

SECTION VIII

RECOMMENDED FUNDING SOURCES

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A. FUNDING REQUIREMENTS

Section VII indicated that on-site development costs for the proposed convention center in Lynnwood (excluding land and off-site infrastructure) are estimated at approximately \$17.0 million. If the City of Lynnwood opts to finance this total construction cost, annual debt payments are estimated at approximately \$1,247,000, assuming financing terms of 5.5 percent over the course of 25 years.

In addition, as highlighted in Section __, the proposed convention center in Lynnwood' is projected to operate at a loss of approximately \$____ in a stabilized year of operation (in current, 2000 value dollars). Based on the foregoing operating loss and debt service payments related to the proposed convention center in Lynnwood, the annual funding requirements for the project are estimated to be on the order of \$____ million per year (\$____ for the operating deficit + \$____ for the fixed debt service payments).

Also indicated in Section __ is that the comparable Northwest convention centers are operating with a deficit, which is very common for public convention facilities nationwide. Our research indicates, for example, that the Meydenbauer Center covers all of its operating loss via hotel/motel tax and interest income revenues. As will be discussed at the end of this section of the report, although convention centers operate with a deficit, these facilities tend to benefit the cities in which they operate via the economic multiplier, or ripple, effect.

B. FINANCING OPTIONS AND RECOMMENDATIONS

1. Potential Sources of Financing

Financing for the construction and operation of convention centers is ideally provided by those entities that are positioned to benefit directly from its operation, namely area lodging facilities, dining establishments, wealthy alumni of a local university, and large entertainment venues such as theme parks. In Lynnwood, however, there are no large entertainment venues.

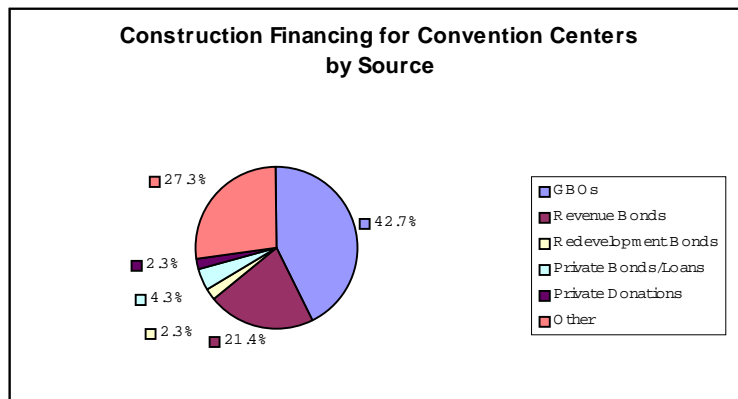
According to the International Association of Assembly Managers (IAAM), approximately 54.0 percent of convention centers with under 100,000 square feet receive dedicated tax or other support to help cover operating costs, with the majority coming from TOT. According to the IAAM, the following funding sources are also possible for covering convention center operating losses:

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1. Admissions/Amusement/Entertainment Tax;
2. Endowment Income;
3. Grants;
4. Parking Tax;
5. Redevelopment Tax;
6. Restaurant Tax;
7. Sales Tax;
8. Student Service Fees;
9. Transfers from Revolving Fund; and
10. Ticket Surcharges.

Of note is that the use of tax increment financing (TIF), examples of which are presented above, is popular but involves the raising of taxes, a potentially sensitive issue among local voters.

As pertains to construction cost financing, the IAAM indicates that general obligation bonds (GOBs) are the most common form of funding (at 42.7 percent), followed by "other" sources, and then by revenue bonds (21.4 percent), as shown in the chart below.



Revenue bonds, such as industrial revenue bonds (IRBs), involve a company that wants to acquire and/or construct and/or equip a facility. Instead of purchasing, constructing, or equipping the facility directly, the company enters into an agreement (usually a lease) with the issuer. The agreement provides that the company will lease the facility from the issuer and, at the end of the lease term, purchase the facility from the issuer for a nominal amount. The issuer agrees to purchase, construct, or equip the facility (the company does so as the agent of the issuer). In order to obtain the funds to purchase, construct, or equip the facility, the issuer then issues the

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bonds. The proceeds of the bond sale are used to pay the expenses of the facility. The bonds are payable solely from the payments (rent) by the company to the issuer. The property tax exemption available through the IRB process results from the fact that title to real property and improvements associated with IRB projects is held by the governmental issuer, and property of a county or municipality is exempted from taxation.

2. Recommendations

Since the proposed convention center will primarily benefit the residents of Lynnwood, a substantial portion of the costs relating to the facility could be funded through the issuance of general obligation bonds (GOBs), after appropriate voter approval. In addition, we recommend the consideration of financing through a combination of available cash and TOT revenue.

As indicated in Section II, TOT in Lynnwood, which is at 10.6 percent of the rooms revenue generated by hotels in the city, is on par with the TOT in other cities throughout Washington. As such, a 40-basis-point increase in TOT, up to 11.0 percent, could assist in covering a portion of the operating loss and the debt service payments. The incremental TOT resulting from such a hypothetical increase would be approximately \$_____, assuming an improvement in the Lynnwood hotel market's performance by the year the proposed convention center stabilizes in 2004, as modeled below.

Potential Incremental TOT Revenue						
	Lynnwood Occupancy	Lynnwood ADR	Annual Availabl e Rooms (¹)	Resulting Aggregate Rooms Revenue (Rounded)	TOT	TOT Revenue
1999 (Estimated)						
2004 (Projected)						
TOT Increment						
⁽¹⁾ Assumed a static Lynnwood hotel supply.						
⁽²⁾ Assuming a 3.0% percent growth in ADR.						
Source: PKF Consulting						

Lastly, other potential financing sources would need to be sought to cover the balance of the operating costs and debt service payments. Such sources could include funds derived via a potential increase in sales tax (currently at ___ percent), the creation of a countywide tourism tax, and direct funding granted by the State of Washington or the Federal Government.

C. ECONOMIC IMPACT

As indicated previously, based on the analysis of facility rental, food and beverage revenue, other operating revenues, and expenses for the first three years of operation, total income in the stabilized year is expected to be \$___ annually in 2000 value dollars. Total expenses are expected to be approximately \$___, with a resulting deficit of approximately \$_____ annually.

Although beyond the scope of this report, it is important to note that positive economic impacts from the operation of the proposed convention center in Lynnwood should result from the importation of new spending into the local economy.

Economic impacts in their simplest form can be measured by estimating total direct expenditures resulting from facility operations. But to equate new direct expenditures with total benefits would ignore the so-called economic multiplier effect as these dollars are re-spent within the local and regional economy. This increased business activity, or indirect benefit from subsequent rounds of spending, is also commonly known as the ripple effect.

The size of a given region's multiplier is directly related to a region's geographic size, population, and the diversity of its industrial and commercial base. A larger population is generally able to support a more diverse economic base, and more products are likely to be manufactured and purchased locally. Therefore, money injected into the economy is re-spent more often, causing greater changes in local business volume.

Annual or recurring economic impacts from a convention center's operations result primarily from spending by conventions (national, regional, and state associations), as well as consumer show attendees, since these events include a large portion of out-of-town visitors. Consumer shows and local events tend to generate far less impact because their attendees are local residents.

Economic impacts from conventions and trade shows result primarily from spending by overnight visitors, defined as those visitors requiring hotel rooms. The balance of these event attendees who do not fly or drive in for the day, and do not require hotel rooms (day-trippers), also generate economic impact, albeit to a lesser degree. Most of these day-trippers are likely to be from within the State of Washington or also from the Seattle MSA.

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The cumulative effect of new money injected into the Lynnwood economy could be measured in terms of three distinct impacts: sales volume, employment, and resident income.

- **Sales Volume:** Changes in sales volume represent the increase in a region's local aggregate economic activity resulting from new dollars "imported" into an economy. In other words, it is the total dollar flow of the major economic sectors (wholesale, retail, manufacturing, and services), and is generally equivalent to the gross product of given area (i.e. Snohomish County). Specifically, the economic sub-sectors that are affected include transportation, shopping outlets, hotel/entertainment, business services, and eating and drinking places.
- **Employment:** Because of the changes in sales volume, local enterprises, depending on their excess capacity, may need to hire additional employees. Employment impact, therefore, represents the number of employees hired as a result of total changes in sales volume.
- **Resident Income / New Jobs:** Resident income represents changes in state resident earnings that would result from increased employment and spending due to the import of new dollars into the Lynnwood/Snohomish County economy.

In addition to the economic impact mentioned above, the proposed convention center should also benefit the local economy via primary sources of tax revenue attributed to attendee spending, namely sales tax and transient occupancy tax (TOT).