditures</b>	<b>14,300,000</b>	<b>5,068,000</b>	<b>268,000</b>
<b>Total Cash Outflows</b>	<b>24,872,456</b>	<b>15,538,448</b>	<b>10,755,269</b>
<b>Net Increase (Decrease) in Unrestricted Cash</b>	<b>(4,167,130)</b>	<b>(1,404,466)</b>	<b>3,639,443</b>
<b>Beginning Unrestricted Cash</b>	<b>19,095,696</b>	<b>14,928,566</b>	<b>13,524,100</b>
<b>Ending Unrestricted Cash</b>	<b>\$ 14,928,566</b>	<b>\$ 13,524,100</b>	<b>\$ 17,163,543</b>

Source - Rio Nuevo general ledger, Rio Nuevo approved 2016-2017 budget, Rio Nuevo supplemental projection of available cash for added projects through 2025.

Note - Excluded from Unrestricted Cash are the cash balances held in accounts by Zions Bank, the Fiscal Agent, that are restricted for debt service requirements. The District's restricted cash balances approximate \$6 million at June 30, 2016. It can be expected that these funds will be automatically applied to final debt service payments, or will be released from restrictions and returned to the District upon the full payment of the associated debt.



RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT Long Term Solvency schedule - Schedule E (Table 2) Projections for the Fiscal Years Ending June 30									
	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Cash Inflows:</b>									
TIF Revenue	\$ 12,000,000	\$ 12,240,000	\$ 12,484,800	\$ 12,734,496	\$ 12,989,186	\$ 13,248,970	\$ 13,513,949	\$ 13,784,228	\$ 14,059,913
City of Tucson Lease payments (TCC)	1,284,926	1,279,726	1,283,326	1,284,138	1,282,062	1,282,000	1,283,626	1,283,000	1,280,126
AC Marriott Parking Garage Rental income	-	192,000	192,000	192,000	192,000	192,000	192,000	192,000	-
Proceeds from Sale of AC Marriott Praking Garage	-	-	-	-	-	-	-	-	3,628,000
Greyhound Depot Rental Income	86,000	76,000	76,000	76,000	76,000	76,000	76,000	76,000	76,000
Caterpillar Rental Income	-	-	-	1,500,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Other Rental Income	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Investment Earnings	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Depot Garage	296,400	308,256	320,586	333,410	346,746	360,616	375,041	390,042	405,644
Funds Released from Restriction	-	-	-	-	-	-	-	-	6,000,000
Projected Financing Proceeds	7,000,000	-	-	50,000,000	-	-	-	-	-
<b>Total Cash Inflows</b>	<b>20,705,326</b>	<b>14,133,982</b>	<b>14,394,712</b>	<b>66,158,044</b>	<b>17,923,994</b>	<b>18,197,586</b>	<b>18,478,616</b>	<b>18,763,270</b>	<b>28,487,682</b>
<b>Cash Outflows:</b>									
<b>Operating Expenditures</b>	1,383,000	1,274,660	1,276,353	1,353,080	1,279,842	1,281,639	1,358,471	1,285,341	1,287,248
<b>Debt Service Payments</b>									
COPs Series 2009 Hotel Projects Financing:									
Principal	880,000	910,000	950,000	990,000	1,030,000	1,075,000	1,125,000	1,175,000	1,225,000
Interest	404,926	369,726	333,326	294,138	252,062	207,000	158,626	108,000	55,126
2008 Revenue Bonds, refunded in 2016:									
Principal	6,060,000	6,240,000	6,425,000	6,615,000	6,815,000	7,020,000	7,230,000	7,445,000	12,500,000
Interest	1,844,530	1,676,062	1,502,590	1,323,976	1,140,078	950,622	755,466	554,470	347,500
<b>Total Debt Service Payments</b>									
	9,189,456	9,195,788	9,210,916	9,223,114	9,237,140	9,252,622	9,269,092	9,282,470	14,127,626
<b>Project Expenditures</b>									
TCC Renovation	3,000,000	-	-	-	-	-	-	-	-
AC Marriott Parking Garage	4,300,000	-	-	-	-	-	-	-	-
AC Marriot Debt Service Payments	-	192,000	192,000	192,000	192,000	192,000	192,000	192,000	3,628,000
Mission Gardens	1,000,000	-	-	-	-	-	-	-	-
Downtown Streetscapes	750,000	-	-	-	-	-	-	-	-
Marist College	1,350,000	-	-	-	-	-	-	-	-
Gadsden	-	2,200,000	-	-	-	-	-	-	-
Bourne - Citypark	-	2,600,000	-	-	-	-	-	-	-
Greyhound Depot Construction	1,900,000	-	-	-	-	-	-	-	-
Greyhound Depot Debt Service Payments	-	76,000	76,000	76,000	76,000	76,000	76,000	76,000	76,000
<b>Beginning Unrestricted Cash</b>	19,095,696	14,928,566	13,524,100	17,163,543	20,977,392	25,116,405	29,511,729	34,094,782	39,022,241
<b>Ending Unrestricted Cash</b>	<b>\$ 14,928,566</b>	<b>\$ 13,524,100</b>	<b>\$ 17,163,543</b>	<b>\$ 20,977,392</b>	<b>\$ 25,116,405</b>	<b>\$ 29,511,729</b>	<b>\$ 34,094,782</b>	<b>\$ 39,022,241</b>	<b>\$ 45,391,050</b>

Source - Rio Nuevo general ledger, Rio Nuevo approved 2016-2017 budget, Rio Nuevo supplemental projection of available cash for added projects through 2025, Rio Nuevo Debt Service Schedule (Schedule B - Table 2)

Note - Unrestricted Cash as of June 30, 2025 includes cash of approximately \$6 million that is currently restricted as of June 30, 2016, and is held in accounts by Zions Bank, the Fiscal Agent. It can be expected that these funds will be automatically applied to final debt service payments, or will be released from restrictions and returned to the District upon the full payment of the associated debt.

**RIO NUEVO RESPONSE**



October 4, 2016

Debra K. Davenport  
Auditor General  
Arizona Office of the Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Re: 2016 Rio Nuevo Multipurpose Facilities District Performance and Compliance Audit

Dear Ms. Davenport:

We are pleased to provide our response to the third tri-annual Performance and Compliance Audit (“P&C Audit”). As you are no doubt aware, these P&C Audits became a requirement in 2009 when the applicable statutes were amended to transfer control of the Rio Nuevo District to the Governor and the Legislature. What a difference a few years make, and what a difference between Rio Nuevo’s current P&C Audit and the first such audit in 2010.

The 2010 P&C Audit criticized Rio Nuevo for doing nothing on behalf of its primary component – the Tucson Convention Center (“TCC”). It generally described Rio Nuevo as being off-mission and mismanaged. More specifically, it concluded that in spending more than \$200,000,000 during its first ten years of existence, Rio Nuevo inappropriately “... embraced a multiple destination approach, rather than a focused and measured methodology to deliver the intended role and responsibilities of a multipurpose facility within the District.” [2010 P&C Audit at page 2.]

It went on to identify over a dozen areas of noncompliance:

Specifically, our analysis reveals that the District:

- Focused far broader than the statutory defined primary multipurpose facility;
- Decisions suggest the District operated more like a redevelopment agency than a multipurpose facility district for much of its existence;
- Pre-2010 Board appears to have exercised only marginal control and management over TIF funds and District funded projects;
- Generated significant TIF funds, but mostly due to the issuance of debt and its spending was broad and without assurances of essential outside funding;
- Spread the funding thin and to public works-type projects that have not brought the District anticipated economic results;

- Had not developed the TCC as an adequate catalyst for increasing incremental sales taxes;
- Can meet its existing financial obligations, but its longer term decisions and challenges are significant; and
- Showed various compliance issues that indicate a weak internal control environment and structure.

[2010 P&C Audit at page 3]

Flash forward to 2016. The P&C Audit just provided to you identified zero areas of District non-compliance. The auditors are extremely complimentary of Rio Nuevo's transparency and its use of State funds. Moreover, the auditors recognized us for dramatically leveraging State dollars by partnering with private sector developers and commercial banks to produce downtown developments worth seven times our invested dollars.

Unfortunately, however, we remain significantly hobbled by the approximate \$70 million of debt remaining from the prior administration. As indicated in Table 4-1 of the 2016 P&C Audit, Rio Nuevo has been able to successfully leverage \$12.35 million of TIF expenditures into \$180.2 million in various downtown redevelopment projects. If Rio Nuevo was relieved of the \$70 million of debt, it has the potential to leverage this resource base to further substantially enhance the TCC and its downtown environment, based on our efforts before and after the 2013 Performance and Financial Analysis.

Thanks in no small part to Rio Nuevo's efforts, downtown Tucson is now thriving. It was recently recognized as a worldwide food destination. Twenty-two housing projects have launched in the urban core. Professional hockey has landed at the TCC Arena. Caterpillar is moving its Surface Mining & Technology Division headquarters to downtown Tucson. The opening of the new AC Marriott Hotel is just a few months away, and new retail businesses abound. In short, Rio Nuevo has become the downtown catalyst that it was designed to be.

We are thrilled to be in 100% compliance and are very proud of our accomplishments in creating a State model of Tax Increment Financing. We are most proud of the transparency we have created in how we utilize State funds: every check written is posted to our web site, along with every contract, every project. Our meetings are totally transcribed. There is just no mystery any longer in how Rio Nuevo operates or how we spend money.

We will look at the auditor's recommendations about long-range financial forecasting and work with the Governor and legislative leadership to consider a long-term structure that assures the continued success and development of Tucson's downtown.

Fletcher J. McCusker  
Chairman