

**RESOLUTION NO. 2012-09-20-0038R**

**A RESOLUTION**

**APPROVING AND ADOPTING THE CITY'S HOTEL OCCUPANCY TAX FUNDS FINANCIAL POLICY IN CONNECTION WITH THE CONVENTION CENTER REFINANCING AND EXPANSION PROJECT**

\* \* \* \* \*

**WHEREAS**, the City of San Antonio, Texas (the "**City**") currently owns and operates convention center facilities located in the downtown area of the City, including but not limited to the "Henry B. Gonzalez Convention Center" (the "**Existing Convention Center**"); and

**WHEREAS**, the City has financed the Existing Convention Center with proceeds derived from several series of "hotel occupancy tax revenue bonds" which have been secured with revenues derived from hotel occupancy taxes collected by the City pursuant to Chapter 351, Texas Tax Code ("**Chapter 351**"); and

**WHEREAS**, as authorized by Chapter 351, the City currently levies a hotel occupancy tax at the rate of 9% on the cost of occupancy of any sleeping room furnished by any hotel within the corporate limits of the City in which the cost of occupancy is \$2.00 or more a day, the revenues from which may be used only to promote tourism and the convention and hotel industry; and

**WHEREAS**, Chapter 351, particularly Section 351.101(a) thereof, restricts the use of hotel occupancy tax revenues only for purposes that "*promote tourism and the convention and hotel industry*" and specifically provides, in Section 351.101(b) thereof, that such revenues "*may not be used for the general revenue purposes or general governmental operations of*" the City; and

**WHEREAS**, the City collected hotel occupancy tax revenues in its fiscal year ending September 30, 2011 in the amount of \$62,967,070, the proceeds from which were used to pay debt service on outstanding hotel occupancy tax revenue bonds due and owing during such fiscal year in the amount of \$13,313,813, pay operations and maintenance expenses of the Existing Convention Center and the Alamodome in the amount of \$13,981,369, fund the annual budget of the City's Convention and Visitors Bureau in the amount of \$19,304,092, and provide support for the Arts and History & Preservation activities in the amount of \$14,681,016, and provide support for other programs to enhance Convention and Visitor activities in the amount of \$1,686,780; and

**WHEREAS**, the City has determined that it is appropriate and desirable to undertake a major expansion of the Existing Convention Center, which is generally described to include the construction and equipping of approximately 100,000 square feet of additional convention center

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facilities located to the east of the Existing Convention Center towards Interstate 37 and the demolition of certain portions of the Existing Convention Center upon completion of such addition (the "*Expansion Project*"); and

**WHEREAS**, financing for the Expansion Project, which is estimated to cost approximately \$325 million, will be derived from proceeds of "Lease Revenue Bonds" to be issued by a "Public Facilities Corporation" created by the City pursuant to Chapter 303, Texas Local Government Code, to assist with the financing of the Expansion Project; and

**WHEREAS**, the Lease Revenue Bonds to be issued by such Public Facilities Corporation also will refinance the Existing Convention Center by refunding all outstanding hotel occupancy tax bonds that were issued to finance the Existing Convention Center; and

**WHEREAS**, such Lease Revenue Bonds will be payable from "Lease Payments" provided by the City to the Corporation from any and all unencumbered revenues of the City that are lawfully available to be used for such purpose and that are appropriated by the City on an annual basis; and

**WHEREAS**, even though the City is lawfully permitted to use numerous other sources of revenues to appropriate to pay such Lease Payments on an annual basis, the City currently desires and expects to continue to utilize available hotel occupancy tax revenues to fully pay such Lease Payments in generally the same manner as it has used and applied hotel occupancy tax revenues to pay debt service on the outstanding hotel occupancy tax revenue bonds; and

**WHEREAS**, the Chief Financial Officer of the City has advised the City Council that it is appropriate and prudent for the City to formally adopt a "Hotel Occupancy Tax Funds Financial Policy" regarding the City's goals and expectations with respect to the use of the hotel occupancy tax revenues collected annually by the City in order to provide specific guidance to the City staff, particularly the Finance Department, with respect to how such revenues should be applied; and

**WHEREAS**, the Chief Financial Officer of the City has presented to the City Council a "Hotel Occupancy Tax Funds Financial Policy" in substantially the form attached to this Resolution as Exhibit A, and has recommended that the City Council adopt such Policy as an official policy of the City; and

**WHEREAS**, it is hereby further officially found and determined that the meeting at which this Resolution was passed was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code; **NOW THEREFORE:**

***BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS:***

**SECTION 1. ADOPTION OF FINANCIAL POLICY.** The City Council hereby formally approves the "Hotel Occupancy Tax Funds Financial Policy" in the form attached to this Resolution as Exhibit A for the purpose of providing guidance and direction to the City staff, particularly the Finance Department, with respect to the use and application of hotel occupancy tax revenues collected annually by the City. The City staff, particularly the City Manager, the Chief Financial Officer and the Director of Finance of the City, are hereby directed to cause the guidance and directions included in the Financial Policy to be followed by the City as closely as reasonably feasible and shall take such guidance and directions into account when establishing future annual budgets, financial plans and other actions that relate to the collection and application of hotel occupancy tax revenues.

**SECTION 2. INCORPORATION OF RECITALS.** The City Council hereby finds that the statements set forth in the recitals of this Resolution are true and correct, and the City Council hereby incorporates such recitals as a part of this Resolution.

**SECTION 3. EFFECTIVE DATE.** This Resolution shall take effect immediately upon passage by at least eight (8) affirmative votes; otherwise it shall be effective ten (10) days after its passage.

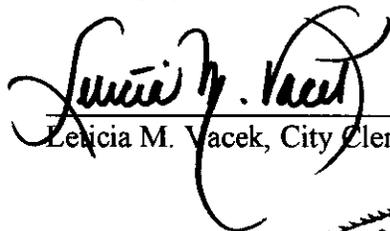
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**PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO, TEXAS AT A REGULAR MEETING ON THIS 20TH DAY OF SEPTEMBER, 2012.**

  
M A Y O R  
Julián Castro

**ATTEST:**

  
\_\_\_\_\_  
Leticia M. Vacek, City Clerk

**APPROVED AS TO FORM:**

  
\_\_\_\_\_  
Michael D. Bernard, City Attorney

(CITY SEAL)



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Execution Page to City Resolution Approving and Adopting the  
City's Hotel Occupancy Tax Funds Financial Policy  
in Connection with the Convention Center Expansion Project

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**EXHIBIT A**

**HOTEL OCCUPANCY TAX FUNDS FINANCIAL POLICY**

**Hotel Occupancy Tax Funds**  
**Financial Policy**

Draft 9/14/12A

**Background**

The Henry B. Gonzalez Convention Center (Convention Center) was originally built as part of the 1968 HemisFair World's Fair. Since then, it has been expanded three times and doubled in size in 1999. Currently, the Convention Center has 1.3 million square feet, hosts over 300 events per year with 750,000 delegates annually. With strong market demand for space, the City is moving forward with a major expansion of the Convention Center which provides an opportunity to create uniform quality throughout the Convention Center, contiguous exhibit halls, and modernization to meet the future needs of the market. The proposed expansion will increase the Convention Center's prime contiguous exhibit space from 426,000 square feet to at least 500,000 square feet. It will include a new multi-purpose room of approximately 65,000 to 80,000 square feet and a new ballroom of approximately 50,000 square feet which would be the largest in Texas.

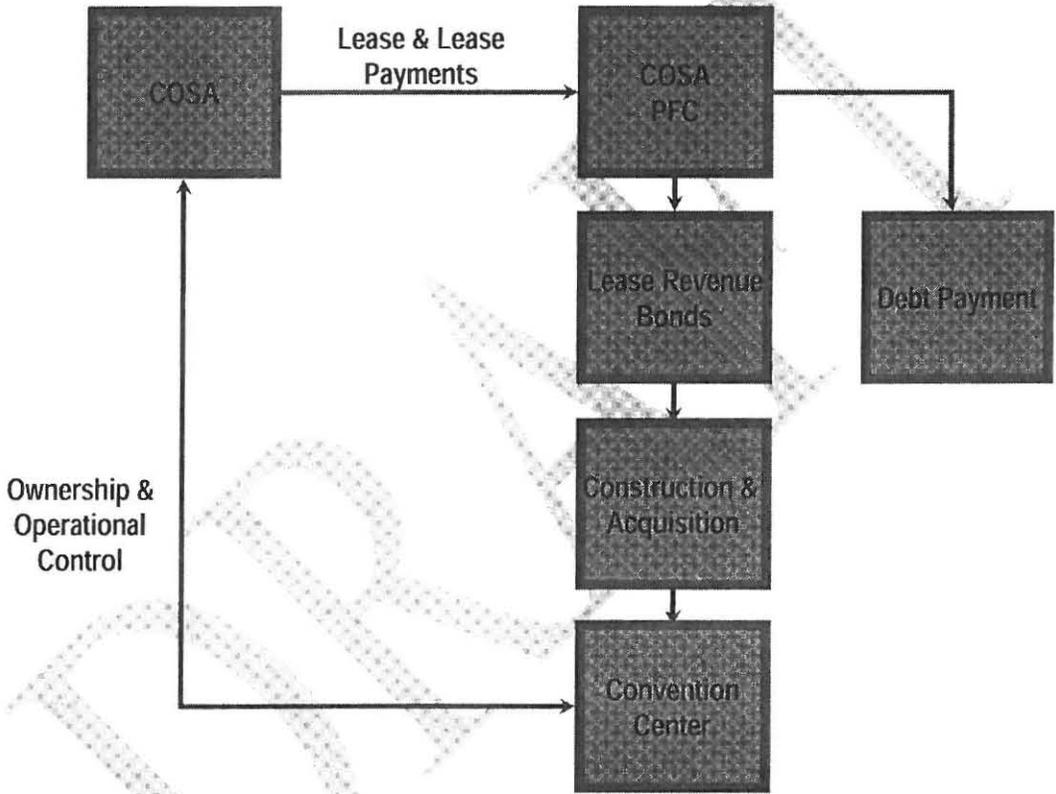
Once the expansion is complete which is anticipated in April 2016, the City will proceed with the demolition of the west wing of the existing Convention Center which is the oldest part constructed in 1968. Demolition of the west wing will provide for redevelopment opportunities and is part of the HemisFair Park Master Plan (Master Plan). HemisFair is a 75 acre park which includes the Henry B. Gonzalez Convention Center and the Tower of Americas. The Master Plan for the HemisFair considers preservation, public space, mixed used development, connectivity for pedestrians, bicyclist, and automobiles, and provides for an appropriate balance between park space and development while committing to environmental sustainability.

To fund the expansion of the Convention Center at an estimated cost of \$325 million, the City has developed a plan of finance. This plan of finance includes the issuance of approximately \$544 million through a Public Facilities Corporation (PFC) to fund the estimated \$325 million cost of the expansion of the Convention Center and to refinance the City's outstanding Hotel Occupancy Tax Revenue Bonds. The debt issued through the PFC includes a pledge by the City of any lawfully available revenues of the City subject to annual appropriation. However, internally, the City plans to utilize its Hotel Occupancy Tax (HOT) revenues to repay this debt.

The issuance of debt through the PFC allows the City to capitalize on the City's excellent 'AAA' general obligation bond ratings from each of the three major rating agencies which will result in a significantly lower cost of borrowing. One of the key factors of these strong bond ratings is the City's strong financial management which includes its financial management policies and practices. To facilitate the proactive management of the debt issued through the PFC, the City has developed financial management guidelines which are discussed below.

**PFC Structure**

The City created the City of San Antonio Public Facilities Corporation in June 2012 as a non-profit public facility corporation for the purpose of financing the expansion of the Convention Center and refinancing the existing HOT debt. The PFC is governed by an 11 member Board of Directors composed entirely by members of the City Council. The following diagram illustrates the flow of funds under the PFC:



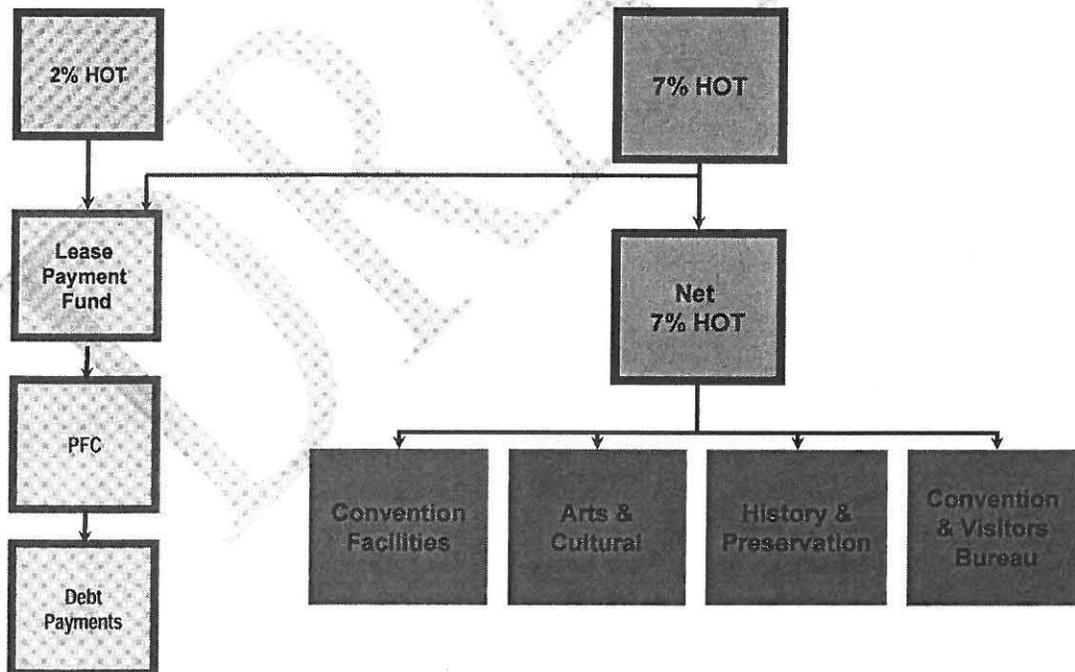
Under this structure, the PFC will issue Improvement and Refunding Lease Revenue Bonds (the PFC Bonds) to provide funds to finance the expansion of the Convention Center and refinance the City’s existing HOT bonds. The City will continue to own and operate the Convention Center and will enter into a lease with the PFC under which the lease payments will be equal to the debt service on the PFC Bonds. The PFC will utilize the lease payments from the City to make the debt service payment on the PFC Bonds.

The debt issued through the PFC will be amortized over a thirty year period with a ten year call provision and the City has pledged any lawfully available revenues of the City subject to annual appropriation to make the lease payment to the PFC. However, the City intends to utilize its HOT revenues to make the lease payments to the PFC.

**HOT Revenues**

The City currently collects a 7% General HOT and a 2% Expansion HOT which can only be utilized by the City for eligible purposes identified under the Texas Tax Code Section 351.101(a), (b) and (e) and Section 351.1065. The 7% General HOT is used to support tourism, convention activities, as well as arts and cultural programming. It includes funding up to 15% for Arts, up to 15% for History and Preservation, Convention Facilities, and the Convention and Visitors Bureau. The 2% HOT can only be used to support expansion of the Convention Center facility.

With the issuance of the debt by the PFC, the City will utilize all of its 2% Expansion HOT along with a portion of the incremental annual growth from the 7% General HOT to make the required annual lease payments to the PFC. The amount of 7% General HOT required to be contributed towards lease payments will be applied first leaving a Net 7% General HOT which will be utilized for aforementioned operating categories. The allocation of up to 15% for Arts and History and Preservation will be applied to the Net 7% General HOT. The following diagram illustrates the proposed utilization of HOT revenues.



### **Plan of Finance**

HVS Convention Sports & Entertainment Facilities Consulting was engaged as an independent consultant by the City to provide a thirty year forecast of the City's HOT revenues which were utilized as the basis for structuring the debt issued through the PFC. A thirty year proforma was developed which includes projections for the following:

- 2% Expansion HOT revenues – fully utilized toward funding the required lease payments to the PFC;
- 7% General HOT revenues – allocated between HOT revenues required to be utilized for funding lease payments to the PFC and HOT revenues available for operations;
- Required lease payments to the PFC equal to the annual debt service on the PFC Bonds;
- Operating Expenses – expenses for the Convention Center facility, Convention and Visitors Bureau, Arts and Cultural Affairs, and History and Preservation eligible categories;
- Operating Contingency Fund – contingency fund with a \$15 million beginning balance to be utilized by the City to smooth out fluctuations in HOT revenues and address unanticipated operational related expenses;
- Lease Payment Contingency Fund – contingency fund with a \$46.6 million beginning balance to be utilized by the City to manage changing economic conditions in conjunction with other financial strategies and can be used to make lease payments; and
- Interest Earnings – interest earned on contingency and other cash balances.

### **Financial Management**

As part of the City's annual budget process, the City will update the operating proforma for the HOT Fund to include major assumptions and projections. Actual financial information will be included in the proforma and compared to prior year estimates and projections for the remaining years in the proforma and will be revised as necessary. The City will take into consideration relevant factors such as national and local economic conditions, key HOT revenue indicators, interest rate environment, growth/decline in HOT revenue, contingency funds, and change in operating expenses.

The contingency funds are a key component of the financial management of the HOT Fund and lease payment obligations to the PFC. These contingency funds provide the City with flexibility to adapt to changing economic conditions and significantly extend the time horizon for the City to make adjustments as it manages the overall financial plan. The contingency

funds should only be used as necessary to preserve the HOT financial plan and should take into consideration the impact of other financial strategies.

Based upon the annual update to the proforma, the City will make determinations on whether adjustments to the financial plan are necessary such as whether to utilize or add to the contingency funds and level of growth or reduction in operating expenses. The City will actively manage operating expenses to be funded through the HOT Fund.

In the event actual HOT revenues are exceeding projections, the City will assess the amount of growth in operating expenses to ensure that these expenses do not grow rapidly in high growth years putting greater pressure on the HOT Fund in slow or declining periods resulting in dramatic operating reductions in those years. In these instances, the City may increase the lease payment contribution from the gross 7% General HOT resulting in a reduction in the amount of Net 7% General HOT available for operations and instead place these additional funds into the contingency funds.

In the event actual HOT revenues are below projections, the City may maintain expense levels or implement expense reductions as necessary. Additionally, the City will make a determination on whether to draw from any of the contingency funds in order to manage the overall HOT financial plan. These financial strategies may be implemented individually or in conjunction with one another or other strategies to effectively and prudently manage the HOT financial plan.

The City will also evaluate the level of funding within the contingency funds and if excess funds are available, the City may utilize the contingency funds to exercise its voluntary call options and defease a portion of the outstanding PFC Bonds or fund one-time improvements such as improvements to the convention center facility or sales and marketing programs.

**CERTIFICATE FOR RESOLUTION**

I, the undersigned City Clerk of the CITY OF SAN ANTONIO, TEXAS (the "*City*"), hereby certify as follows:

1. The City Council of the City convened in REGULAR MEETING ON THE 20<sup>TH</sup> DAY OF SEPTEMBER, 2012 at the City Hall, and the roll was called of the duly constituted officers and members of said City Council, to wit:

Julián Castro, Mayor  
Diego M. Bernal, Councilmember, District 1  
Ivy R. Taylor, Councilmember, District 2  
Leticia d. Ozuna, Councilmember, District 3  
Rey Saldaña, Councilmember, District 4  
David Medina, Jr., Councilmember, District 5

Ray Lopez, Councilmember, District 6  
Cris Medina, Councilmember, District 7  
W. Reed Williams, Councilmember, District 8  
Elisa Chan, Councilmember, District 9  
Carlton Soules, Councilmember District 10

all of said officers and members of said City Council were present, except the following absentees:       NONE      . Whereupon, among other business, the following was transacted at said Meeting: a written

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OCCUPANCY TAX FUNDS FINANCIAL POLICY IN CONNECTION WITH THE  
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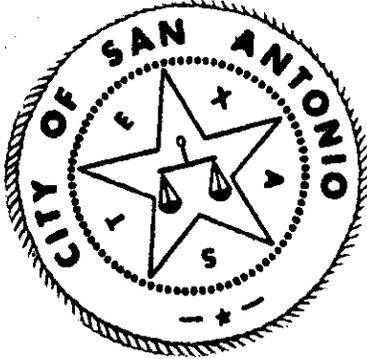
was duly introduced for the consideration of said City Council. It was then duly moved and seconded that said Resolution be passed on first reading and, after due discussion, said motion carrying with it the adoption of said Resolution, prevailed and carried by the following vote:

AYES: 11 NOES: Ø ABSTENTIONS: Ø

2. A true, full and correct copy of the aforesaid Resolution adopted at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; the Resolution has been duly recorded in said City Council's minutes of said Meeting; the above and foregoing paragraph is a true, full and correct excerpt from said City Council's minutes of said Meeting pertaining to the passage of said Resolution; the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of said City Council as indicated therein; each of the officers and members of said City Council was duly and sufficiently notified officially and personally, in advance, of the time, place and purpose of the aforesaid Meeting, and that said Resolution would be introduced and considered for passage at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose, and that said Meeting was open to the public and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code.

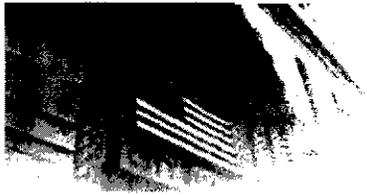
SIGNED AND SEALED THE 20<sup>TH</sup> DAY OF SEPTEMBER, 2012.

(Seal)



*Leticia M. Vaca*  
\_\_\_\_\_  
City Clerk, City of San Antonio, Texas

Execution Page to Certificate for Resolution Approving  
Hotel Occupancy Tax Funds Financial Policy  
in Connection with the Convention Center Expansion Project



Request for  
**COUNCIL  
 ACTION**

City of San Antonio



## Agenda Voting Results - 6C

<b>Name:</b>	6A, 6B, 6C, 6D, 6E						
<b>Date:</b>	09/20/2012						
<b>Time:</b>	10:30:09 AM						
<b>Vote Type:</b>	Motion to Approve						
<b>Description:</b>	A Resolution approving and adopting the City's Hotel Occupancy Tax Funds Financial Policy in connection with the Convention Center Expansion Project.						
<b>Result:</b>	Passed						
Voter	Group	Not Present	Yea	Nay	Abstain	Motion	Second
Julián Castro	Mayor		x				
Diego Bernal	District 1		x				
Ivy R. Taylor	District 2		x				
Leticia Ozuna	District 3		x				
Rey Saldaña	District 4		x			x	
David Medina Jr.	District 5		x				
Ray Lopez	District 6		x				
Cris Medina	District 7		x				
W. Reed Williams	District 8		x				x
Elisa Chan	District 9		x				
Carlton Soules	District 10		x				