

A Message from Steve

Please be advised there is a public hearing of the Board of Directors of the Rio Nuevo Multipurpose Facilities District held on Wednesday June 23, 2010 from 6:15 to 8:00 p.m. at the Tucson Convention Center, Apache Room, 260 Church Avenue. This is such an important issue, I strongly urge you to attend and voice your opinion.



MEMORANDUM

DATE: June 22, 2010



TO: Honorable Mayor and Council
City Manager

FROM: Steve Kozachik
Council Member, Ward 6

SUBJECT: Convention Center, Headquarters Hotel, and Parking Garage

The Tucson Convention Center renovation and expansion, headquarters hotel, and associated parking garage collectively comprise what may be the largest public works project the City undertakes in our lifetimes. Because the Rio Nuevo District is unable to financially carry the project, city taxpayers will be asked (through City-backed bonds) to backstop over \$230 million in debt. I do not take this decision lightly, and neither does the Council, City staff, or the community.

Over the last several months the Council has been receiving information from many sources about building a convention center hotel. We have spent very little time discussing funding for the TCC expansion or the associated parking garage costs. Our Finance Department has correctly declared that this package is “all or nothing.” One piece cannot stand on its own and be a success.

It is with that larger picture in mind that I have been asking hard questions surrounding this project. Other Council Members have also asked important questions that still need to be answered. I believe, as representatives of all city residents, we must carefully and critically consider all relevant questions, data and solutions before making a decision that implies that this project is the best and most cost-effective way to achieve a vibrant and thriving downtown.

Before the Council engages in the “critical path” decision-making process that leads irreversibly to a decision with far-reaching consequences, it should consider some basic questions about this project. Some of these questions are philosophical; some are simply data-driven. Before we cross the line at which we are committed to moving forward with any of the proposals that are now on the table, we need to consider and discuss questions such as the following, as well as questions from other council members:

Is building a convention center headquarters hotel the best possible way to create a vibrant downtown at this time?

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City Manager

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- 1) Does Tucson need a new hotel downtown? If so, who should build and own it?
- 2) What are the costs and benefits for City ownership of a hotel? Will committing to backstop the \$230 million mean that the COT is unable to proceed with any other downtown projects?
- 3) In recent years, the City has received several proposals for building a new hotel; Would any of those developers be interested today?
If so, what financial package would they propose today? Is that a better alternative?
If not, why not?
- 4) Should the Mayor and Council approve a project that places the City in direct competition with the privately owned and operated hotels in Tucson?
- 5) Would the City seek to prevent construction of a major, privately owned hotel in order to prevent competition with the proposed City-owned hotel?
- 6) Is there another project scenario that would better create a vibrant downtown?

What are the possible negative consequences of building a convention center hotel?

- 1) If the economy were to face another downturn, what are the potential consequences? Would the City subsidize room rates in order to boost hotel occupancy? (The Phoenix Sheraton is offering to fly in potential customers, offering up to 45% off on prices, offering 15% off on IT and communication services, offering 33% off convention center group rates and 10% off from room blocks—all to try to drive traffic into their hotel.)
- 2) If the hotel failed to generate enough revenue to cover operating expenses, how much money is the City prepared to earmark for payment of debt service on hotel bonds in the event that hotel revenues are insufficient?
- 3) Given the level of competition for conventions, will Tucson be caught in a never-ending cycle of building bigger and better to stay competitive? On the flip side, with the impact of technology and the economy, will convention bookings reach a saturation point that makes convention center-sized hotels reach a state of having been overbuilt? Does such a facility even reflect the ethos of what Tucson is and wants to be? Specifically, is a 28-story tower compatible or out-of-scale with Tucson's historic barrio located just across the street?
- 4) What additional financial resources are needed to market the property and remain competitive over time? With limited funds available, how can we commit to these additional general fund expenditures for the future?

Is the information we have received reliable and complete?

- 1) As the competition among cities for convention business grows more intense, how likely is it that the hotel will fail to attract significant new business to the convention center, given the increasing amount of convention center space being built around the country?
- 2) Given that the HVS Feasibility Study does not quantify the assumptions on which their study relies, how do we as a council weigh their conclusions, which are based on assumptions, many of which will never occur? Has HVS been wrong in the past and if so, what were the consequences for the cities that relied on their analysis?
- 3) If the HVS study conclusions are in question, how does that affect all of the other studies that use them as a base?
- 4) Has anyone asked the convention bookers if the state of Tucson's downtown will affect their decision to book conventions here? Are the amenities that Tucson currently lacks important to their decisions?

If the Tucson taxpayers are going to be placed at risk, should all players have “skin in the game”?

- 1) What is the financial role Rio Nuevo should play in contributing to debt service and what does that do to the District's ability to fund other projects going forward?
- 2) Should the City demand that all players including Garfield Traub and Starwood share equally in the risk?
- 3) Should the City place a cap on the amount of General Fund money that can ever be put at risk for this project?

We should not make this decision in a vacuum, hearing only the voices of proponents of the hotel. I recommend the following:

- a) That we hear from Mr. Heywood Sanders (author of a Brookings Institution published study on Convention Center Hotels) and Mr. Thomas Hazinski (HVS) at the same Council meeting, as they share their differing perspectives about the reliability of economic projections of convention center venues.
- b) That we invite operators of existing hotels in the city to discuss the impact of a publicly-funded convention hotel on their operations.
- c) That we do this in joint meetings with the Rio Nuevo District Board, and that following those presentations we have an open dialogue around the table, addressing the questions I have posed above, and any others that council or board members may also wish to bring.
- d) We do all of that prior to authorizing the City Manager to move forward with the spending of staff time and taxpayer dollars, in support of the arbitrary timeline that has been established.

To reiterate, we as a council are faced with decisions about what may be the largest public works project the city will undertake for decades to come. We share that responsibility with the Rio Nuevo Multipurpose Facilities District Board. I have asked for a joint meeting with our partners on that board. That request was denied. I continue to believe such a meeting would be not only beneficial, but essential for us to share our mutual hopes and concerns, and to jointly develop a critical path for decision-making.

Sincerely,



Steve Kozachik
Council Member, Ward 6
<http://cms3.tucsonaz.gov/ward6>