

ANCHORAGE, ALASKA
AO No. 2005-89

CLERK'S OFFICE

APPROVED

Date: 8-9-05

**AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE SECTION 12.20.020
TO IMPLEMENT BALLOT PROPOSITION 2 APPROVED APRIL 5, 2005
AUTHORIZING A FOUR PERCENT (4%) INCREASE IN THE ROOM TAX.**

THE ANCHORAGE ASSEMBLY ORDAINS:

Section 1. Anchorage Municipal Code section 12.20.020 is amended as follows:

12.20.020 Levy, payment, collection and distribution of tax revenues.

- A. Subject to the provisions of this chapter, there is hereby levied a tax on all room rents in an amount equal to twelve [EIGHT] percent (12%) of the room rent paid to an operator.
1. The guest shall pay the tax to the operator at the time the rent is paid, provided however, that tax paid on rents which subsequently qualify for an exemption from this tax shall be refunded by the operator to the guest and shown as a credit on the guest's bill.
2. The operator shall collect the tax when the operator collects the rent and shall state the tax as a separate item on the guest's bill.
- B. One-third [ONE-HALF] of the total tax revenues received, less administrative and enforcement related expenses, are dedicated to promotion of the tourism industry, which includes use of funds for any purpose set forth in subsection C.
- C. One-third of the total tax revenues received, less administrative and enforcement related expenses, are dedicated to financing the design, site acquisition, construction, landscaping, bonded debt service or lease payments, carrying costs, and operation, and/or maintenance of the new civic and convention center, including parking facilities, and the renovation, operation and maintenance of the existing Egan Civic and Convention Center.
- D. If all or a portion of the taxes levied and dedicated to the purposes in subsection C. are no longer needed for the purposes described in subsection C., including repayment of bonded indebtedness, the assembly shall consider whether the tax increase levied pursuant to AO 2005-17, approved by the voters as ballot proposition 2 on April 5, 2005, shall be eliminated or reduced.

(GAAB 10.20.020; AO No. 79-178, 11-1-79; AO No. 79-200; AO No. 82-27; AO No. 84-40; AO No. 86-210; AO No. 87-80(S), 9-1-87; AO No. 87-100; AO No. 96-103, § 1, 4-1-97; AO No. 97-3, § 1, 4-1-97; AO No. 2003-152S, § 9, 1-1-04)

Section 2. The increase in tax from eight percent (8%) to twelve percent (12%) shall go into effect and be due for all room rentals for which the guest occupies or the operator retains rent for the room on or after January 1, 2006, regardless of the date the guest reserves the room or the date the guest makes payment for the room.

Section 3. This ordinance amending the provisions of section 12.20.020 shall become effective on January 1, 2006

PASSED AND APPROVED by the Anchorage Assembly this 9th day of August, 2005.

Anna J. Fairclough
Chair of the Assembly

ATTEST:

Antonia E. Daniels
Municipal Clerk

MUNICIPALITY OF ANCHORAGE
Summary of Economic Effects -- General Government

AO Number: 2005-89

Title: AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE SECTION
12.20.020 TO IMPLEMENT APRIL 5, 2005 BALLOT PROPOSITION 2
AUTHORIZING A FOUR PERCENT INCREASE IN THE ROOM TAX.

Sponsor: Mayor
Preparing Agency: OMB
Others Impacted:

CHANGES IN EXPENDITURES AND REVENUES:

	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>
Operating Expenditures					
1000 Personal Services					
2000 Non-Labor					
3900 Contributions					
4000 Debt Service					
TOTAL DIRECT COSTS:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Add: 6000 Charges from Others					
Less: 7000 Charges to Others					
FUNCTION COST:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

REVENUES:

CAPITAL:

POSITIONS: FT/PT and Temp

PUBLIC SECTOR ECONOMIC EFFECTS:

This ordinance has the same public sector economic effects as those presented in the Summary of Economic Effects at the time AO 2005-17 was adopted (see attached copy). There are no additional administrative costs associated with implementation.

PRIVATE SECTOR ECONOMIC EFFECTS:

This ordinance has the same private sector economic effects as those presented in the Summary of Economic Effects at the time AO 2005-17 was adopted (see attached copy). There are no changes in terms of impact on the private sector.

Prepared by: Janet Mitson, Director

Telephone:

MUNICIPALITY OF ANCHORAGE

Summary of Economic Effects -- General Government

AO Number: 2005-17

Title: AN ORDINANCE SUBMITTING TO THE QUALIFIED VOTERS OF THE MUNICIPALITY OF ANCHORAGE A BALLOT PROPOSITION AMENDING THE ANCHORAGE MUNICIPAL CHARTER TO PROHIBIT USE OF PROPERTY TAX REVENUES FOR CONSTRUCTION, MAINTENANCE OR OPERATION OF A CONVENTION CENTER, TO ADOPT A FOUR PERCENT (4%) TAX TO SUPPORT ISSUANCE OF REVENUE BONDS TO FINANCE A CONVENTION CENTER AND RENOVATION OF THE EGAN CIVIC AND CONVENTION, AND TO PROVIDE FOR APPROVAL BY A MAJORITY (FIFTY PERCENT PLUS ONE) OF QUALIFIED VOTERS VOTING ON THE QUESTION.

Sponsor:

Preparing Agency:

Others Impacted:

CHANGES IN EXPENDITURES AND REVENUES:				
	(In Thousands of Dollars)			
	FY05	FY06	FY07	FY08
Operating Expenditures				
1000 Personal Services				
2000 Non-Labor				
3900 Contributions		\$ 6,145,522	\$ 6,463,364	\$ 6,523,649
4000 Debt Service				\$ 7,189,537
5000 Debt Service				
TOTAL DIRECT COSTS:	\$ -	\$ 6,145,522	\$ 6,463,364	\$ 6,523,649
Add: 6000 Charges from Others				\$ 7,189,537
Less: 7000 Charges to Others				
FUNCTION COST:	\$ -	\$ 6,145,522	\$ 6,463,364	\$ 6,523,649
REVENUES:				\$ 7,189,537
CAPITAL:		\$ 6,145,522	\$ 6,463,364	\$ 6,523,649
POSITIONS: FT/PT and Temp				

PUBLIC SECTOR ECONOMIC EFFECTS:

The revenues indicated above will be generated through the proposed 4% increase in the room tax combined with interest earned on the operating reserve fund and bond redemption funds. The expenditures are expected to be in the form of lease payments to a non-profit entity that will sell tax exempt bonds and own the facility while the bonds are outstanding. The terms of tax exempt debt, known as 63-20 debt based on the IRS letter ruling that authorizes such debt, will include a requirement that ownership of the convention center is transferred to the Municipality of Anchorage when the debt is fully paid (30 years). The non-profit will use the lease payments received from the MOA to make principal and interest payments on the debt. Revenue generated in excess of amount required to be paid by the lease agreement will be combined with a \$500,000 annual contribution from the MOA's share of the current room tax to support a \$1.6 million annual operating subsidy that will be paid to the ACVB, the contract operator of the convention center. Any net revenue still remaining after the operating subsidy payment may be used to help fund a capital reserve fund or transferred to the MOA.

PRIVATE SECTOR ECONOMIC EFFECTS:

copy of the private sector impacts were addressed in an economic analysis prepared by Northern Economics dated January, 2005. A copy of the Executive Summary from that report is attached.

Prepared by:

Jeffrey E. Sinz

Telephone: 343-6619

MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

No. AM 482 -2005

Meeting Date: July 12, 2005

From: MAYOR

**Subject: AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE
SECTION 12.20.020 TO IMPLEMENT BALLOT PROPOSITION 2 APPROVED
APRIL 5, 2005 AUTHORIZING A FOUR PERCENT (4%) INCREASE IN THE
ROOM TAX.**

This ordinance implements the Ballot Proposition approved by the voters to increase the Room Tax from eight percent (8%) to twelve percent (12%), and use the four percent (4%) increase for financing construction of a facility on Block 80, renovation of the Egan Civic and Convention center and operation of the convention centers.

This ordinance adds a new section to the existing Room Tax code to increase the tax from eight percent (8%) to twelve percent (12%), and to commit the increased amount to construction, renovation, and operation of the convention center. This ordinance also amends the existing section of the Room Tax that commits a separate four percent (4%) of the tax to promotion of tourism. Last year the Municipal Attorney advised that "tourism" included providing financial support to the construction and operation of the convention center. With the addition of a specific dedication of four percent (4%) to financing the convention center, it is possible a court might conclude "Tourism" does not include financial support for the convention center. The intent is still to use all, or almost all, of "Tourism" funds in the same manner they are currently used to develop and encourage tourism. A portion of these tax receipts may be used either directly or indirectly to support financing of the convention center. This amendment assures investors that use of the funds for such purpose is authorized and legal.

The ordinance makes the tax effective on January 1, 2006. The ballot proposition did not establish a date because, at the time, the optimal date for implementing the tax (balancing notice to the industry with financing needs) was unknown.

A separate section of the ordinance tasks the Assembly with considering whether the tax should be reduced or eliminated when it is no longer needed to repay bonds.

THE ADMINISTRATION RECOMMENDS APPROVAL OF THE ORDINANCE IMPLEMENTING
BALLOT PROPOSITION 2, A FOUR PERCENT ROOM TAX APPROVED BY THE VOTERS AT
THE APRIL 5, 2005 ELECTION.

Prepared by:	Department of Law
Approved by:	Frederick H. Boness, Municipal Attorney
Concur:	Jeffrey E. Sinz, Chief Fiscal Officer
Concur:	Denis C. LeBlanc, Municipal Manager
Respectfully submitted:	Mark Begich, Mayor

Content Information**Content ID :** 003032**Type:** Ordinance-InvolvingFunds - AO

Title: AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE
SECTION 12.20.020 TO IMPLEMENT BALLOT PROPOSITION 2
APPROVED APRIL 5, 2005 AUTHORIZING A FOUR PERCENT
(4%) INCREASE IN THE ROOM TAX.

Author: curtiscr2**Initiating Dept:** Legal

Description: AN ORDINANCE AMENDING ANCHORAGE MUNICIPAL CODE
SECTION 12.20.020 TO IMPLEMENT BALLOT PROPOSITION 2
APPROVED APRIL 5, 2005 AUTHORIZING A FOUR PERCENT
(4%) INCREASE IN THE ROOM TAX.

Keywords:**Date Prepared:** 6/30/05 4:11 PM**Director Name:** Frederick H. Boness**Assembly****Meeting Date** 7/12/05**MM/DD/YY:**

Public Hearing
Date MM/DD/YY: 8/9/05

M.O.A.
2005 JUL -5 PM 12:33
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Workflow History

<u>Workflow Name</u>	<u>Action Date</u>	<u>Action</u>	<u>User</u>	<u>Security Group</u>	<u>Content ID</u>
AllFundOrdinanceWorkflow	6/30/05 4:15 PM	Checkin	fehlenrl	Public	003032
Legal_SubWorkflow	6/30/05 4:17 PM	Approve	fehlenrl	Public	003032
OMB_SubWorkflow	6/30/05 4:20 PM	Approve	mitsonjl	Public	003032
CFO_SubWorkflow	6/30/05 4:57 PM	Approve	sinzje	Public	003032
MuniManager_SubWorkflow	7/1/05 12:29 PM	Checkin	curtiscr2	Public	003032
MuniManager_SubWorkflow	7/1/05 1:16 PM	Approve	leblancdc	Public	003032
MuniMgrCoord_SubWorkflow	7/1/05 4:06 PM	Approve	curtiscr2	Public	003032

Economic Analysis of the Proposed Anchorage Civic and Convention Center

Prepared for

Anchorage Civic and Convention Center—Yes

January 2005

Prepared by


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Abbreviations

ACCC	Proposed Anchorage Civic and Convention Center Complex (includes the Egan Center and a new facility)
ACCT	Alaska Center for Convention and Trade, LLC
ACVB	Anchorage Convention and Visitors Bureau
AFN	Alaska Federation of Natives
AFS	American Fisheries Society
IACVB	International Association of Convention and Visitor Bureaus
I-O	Input-Output analysis

Executive Summary

Plans are underway to build a new convention center in Anchorage. The decision hinges on whether Anchorage voters approve an increase in bed tax from 8 to 12 percent. With an increase in the bed tax, all visitors to Anchorage (almost 900,000 people last year) will help pay for the construction and operation of a needed new civic and convention center. Bed tax revenues are anticipated to generate more income than required to meet the annual debt service payments. In addition, up to \$1.6 million of this surplus bed tax revenue and other income from the center will be used to support the operations of the new facility and the Egan Center. No MOA property taxes will be used to fund construction or operation of the proposed new center.

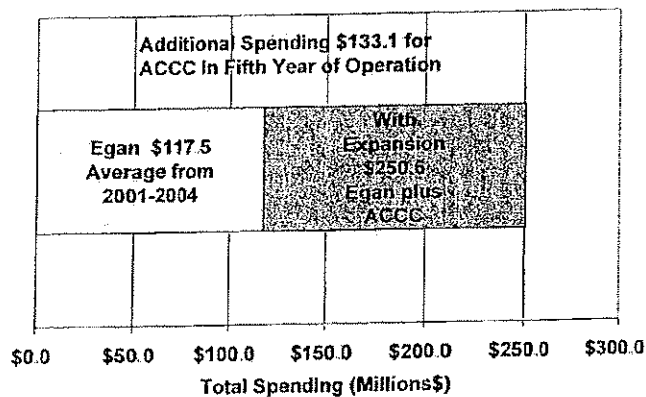
A potential site has been selected, and the Municipality of Anchorage (MOA) has signed an agreement with the Alaska Center for Convention and Trade, LLC (ACCT). ACCT's funding plan was developed with the guidance of J.P. Morgan, a prominent investment banking firm, and the plan underwent extensive review by the MOA, the MOA's bond counsel, and legal counsel.

Plans call for a new \$93 million convention center located on block 80 between the ConocoPhillips Building and the Atwood Building. A new parking garage with 465 spots will replace the parking lost by building on Block 80. The Egan Center will continue in operation.

Economic Impact

The level of economic activity generated by the Egan Center through spending by Anchorage residents and out-of-town visitors is estimated at an average of \$117.5 million for each of the past four years. The Anchorage Civic and Convention Center complex, which includes the Egan Center and the new facility, will increase the amount of economic activity generated by the meeting and visitor industry in Anchorage. Direct spending for the proposed new complex in its fifth year of operation would be \$250.6 million—an increase of \$133.1 million over continued operation of only the Egan Center.

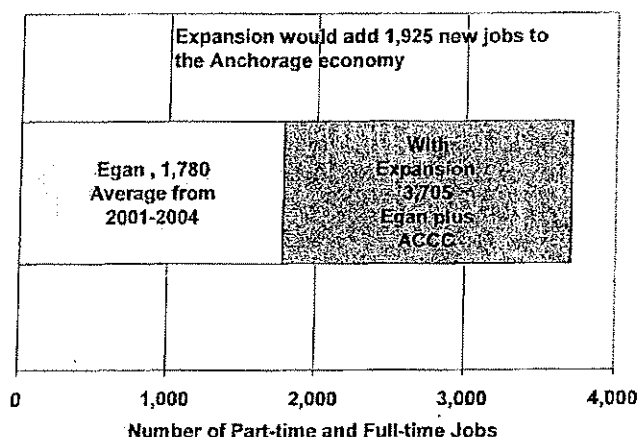
Figure ES-1. Annual Total Spending in Anchorage Generated by Egan/ACCC



Notes: Annual spending is expressed in 2004 dollars. Annual spending reflects average attendance at Egan Center events from 2001 to 2004 and projected increase in event days with the new facility and expenditure patterns of local and non-local delegates.

Spending by the delegates, attendees, exhibitors, sponsors, and the operations and maintenance of the facility will result in new jobs in Anchorage. Figure ES-2 compares the average annual number of direct and indirect jobs created by all economic activity associated with the Egan Center for 2001 through 2004 to the number of jobs that would be generated by the new complex in its fifth year of operation. The Egan Center is estimated to generate about 1,780 full-time and part-time jobs in the community and the new complex is estimated to create about 3,705 jobs in its fifth year of operation.

Figure ES-2. Number of Jobs in Anchorage for Egan/ACCC



In addition to the jobs generated by operation of the facilities, at total of 1,365 indirect and direct, full-time and part-time jobs, would be generated by construction of the ACCC spread over the three-year construction period. The number of jobs created in each year of the construction period will depend on the value of construction activity undertaken each year.

Financing

ACCT developed the civic and convention center concept to fit within the funds available from the four percent increase in bed tax revenues, and \$500,000 in annual support from the MOA, indexed to inflation. Since it was built, the Egan Center has received annual support payments, funded from the MOA's portion of the bed tax receipts, to cover some of its operating costs. The \$500,000 level is less than the annual support received by the Egan Center in its initial years. The ACCT plan does not require any other financial obligations on the part of the MOA, nor does it require other revenue streams to support it. The financing plan calls for bond insurance so if bed tax revenues and the annual support were insufficient, insurance companies would be liable for meeting the debt service obligation. The insurance companies have also reviewed ACCT's plans.

Assuming voter approval of the ballot measure, revenue bonds in the amount of \$93 million would be issued and would be distributed as follows:

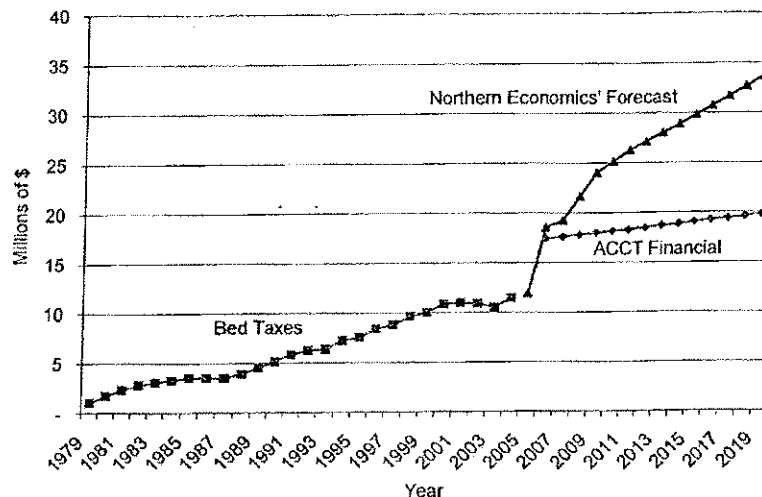
- \$85 million in capital costs
 - ⇒ \$57.5 million for new civic and convention center
 - ⇒ \$8 million for new parking structure
 - ⇒ \$7.6 million for debt service reserve funds in case bed tax revenues are insufficient
 - ⇒ \$12 million in other capital costs
- \$8 million allotted between contingencies (\$6 million) and operating reserves (\$2 million)

Upon completion of construction, one-half of the amount remaining in the contingency residual will be paid to ACCT as a completion fee and the balance will be deposited into the operating reserve fund, making a maximum of \$5 million available in the operating reserve fund. In the event that the construction costs exceed the \$6 million in contingencies, the four principals in the developer's group have signed personal guarantees of \$2 million each (\$8 million total) to cover any cost overruns.

To demonstrate that Anchorage taxpayers will not be at risk for any potential shortfalls and to demonstrate its confidence in the ability to market the new complex, the ACVB has agreed to make its four percent of bed tax revenues available to cover any potential losses for the new complex. The total available bed tax revenue is more than twice the annual debt service in the first year of operation and increases over time.

Figure ES-3 shows historic and anticipated bed tax revenues, as estimated by Northern Economics, Inc. compared to the conservative projections used in the ACCT financing plan.

Figure ES-3. Comparison of MOA Bed Tax Forecasts



Source: MOA, Northern Economics, and ACCCT

After debt service and operating support have been covered, the remaining bed tax revenues and other income would be used to build a capital reserve fund for major refurbishments and equipment replacement. The total amount of the fund has not been established but a preliminary estimate is that \$90,000 per year, indexed with inflation, would be placed into the fund. Following reservation of this income for capital reserve funds, any excess would flow to the MOA, which would invest the remainder and use the interest earnings if needed to cover the debt service and operating costs of the complex, or to retire the bonds at an earlier date.

Market

Many communities across the U.S. are building or expanding their convention centers. National competition is intense in a convention industry where national demand or growth is flat. But market demand forecasts rest on assumptions about how facility size, amenities, location, marketing efforts,

and costs to users of the facility combine to give a specific locality, market appeal and competitiveness. These assumptions work differently in Alaska than in many cities in the lower 48.

A larger facility creates the potential for greater economic impact because it makes possible to hold larger conventions and provide for simultaneous use of the facility. While the boom from one large convention may create four or five days of activity, that boom is then followed by four or more days of move out and move in, when no convention guests are staying in hotels or eating in restaurants during the move days. Simultaneous use of a facility more effectively uses the surrounding hotel inventory and encourages development of visitor-related businesses.

Anchorage's new plans are based on the city's solid reputation as a convention and meeting destination, very conservative assumptions and growth estimates in the conventions and meetings industry, shifting of risk to the private sector, and on lessons learned from other cities nationwide.

- Recent increases in hotel inventory and expanding direct airline service make it easier to plan conventions in Anchorage.
- The number and size of local events continues to increase. Smaller state and local groups find they must juggle timing of their events and fight for space with larger state and national groups; who receive preference in bookings, because of the increased economic benefits they bring to the local economy through hotel, restaurant, and retail sales as well as tax revenues.
- Anchorage is the major transportation hub of Alaska and is well positioned to secure the majority of large statewide trade, convention, and consumer shows
- Anchorage hosts hundreds of thousands of visitors each year. It is this entire number of visitors to Anchorage who will generate the bed tax revenues needed to fund ACCC. Other communities depend more heavily on projected increases in new convention center attendees to fund a new center. Anchorage is not solely dependent on convention center delegates to cover debt service and operating costs of the new complex.
- The four percent increase in the bed tax will have an effect on in-state visitors from the Bush; at the same time, this four percent increase for all visitors is offset by price competition from more than 1,850 new hotel rooms in the MOA since the beginning of 1999. The average bed tax rate from a review of 135 cities nationwide is 12.1 percent, with Seattle at 15.8 percent.
- Deloitte and Touch said a new center would draw 40,000 new delegates in its fifth year of operation, with 17,747 of these delegates estimated to be from regional and national events. The majority of attendees will come from an increase in local and state events. Revenues from local and state events are the bread and butter of the Egan Center and will continue to help pay for the new complex.

It should be noted that the economic impacts identified in this report are based on projections for the amount of business that can be generated by Anchorage Convention and Visitors Bureau (ACVB) and SMG, the current manager of the Egan Center, as well as the latent demand for events and the lost business that has been identified. These projections are achievable, but like all business forecasts will depend on the ability of ACVB, SMG, and others to execute and succeed in their planning and marketing efforts.

1 Introduction

Plans are underway to build a new convention center in Anchorage. The proposed new Anchorage Civic and Convention Center Complex (ACCC), will include the Egan Center and a new facility, operated jointly.

A potential site for the new convention center has been selected, and the Municipality of Anchorage (MOA) has signed an agreement with the Alaska Center for Convention and Trade, LLC (ACCT). ACCT's funding plan was developed with the guidance of J.P. Morgan, a prominent investment banking firm, and the plan underwent extensive review by the MOA, the MOA's bond counsel, and legal counsel.

Plans call for a new \$93 million convention center located on block 80 between the ConocoPhillips Building and the Atwood Building, with covered walkways connecting the new center with the Egan Center. A new parking garage with 465 spots will replace the parking lost by building on Block 80. The Egan Center will continue in operation.

The decision whether or not to go ahead with this project hinges on whether Anchorage voters approve an increase in bed tax from 8 to 12 percent. With an increase in the bed tax, all visitors to Anchorage (almost 900,000 people last year) will help pay for the construction and operation of a needed new civic and convention center. Bed tax revenues are anticipated to generate more income than required to meet the annual debt service payments. In addition, up to \$1.6 million of this surplus bed tax revenue and other income from the center will be used to support the operations of the new facility and the Egan Center. No MOA property taxes will be used to fund construction or operation of the proposed new center.

The purpose of this study is to examine the economic impacts of the proposed ACCC on the Anchorage Economy.

2 Current Usage

The Egan Center was built in 1984 as part of the Project '80s campaign to enhance the marketability of Anchorage as a tourist destination and to create a gathering place for area residents. A large civic meeting facility did not exist in Anchorage before that time. The population of Anchorage in 1980 was 174,431.

Professionals, active in the marketing and scheduling of conventions in Anchorage and the Pacific Northwest, determined the size of the Egan Center. The size of the Egan Center, they felt, would allow Anchorage to service upwards of 85 percent of the market demand at that time. The Egan Center enhanced Anchorage's ability to compete with other cities for a share of the convention and tourism market. The Egan Center contains approximately 19,000 square feet of prime, column-free exhibit space in the Explorers Hall, and the Summit Hall contains approximately 11,000 square feet of column-free exhibit space. The Summit Hall is not considered prime exhibit space because of its carpeting and ceiling height.

The meetings industry includes a wide variety of types of events and each type of event has unique facility requirements. For example, most trade shows require a large amount of contiguous, column-free space, while another type of event may require a number of small meeting rooms. The following system of classification describes the type of events usually held at the Egan Center:

- Conventions: periodic gatherings of associations or other groups with shared interests or membership
- Trade and Consumer Shows and Concerts: Industry exhibitions designed to display products or services to potential buyers and exchange information or exhibitions open to the general public including events such as auto and boat shows
- Conferences include meetings and banquets, local and civic functions, weekly or monthly gatherings of groups and organizations, educational seminars or exams, and various non-ticketed social gatherings

The Egan Center is more than just a center for national conventions and trade shows, it is a magnet for Anchorage too. As one of the city's premier gathering places, it is where local meetings, banquets, educational, cultural, religious, and social functions are held on behalf of all members of the community. The Egan Center also serves some unique functions providing baggage check-in for airlines, hospitality suites for cruise lines, and a venue for boxing, concerts, and local consumer and trade shows. Local and state markets have been the major source of meeting events for the Egan Center, providing a substantial portion of the Egan Center's annual revenue.

Figure 1 shows monthly attendance from 2002 to 2004 for the Egan Center broken down into three categories: conferences, conventions, and trade shows. In terms of conventions, shown in yellow, note how few conventions are held at the Egan in the summer time. At the time of the 1998 DeLoitte and Touche feasibility study for a new convention center, hotel room space in the summer time for conventions was essentially nonexistent.

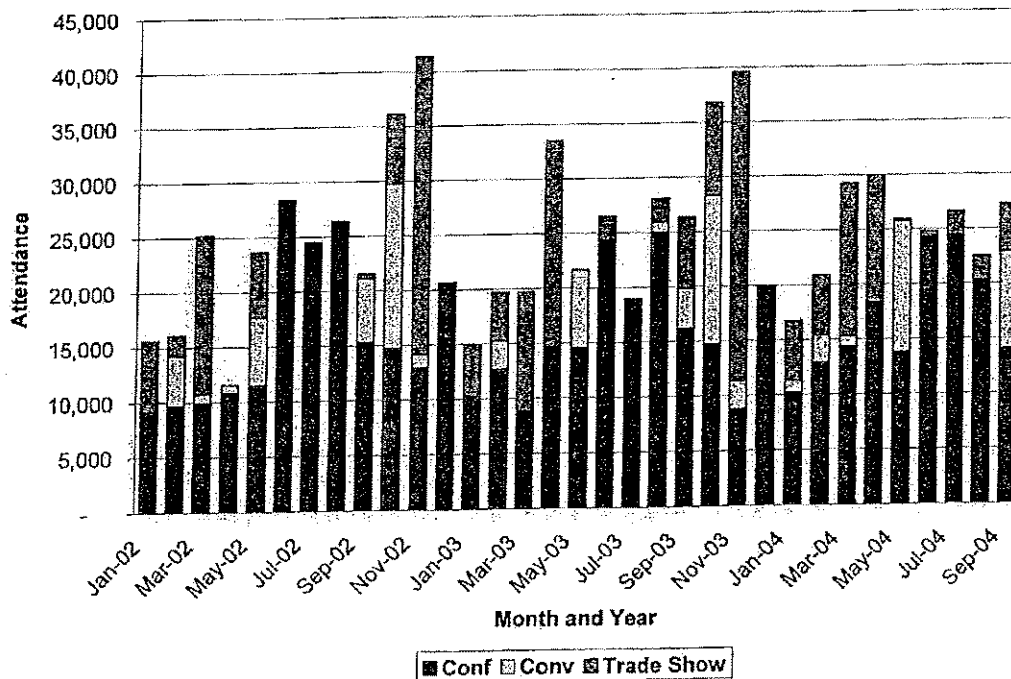
In the past, the Anchorage convention season generally ran from September 15 through May 15. Anchorage had a unique seasonality in its hotel occupancy that worked well for growing Anchorage's convention business. Downtown hotels experience a very high occupancy rate during the summer season because of cruise passengers and other summer visitors. In the 1990s, one of the purposes of attracting out of state conventions was to fill hotels during their slow periods, not to displace higher paying tourists and commercial travelers.

As demonstrated by the attendance numbers shown in Figure 1, three large conventions were held at the Egan Center in May 2004, and two large conventions in September 2004. However, more than 1,850 new hotel beds have been added to the Anchorage market since the beginning of 1999. These new hotel rooms allow Anchorage to expand the convention season later into the spring and earlier in the fall.

A large convention or meeting at the proposed Anchorage Civic and Convention Center Complex (ACCC), which includes the Egan Center and a new facility, can fill downtown hotels with attendees, sending other Anchorage visitors to rooms in mid-town and the airport area. While mid-town has no typical convention hotels, mid-town, mid-market hotel rooms provide an alternative for more cost-conscious attendees. Mid-town rooms represent about 15 percent of total hotel rooms in the Municipality. Most of them are less than four miles from the ACCC or approximately eight minutes driving time from Tudor and the New Seward Highway. Shuttle service is available from these facilities, and large conventions could provide charter bus service to and from the ACCC.

Figure 1 also shows the impact in attendance of the Alaska Federation of Natives (AFN) Convention held each year in October at the Egan Center. This convention of over 3,000 delegates has been held almost exclusively in Anchorage during its 39-year history, but they are moving to Fairbanks this year. Delegates and family members come from all over the state creating an economic impact in the millions

Figure 1. Monthly Attendance at Egan Center, January 2002 to September 2004



Source: SMG (Egan Center)

How a facility is utilized and operated on a daily basis influences the financial, fiscal, and economic impacts of the center. The mix of the type of events at a civic and convention center is an important factor in determining success. Local demand for meetings and banquets can help a facility maximize its financial revenues and pay its utility bills and employees, but the overall fiscal and economic impacts of local events on the community are less than those of an event that is attended by out-of-town visitors. Spending by in-town attendees is a transfer of income from one sector of the local economy to another. In contrast, out-of-town delegates bring new money into the community and spend it on hotel rooms and bed tax, car rentals and car rental tax, restaurant meals, and entertainment contributing to the fiscal and economic impact on the community.

As an example, this coming fall, the American Fisheries Society (AFS) is holding its annual convention in Anchorage, September 11-15, 2005. Some of the important concepts related to why Anchorage needs a larger convention center and a demonstration of the fiscal and economic benefits of out of state conventions can be shown with a brief discussion of this upcoming event. The desire of the local AFS members to showcase Alaska to fellow members has clearly outweighed the current limitations and difficulties faced in staging an event of this size here.

Between 1,500 and 2,000 delegates are coming to Anchorage for this event, but even for this size convention, local resources are being stretched to the limit. The AFS members planning this event have had a very difficult time finding space to accommodate all the activities that are a usual part of their annual meeting. For example, they need a space big enough to accommodate 1,500 members at one time in one room, but at the same time have enough breakout rooms to hold 20 concurrent sessions, each with 50 to 200 participants. The Egan Center cannot accommodate these concurrent sessions, and like some other conventions, this organization must use the Performing Arts Center and other spaces around town for their breakout events. For their evening banquet at the Alaska Native Heritage Center, they will rent a large tent from Whitehorse, Canada.

An event of 1,500 delegates can have substantial economic impacts on the local Anchorage economy. According to a national survey conducted by International Association of Convention and Visitor Bureaus (IACVB), each delegate at a national convention spends an average of \$974 in the local community. So, if the AFS convention brings 1,500 delegates to Anchorage, they will spend almost \$1.5 million in the community in less than three days. If 2,000 delegates attend the convention, they will leave \$2 million behind. Table 1 also includes direct spending for a convention with 3,000 delegates just to give an idea what might happen if Anchorage could more readily support a 3,000-delegate convention or hold two concurrent 1,500 delegate conventions.

Table 1. Estimated Direct Economic Impacts of One Convention

Type of Expenditure	Per Delegate Expenditure	Number of Delegates		
		1,500	2,000	3,000
Lodging (\$)	449	673,500	898,000	1,347,000
Food & Beverage (\$)	311	466,500	622,000	933,000
Recreation (\$)	47	70,500	94,000	141,000
Retail (\$)	113	169,500	226,000	339,000
Local Transportation (\$)	55	82,500	110,000	165,000
Total	\$974	\$1,461,000	\$1,948,000	\$2,922,000

Source: IACNB ExPact2004: Convention Expenditure and Impact Study, adjusted for inflation by Northern Economics, Inc.

The numbers shown in the above table also help demonstrate why the hotel industry is often ready to support the community with an increase in the bed tax if that increase is used to bring new delegates and visitors to a community. In fact, the entire community benefits as these delegates spend their money locally. Local businesses, in turn, pay for wages and salaries, utility services, state and local taxes, advertising and promotion, repairs and maintenance, legal and professional services, capital assets and replacements, and a host of other goods and services. This re-spending is known as the economic multiplier effect.

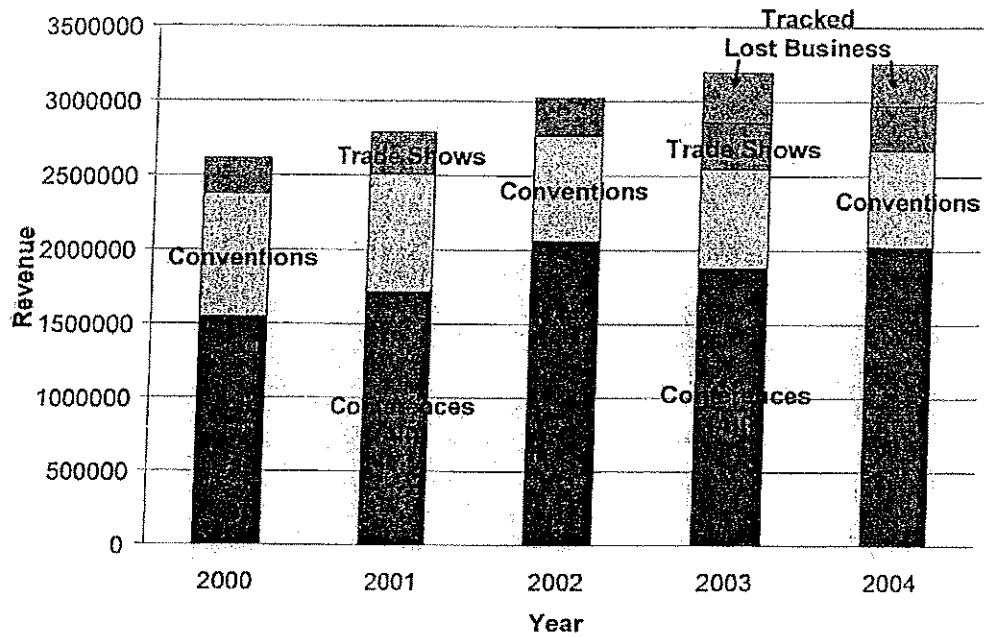
The Egan Center is at capacity. In addition, some of the local and state groups served by the Egan Center are growing in size and expansion may be necessary to retain or regain their business. For example, the Alaska Gun Collectors, a 10-year client of the Egan Center, holding two shows a year, had to move a few years ago to the Ben Boeke Ice Arena. Several locally based annual trade and consumer shows are held at the Sullivan Arena and/or Ben Boeke Ice Arenas because of the size and facility limitations of the Egan Center.

Smaller state and local groups find they must juggle timing of their events and fight for space with larger groups. Larger state and national groups receive preference in bookings, because of the increased benefits they bring to the local economy through hotel, restaurant, and retail revenues.

Figure 2 presents revenues for the Egan Center from conventions, meetings and conferences, and trade shows for 2000 through 2004. The figure also shows an estimate of some of the lost revenues or lost business. The management of the Egan Center in 2003 and 2004 kept track of business turned away because of conflicts in scheduling or other problems. However, it represents only a small portion of "lost business."

It is very difficult if not impossible to quantify what conventions are "lost" because the Egan Center is "not big enough." The Anchorage Convention and Visitors Bureau (ACVB) and others are frequently asked questions like this, but ACVB and the Egan Center focus their marketing efforts on organizations and groups they know will "fit" in the Egan Center. The Egan Center web page at <http://www.egancenter.com/> (follow the link to "Facility") shows the capacity for banquets, trade show booths, and break-out rooms. Meeting planners can quickly check this page and know whether Anchorage is suitable for their meeting, without ever contacting ACVB or the Egan Center.

Figure 2. Revenues and Lost Business for Egan Center



Source: SMG (Egan), and ACVB.

Note: 2004 revenue is estimated from data for January through September, 2004

Figure 3 shows future lost business or opportunity costs for Anchorage if ACCC is not built. The future lost business amounts \$133.1 million in revenues in year 5 of ACCC operations.

Figure 3. Future Lost Business

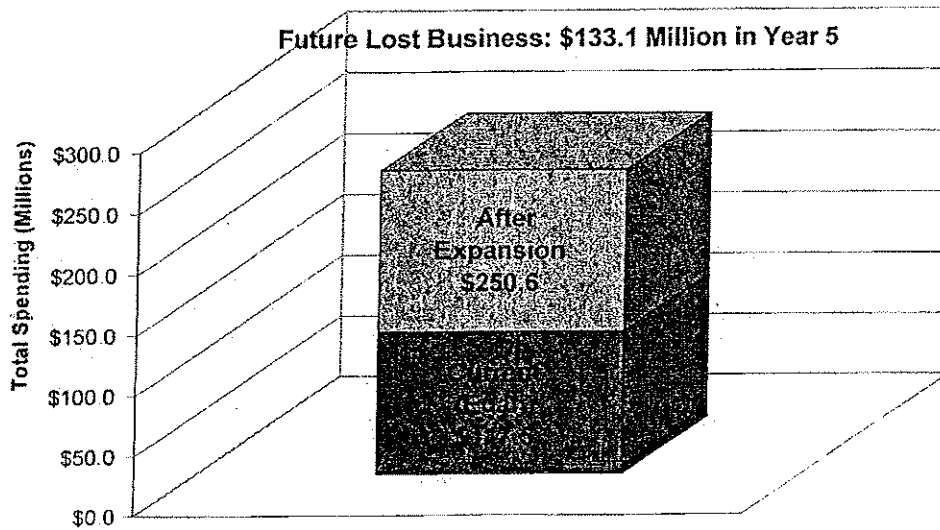
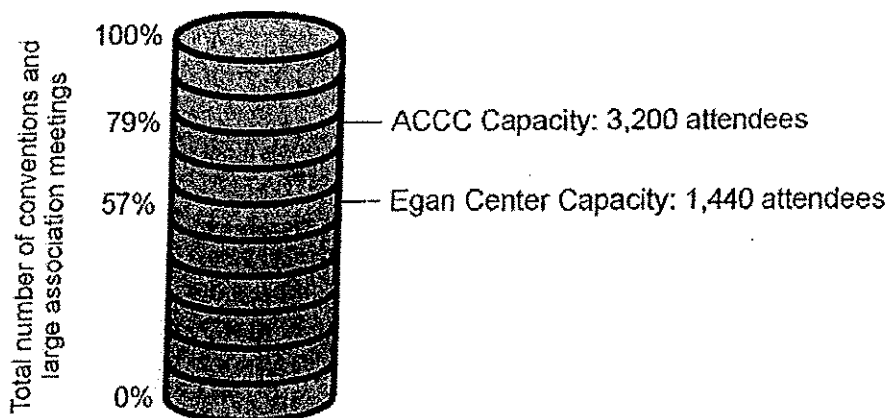


Figure 4 compares the banquet seating capacity of the Egan Center with ACCC against the MINT database of convention and association meetings. The Egan Center is the largest indoor venue in Anchorage for banquets. Its capacity of 1,440 banquet attendees makes Anchorage a viable venue for approximately 57 percent of all conventions and large association meetings held in the U.S. ACCC will have a banquet seating capacity of 3,200 attendees making Anchorage a viable venue for 79 percent of all meetings held in the U.S. (MINT database)

Figure 4. Comparison of Capacity for Egan Center and ACCC



Source: MINT Database.

However, as pointed out in the American Fisheries Society convention example, banquet-seating capacity is not the only criterion in determining the suitability of a venue. During the AFS convention, the 19,306 square feet of column-free space in the Explorers Hall will be used for the trade show component of that convention. Many groups and societies help pay for their national annual conventions by renting space for trade show booths. At the Egan Center, this means that this space is not available for a large banquet or for break out groups.

AFS is charging AFS member firms \$1,300 per 8 x 10 booth and \$1,450 per booth for non-members. As the AFS website points out, past exhibitors include companies providing aeration systems, aquaculture supplies, fish tagging and tracking equipment, and many other types of companies. The Explorer Halls holds 132 booths. Along with these booths, each company will send one to three representatives or sales people from their organization. These individuals also spend money in the local community.

Optimal utilization of a civic and convention center requires the ability to set up and tear down one event while another one is going on and the ability to hold more than one event at a time. The Egan Center is limited in its capacity to host concurrent events. Simultaneous use of a facility makes more effective use of the surrounding hotel inventory and evens out the economic impact for the community. Smaller state and local groups find they must juggle timing of their events and fight for space with larger groups. Larger groups are given preference in bookings, because of the increased benefits they bring to the local economy through hotel, restaurant, and retail revenues.

3 Market

Historically, fluctuations in national market demands have corresponded with fluctuations in the overall economy. National demand for convention space is central to the viability and economic impact of a civic and convention center. Market demand forecasts rest on assumptions about how facility size, amenities, location, marketing efforts, and costs to users of the facility combine to give a specific locality market appeal and competitiveness. Determining the demand for civic and convention center space requires a careful examination of how these assumptions work in Anchorage.

The International Association of Convention and Visitor Bureaus (IACVB) maintains a convention and associations database (CiNet) that tracks historical profiles and future records of more than 20,000 conventions and association meetings. The ACVB queried CiNet in November 2004 and found that just over 9,000 groups hold events with attendance between 1 and 3,500 individuals. If Anchorage expands its facilities, Anchorage will be able to compete for additional national conventions a year in the 1,500 to 3,000 delegate range while continuing to build its state and local business. Some of the events in the IACVB database have restricted rotational patterns, but many of these groups could potentially come to Anchorage. The Egan Center has been very successful at attracting outside conventions and increasing and maintaining its financial stability.

Table 2. Total Attendance and Number of Conventions and Association Meetings Nationwide

Total Attendance	Number of Conventions
1-500	3,264
501-1,000	2,058
1,001-1,500	1,276
1,501-2,000	878
2,001-2,500	644
2,501-3,000	557
3,001-3,500	395
Total Number of Meetings	9,072

Source: ACVB based on data from CiNet, November 2004.

Taking the long-term view, the number of major conventions has averaged about 11,000 per year. However, as demonstrated in Figure 5, corporate and association meetings, not conventions, make up the bulk of the meeting industry. Although analysis and feasibility studies focus their attention on attracting conventions and trade show delegates to bring in new dollars to a community, conventions are actually a small part of the total market.

Large convention centers like those in Las Vegas, New York, Chicago, Washington, D.C., Orlando, Atlanta, and New Orleans, constantly compete for a small number of the 200 largest conventions and trade shows in the U.S. Attendance and revenues for many new convention centers has been disappointing. But Anchorage is in a different situation—it is not competing in this league. Anchorage has built a solid reputation as a convention and meeting destination since completion of the Egan Center. Three major factors have contributed to the sustained growth of Anchorage's civic and convention industry.

This first factor is Anchorage's hosting of national and regional conventions. The national convention industry has become decentralized and national demand is increasing for new and unique destinations. Therefore, Anchorage is well positioned as a prime venue for the national convention

market. Recent increases in hotel inventory and expanding direct airline service have facilitated the growth in the number of national meetings and conventions choosing Anchorage as a host city. Anchorage is earning a reputation for accommodating conventions in a successful, first-class manner. Table 3 shows the number of various types of events held at the Egan Center from 2001 to 2004. The "conferences" category includes all kinds of meetings, banquets, and conferences.

Table 3. Number of Events at the Egan Center, 2001-2004

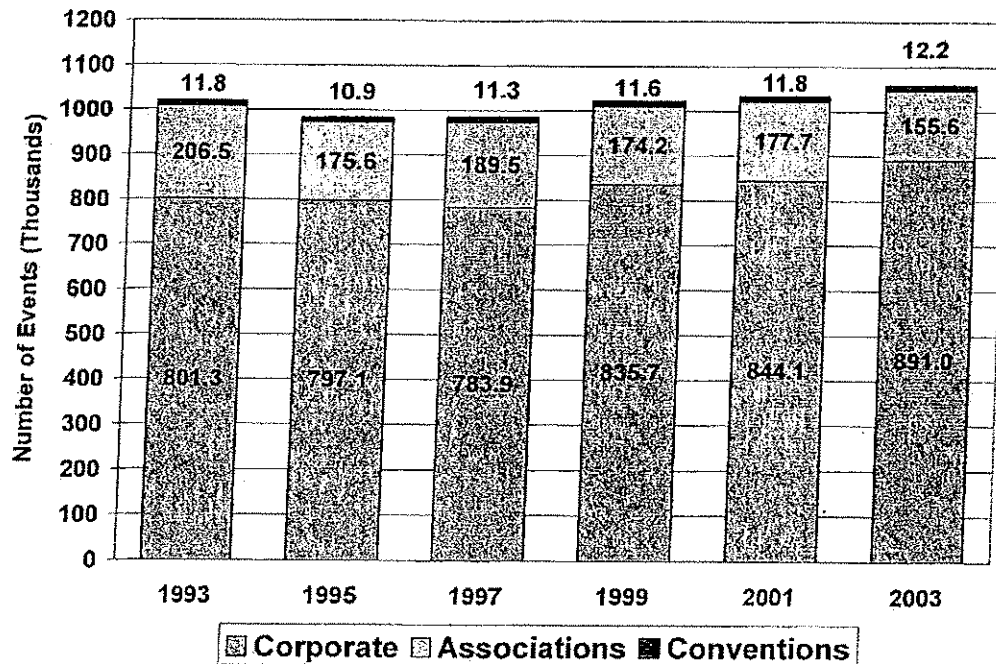
Event Type	2001	2002	2003	2004	Average Annual Number
Conferences	354	267	266	280	292
Concerts	7	3	4	8	6
Cater Outs	0	10	7	12	7
Conventions	10	15	14	20	15
Trade Shows	21	19	23	20	21
Total	392	314	314	340	340

Source: SMG Egan Center.

Second is the increased demand on the Egan Center from local groups and organizations. The number and size of local events have increased.

Third is Anchorage's status as the major transportation hub of Alaska. Anchorage is well positioned to secure the majority of large statewide trade, convention, and consumer shows.

Figure 5. Number of Events in U.S., 1993, 1995, 1997, 1999, 2001, and 2003



Source: Meetings & Conventions 2004 Meetings Market Report

When a community makes the decision and then the commitment to build or expand a large facility like a civic and convention center, it faces a very important, but very simple question: "WILL THEY COME?" An in-depth feasibility study by Deloitte and Touche addressed this question for Anchorage in 1998 and determined a larger convention center would attract an additional 40,000 new delegates and exhibitors to Anchorage.

In 2001, Northern Economics, Inc. was part of the team asked to update the previous findings for the newly formed Anchorage Civic and Convention Center Task Force. In order to validate some of the market analysis findings, the team conducted ten in-depth interviews with major stakeholders in the visitor and hospitality industries in Anchorage, including hotel owners and managers, restaurant owners, tourism marketers, and managers of tourist attractions. Each stakeholder was asked the same basic set of questions.

At that time, nine out of ten stakeholders agreed that continued economic growth of the hospitality and retail industries in Anchorage depended on having a new, larger ACCC. All of the stakeholders believed that Anchorage would be a solid contender in attracting high impact conventions if Anchorage had a larger exhibit hall and associated facilities. The primary benefits of a new, larger ACCC identified by stakeholders were the creation of new jobs and economic growth in the community. All of the stakeholders indicated a willingness to support a 4 percent increase in the hotel tax, from 8 to 12 percent, if the increase went toward construction of a new convention center. These stakeholders believed that Anchorage "is a marketable boutique destination because of the allure of the 'Alaska' Experience."

The stakeholder interviews and a review of national, state, and local market demand confirmed the findings of the previous study that "Anchorage is not maximizing its penetration of the convention and meetings market and that a new, larger ACCC would strengthen Anchorage's position in the state, regional, and national convention market." Table 4 shows the number of new delegates estimated to attend a larger center in the fifth year of operation, along with an estimate of the number of hotel nights and airlines tickets generated by this incremental increase in delegates.

Table 4. Results of 2001 Update of Deloitte and Touche Report, Number of New Delegates

Type of Delegates	Deloitte & Touche Estimates of No. of New Delegates	Generated Hotel Nights	Generated Airline Tickets
Local/State Delegates	14,650	14,644	6,007
Regional/National Delegates	11,505	40,268	11,505
Local/State Trade Show Delegates	7,639	13,475	3,132
Regional/National Trade Show Delegates	6,242	21,847	6,242
Total	40,036	90,234	26,886

Source: 2001 RIM /LMN Report

In many ways, the recommendations of these findings are very conservative when compared to many feasibility studies for new convention centers. As discussed previously, the majority of business and revenues of the Egan Center are generated by state and local events including everything from Anchorage Chamber of Commerce meetings, employee training sessions, and weddings to major national conventions. But the bulk of earnings for the Egan Center is from banquet revenue.

The Deloitte and Touch study said that a new center would draw 40,000 new delegates by its fifth year of operation, 6,242 of these new delegates were estimated to be from regional and national trade show events and 11,505 from regional and national conventions. The majority will come from

increases in local and state events. The focus of most feasibility studies for a new civic and convention study is on the economic impact of convention delegates coming from outside the community, but revenues from local events are the bread and butter of the Egan Center. Revenues from local events will help pay for the ACCC.

For example, in 2003, 63 percent of the Egan Center's revenues came from banquets and conferences, 11 percent from trade shows, and 23 percent came from renting convention space. In 2003, 63 percent of their attendance can be attributed to banquets and conferences, approximately 13 percent to conventions, and approximately 22 percent to trade shows.

Then as now, market demand is not the only determinant of facility size. Another important consideration is what Anchorage can afford and the level of risk the various partners are willing to assume. In 2001, when Northern Economics, Inc. conducted the update of the 1998 Deloitte and Touche Study, the MOA and thus its taxpayers would have been at risk in building and operating a new civic and convention center. This time the situation is very different. Many of the elements of uncertainty have been removed and the risk is being shared with the private sector. The developers of the new convention center have signed the Mayor Development agreement that makes them personally responsible for up to a maximum of \$2 million each for construction cost overruns as long as the increase in the bed tax to 12 percent is approved by the voters in April 2005.

In addition, the public private partnership of this new convention center proposal draws heavily on the management skills and financial acumen of successful members of our local business community. Such a partnership creates better value for community residents, because it allows the MOA to leverage income from a small increase in the bed tax and revenues from operation of the ACCC into a new convention and civic center with minimal risk to taxpayers.

4 Fiscal Impacts

Construction of civic and convention centers is usually funded with tax revenue bonds financed over a 20 to 30-year period. A variety of revenue sources can be used to repay the bonds, including hotel taxes, sales taxes, car-rental fees, parking taxes, meal taxes, airport access fees, tolls, redevelopment funds, lottery and gaming revenues, excise taxes on liquor and tobacco, and development fees. Interest rates on tax revenue bonds are generally higher than the rates on general obligation bonds.

The mix of revenue sources used to fund construction and operation of a civic and convention center depends in part upon the comparative level of existing taxes or fees. Hotel taxes are used as a revenue source because hotels benefit from development of convention facilities. Attendees and other visitors who stay in hotels, not residents, pay the tax.

People often ask, "Why not raise the bed tax and use the new revenues to pay for roads or schools?" Hotel owners and visitors may support collection of a bed tax if the expenditure of those revenues by local governments helps bring more visitors and improve community infrastructure, but they are much less likely to support such a tax if these resources are used for other purposes. Without the support of hotel owners, an initiative for an increase in bed tax revenues is not likely to pass. Most, if not all, communities use their bed tax revenues to fund a convention and visitors bureau and/or to pay for facilities that help attract visitors. One of the major advantages of using bed tax revenues to fund construction of a new civic and convention center is that other visitors to the community like cruise ship passengers and other summer visitors help pay for the new center. The community is not dependent on only bed tax revenues from convention attendees.

Building a new civic and convention center in Anchorage will require an increase in the MOA's hotel tax. If the hotel tax is increased by 4 percent, more than \$6 million in additional revenues would be generated in the first year and could be dedicated to repayment of a tax revenue bond issued for construction and other capital and operating costs of a new center (Table 10). New revenue would also be created from the incremental increase in hotel tax that results from new delegates coming to Anchorage.

Northern Economics, Inc. recently reviewed bed tax rates for 135 cities nationwide to see if the increase to 12 percent would be out of line with other communities. In some cities, delegates and other visitors must pay sales tax in addition to the bed tax. Table 5 shows the total percentage of bed tax and other revenues paid for hotel stays in selected cities. The overall average for all 135 cities is 12.1 percent. The highest rate is in Ontario, California at 19.5 percent. Anchorage at 8 percent is currently at the low end along with Aberdeen, South Dakota, Jackson, Mississippi, Ann Arbor, Michigan, and Fairbanks. In terms of any competition from the Pacific Northwest, the rate in Seattle, Washington is 15.8 percent, Spokane, Washington is 10.1 percent, and Portland, Oregon is 15.8 percent.

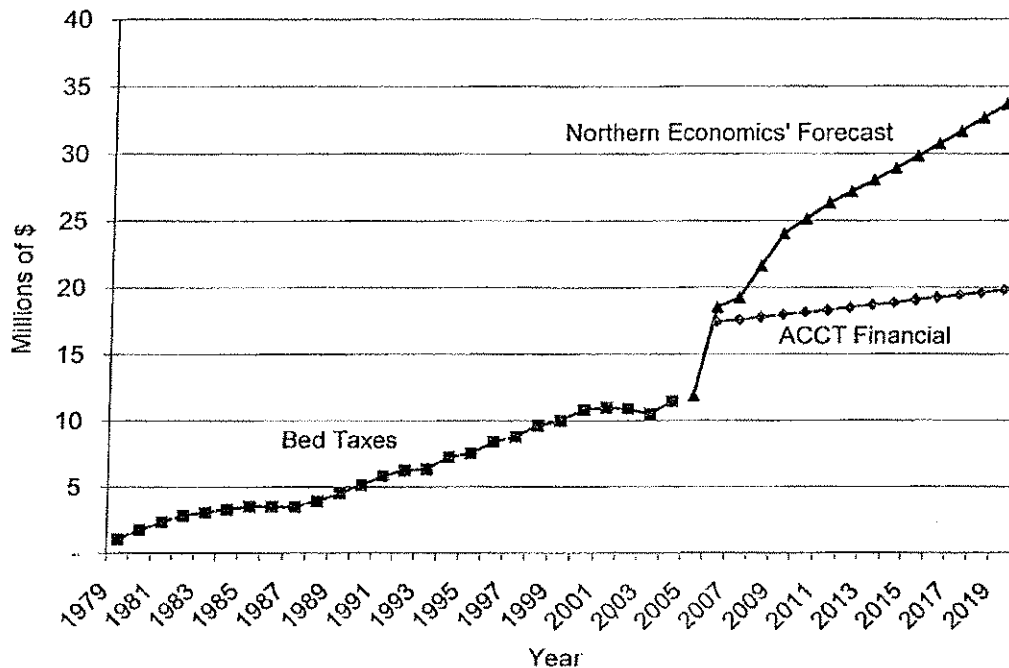
Table 5. Comparison of 2003 Bed Tax Rates for Selected Cities

Destination	Total Hotel Check-out Tax Rates, 2003 (%)
Aberdeen, SD	8.0
Albuquerque, NM	10.8
Anaheim/Orange Co, CA	15.0
Anchorage, AK	8.0
Ann Arbor, MI	8.0
Asheville, NC	11.0
Atlanta, GA	14.0
Atlantic City, NJ	12.0
Austin, TX	15.0
Boise, ID	12.0
Branson, MO	11.2
Chicago, IL	14.9
Denver CO	13.5
Fairbanks, AK	8.0
Las Vegas, NV	9.0
Los Angeles, CA	14.0
Ogden/ Weber, UT	18.8
Phoenix, AZ	12.1
Portland, OR	12.5
Seattle, WA	15.8
Spokane, WA	10.1
Average Tax Rate for 135 Cities	12.1

Source: ACVB

Figure 6 shows historic bed tax revenues for the MOA and compares Northern Economics, Inc.'s forecast for bed tax revenue with the forecast used by the developers in their financial planning. As shown, the developers used a conservative forecast of bed tax revenue for their funding scenario of construction and operations. Of note, only a portion of the bed tax revenues comes from convention attendees. Anchorage and Alaska are popular visitor destinations. For example, Alaska welcomed over 1.7 million visitors between October 1, 2003 and September 30, 2004, a 9 percent increase. The increase in bed tax revenues will be driven by growth in the overall visitor industry, of which convention business is a smaller, but important portion of bed tax revenues. Conventions are important because they occur in the slower months of the year for the hospitality and leisure industry.

Figure 6. Comparison of MOA Bed Tax Forecasts



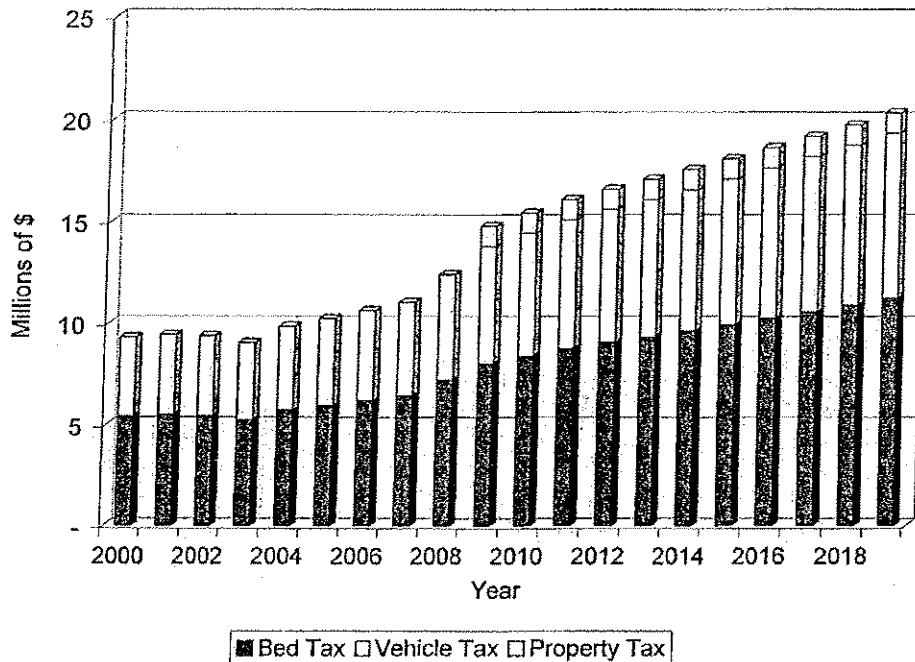
Source: MOA, Northern Economics, and ACCCT

Figure 7 shows actual bed and car rental tax revenues for the MOA General Fund for 2000 through 2003, and estimates of potential revenues after that. The bed tax and vehicle rental tax are the primary financial contributions of the visitor industry to the MOA. A new, larger complex could bring additional meeting delegates to Anchorage generating an incremental increase in hotel tax revenue (note the increase in 2009, the first full year of operation). The additional delegates would also generate incremental increases in revenues from other taxes such as car rental and possibly tobacco taxes.

Most stakeholders interviewed in 2001 believed that another major hotel would be built in proximity to the new civic and convention center. A new 350-room hotel would generate about \$1 million in annual property taxes, as shown in Figure 7. This new construction would be outside of the property tax cap and could be used for other essential services or to reduce the mill levy. All of the additional taxes generated by the new facility could be used to meet essential city services or to keep property taxes at lower levels.

While convention attendees are an important component of these types of tax revenues, they generate only a portion of the total bed and vehicle tax revenues. Anchorage receives hundreds of thousands of visitors each year, particularly visitors traveling for pleasure in the summer time. It is this entire number of visitors to Anchorage that will generate the large increase in bed tax revenues, not out-of-town delegates to conventions. This fact makes Anchorage much different from communities where the convention and meeting delegates account for a more substantial portion of the visitor industry.

Figure 7. The Municipality and Taxpayers: General Fund Receipts



Source: MOA and Northern Economics estimates

Research conducted in 2001 for the previous civic and convention center proposal, which included contacts with the police and fire departments, could not identify costs of general public services for delegates and other visitors to Anchorage. The costs for general city services are not likely to be significant because visitors do not have the same requirements for general public services as local residents (e.g., no demands for schools). In contrast, the MOA's enterprise funds (e.g., Anchorage Water and Wastewater Utility, Municipal Light and Power) benefit from increased revenues from visitors who used these services and pay for them through hotel room rates, meals at restaurants, and other expenditures in Anchorage.

5 Financing Arrangements and Risk Sharing

Previous plans for a new convention center in Anchorage called for complicated funding plans with many unknowns and risks for the MOA. Some of the questions asked by Anchorage residents about previous plans included:

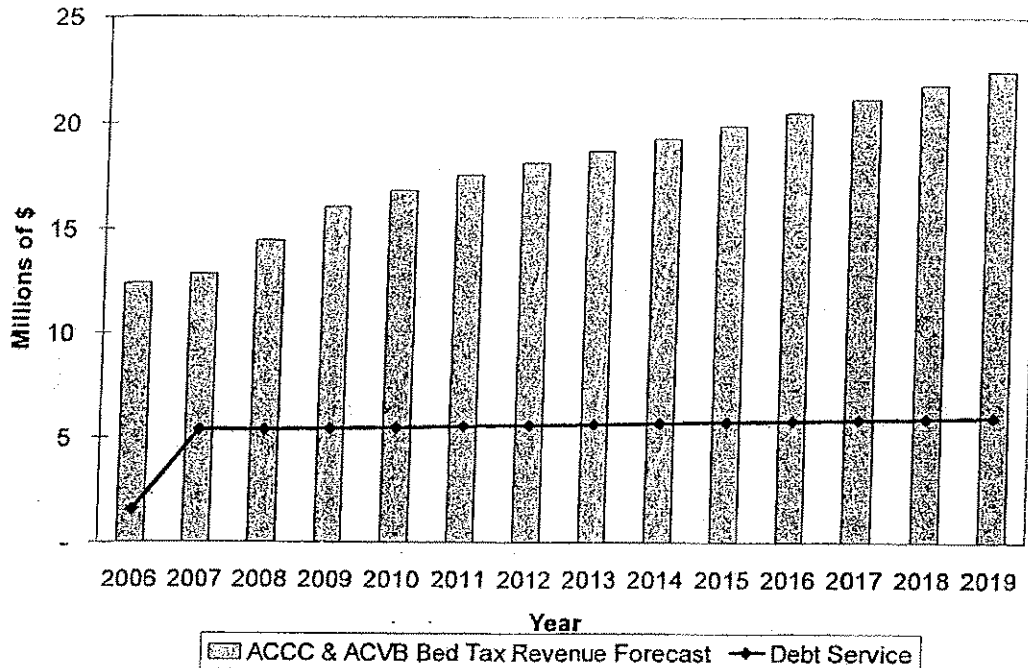
- Would we actually receive an earmark from the federal government or a grant from the state?
- Would Anchorage voters approve a general obligation bond?
- Would the bed tax generate enough revenue to repay the revenue bonds along with the needed debt coverage ratio?

None of the uncertainty associated with the previous plans exists with the current plan. Funding of the new center is in the hands of the developer. The MOA has signed an agreement with the Alaska Center for Convention and Trade, LLC (ACCT). ACCT's funding plan was developed with the guidance of J.P. Morgan, a prominent investment banking firm, and the plan underwent extensive review by the MOA, the MOA's bond counsel, and legal counsel. Revisions were made to incorporate the MOA's issues, and the result is the financial structure described below.

ACCT developed the civic and convention center concept to fit within the funds available from the four percent increase in bed tax revenues, and \$500,000 in annual support from the MOA, indexed to inflation. Since it was built, the Egan Center has received annual support payments, funded from the MOA's portion of the bed tax receipts, to cover some of its operating costs. The \$500,000 level is less than the annual support received by the Egan Center in its initial years. The ACCT plan does not require other financial obligations on the part of the MOA, nor does it require other revenue streams to support it. However, to demonstrate that Anchorage taxpayers will not be at risk for any potential shortfalls, the ACVB also agreed to make its four percent of the bed tax revenues available to cover any potential losses for the two facilities. No property taxes will be needed for construction and operation of the ACCC complex.

Figure 8 compares the amount of projected bed tax revenues available to the ACVB from its one-third share (four percent) of the bed tax revenues, and the additional four percent for the new facility, with the debt service payments estimated for the new facility. The total revenues available are more than twice as much as debt service requirements, even in the first few years of operation.

Figure 8. Forecast of ACCC and ACVB Portion of Bed Tax Revenue Compared to Debt Service



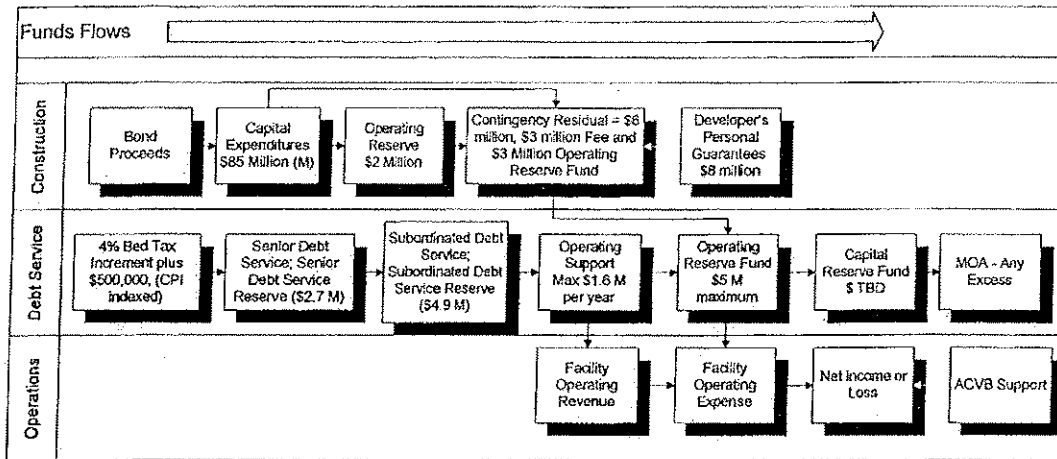
Source: Northern Economics, Inc. forecast and ACCT financial pro forma statements.

Mitigating Risk with Financial Structure

As noted previously, ACCT has used a very conservative estimate of future growth of the bed tax revenues in preparing its financial plan. While bed tax revenues have grown at more than 10 percent per annum since the tax was established, and about 3.9 percent over the past decade, ACCT assumes a 1 percent per year increase in bed tax revenues. ACCT's financial structure uses conservative assumptions and projections, and scales the proposed civic and convention facility and an associated parking garage to fit within the available funds. The following paragraphs describe other elements of the financial plan, and the measures established to mitigate risk to the MOA and its taxpayers.

Figure 9 is a graphic representation of the flow of funds associated with the new civic and convention center during construction and operation, including details on debt service.

Figure 9. Flow of Funds



Assuming voter approval of the ballot measure, revenue bonds in the amount of \$93 million would be issued that rely upon the additional four percent bed tax revenue to service the debt and operation of the facility. The MOA would provide annual support of \$500,000, which was historically paid to ACVB. This annual support would be indexed to the rate of inflation in Anchorage. Interest on the investment of the bed tax receipts and the annual support will also be available to service the bond debt.

The roughly \$93 million in bond proceeds are distributed as follows:

- \$85 million in capital costs
 - ⇒ \$57.5 million for new civic and convention center
 - ⇒ \$8 million for new parking structure
 - ⇒ \$7.6 million for debt service reserve funds in case bed tax revenues are insufficient
 - ⇒ \$12 million in other costs
- \$8 million for contingencies (\$6 million) and operating reserves (\$2 million)

Upon completion of construction, one-half of the amount remaining in the contingency residual will be paid to ACCT as a completion fee and the balance will be deposited into the operating reserve fund, making a maximum of \$5 million available in the operating reserve fund. In the event that the construction costs exceed the \$6 million in contingencies, the four principals in the developer's group have signed personal guarantees of \$2 million each (\$8 million total) to cover any cost overruns.

As discussed above, the four percent bed tax revenue is the primary source to meet the debt service obligations. The financing plan also calls for bond insurance so that in the event of a default where bed tax revenues and the annual support were insufficient, insurance companies would be liable for meeting the debt service obligation. They, too, have reviewed ACCT's plans.

The bed tax revenues are anticipated to generate more income than is required to meet the annual debt service payments. Up to \$1.6 million of this surplus bed tax revenue and other income will be used to support the operations of the new facility and the Egan Center. In the event there is a shortfall in the bed tax revenues, the operating reserve fund would contribute to the operating support of the

two facilities. In years where the bed tax revenue is more than adequate to meet debt service and operating support requirements, funds would be provided to raise the operating reserve fund to a \$5 million limit. After debt service and operating support have been covered, the remaining bed tax revenues and other income would be used to build a capital reserve fund (for major refurbishments and equipment replacement). The total amount of the fund has not been established but a preliminary estimate is that \$90,000 per year, indexed with inflation, would be placed into the fund. Following reservation of this income for capital reserve funds, any excess would flow to the MOA, which would invest the remainder and use the interest earnings if needed to cover the debt service and operating costs of the complex, or to retire the bonds at an earlier date.

The Egan Center generates almost enough revenue to cover its operating costs and ACCT, working with SMG, the current manager of the Egan Center, developed the combined operating cost estimates for the Egan Center and the new civic and convention center. As shown in Figure 9, the facility operating revenue plus the \$1.6 million in annual support from the bed tax revenue would be used to cover the operating expenses. In the event that expenses exceed revenues, a draw on the operating reserve fund could be made to cover the shortfall. Lastly, as discussed earlier, the ACVB has pledged its four percent share of the bed tax revenues as additional funds to cover any potential shortfall in the operations of the new civic and convention center and the Egan Center.

6 Economic Benefits

"New dollars" in a community generate positive economic impacts. Money coming from outside the local area has the power to stimulate activity in the local economy. A larger facility may attract larger conventions. A larger facility also creates greater economic impact because it makes possible simultaneous use of the facility. While the boom from one large convention may create four or five days of activity, that boom is followed by four or more days of move out and move in, and there are no convention guests staying in hotels or eating in restaurants. Simultaneous use of a facility more effectively uses the surrounding hotel inventory and encourages development of visitor-related businesses.

The total economic impacts during the construction and operation phases of the ACCC were evaluated using Input-Output analysis (I-O). An input-output model measures direct, indirect, and induced economic effects.

Direct economic effects are the changes in local business activity occurring as a direct consequence of public or private business decisions—in this case expansion of a civic and convention center. Direct impacts include all delegate spending, exhibitor spending, sponsor spending, and spending on operations and maintenance of the facility.

Attendee spending provides the largest and most visible source of direct spending. Delegates consume a wide variety of local goods and services, including hotel rooms, restaurant meals, retail goods, cultural events, sightseeing trips, and local transport such as car rentals and cabs. The "real" profits from a convention center are not based on the costs and revenues of the center, but come from renting hotel rooms, serving meals, and retail sales.

Secondary effects include both the indirect and induced effects of the project. Indirect effects result from changes in sales for suppliers to the directly effected businesses, including trade and services at the retail, wholesale or producer levels. Indirect jobs and revenues are generated when a restaurant owner must hire additional help and order additional produce in order to serve new delegates. These effects are over and above the original direct spending. The indirect and induced effects make up the multiplier effects. Local multipliers for the MOA were derived from the IMPLAN model and software.¹

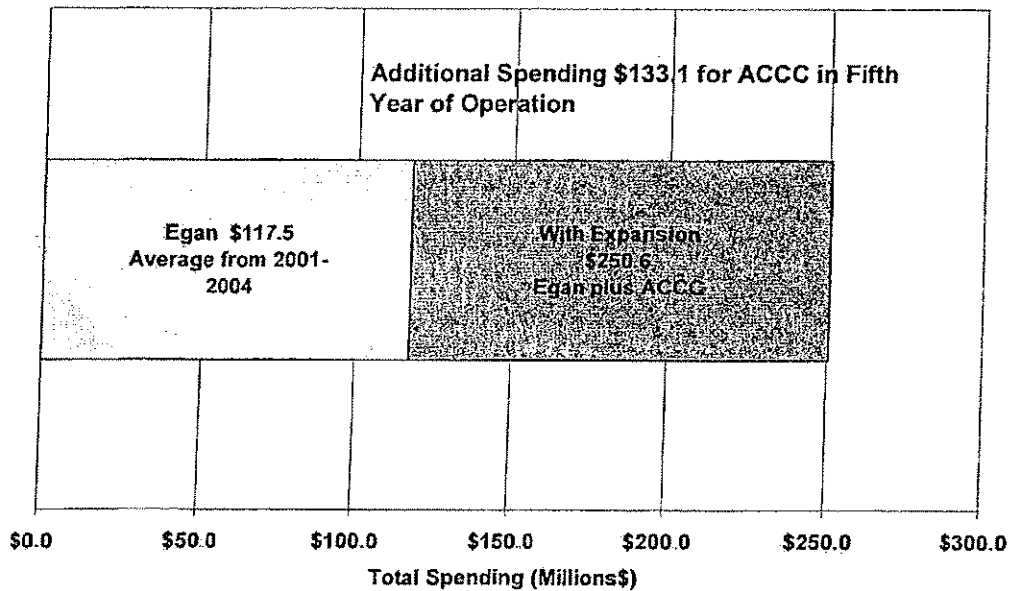
Historical data from Egan Center operations and projections for ACCC provide the basis for the economic impact analysis. Conducting an economic impact analysis for a convention center in Anchorage is not as simple as it is in the lower 48. One cannot easily separate or classify attendees or even events as out-of-state or in-state because of differences in the implications for the impact analysis. Not all residents of Alaska can drive to Anchorage. Just because someone is an in-state delegate, it does not mean that they are not staying at a hotel and eating at local restaurants. Many Alaska residents must fly into Anchorage. On the other hand, some delegates at what are considered out-of-state conventions may be local residents. For example, many Anchorage residents will be attending the American Fisheries Society convention next fall.

As a result, three different levels of spending or spending patterns were estimated for this analysis based on national surveys and adjusted for inflation and attributes specific to Anchorage. Out-of-state participants are estimated to spend \$974 per event, in-state convention participants are estimated to spend \$470, while local residents at events like boxing matches, or cruise passengers checking in at the Egan Center are estimated to spend \$50 locally.

¹ An economic multiplier is usually calculated as total economic impact divided by direct spending. Anchorage multipliers are much lower compared to multipliers in communities in the lower 48, because so many materials and services are imported from Outside.

Figure 10 shows total direct, indirect, and induced spending of all attendees including the modified amounts for in-state and local attendees. The figure compares the fifth year of operations for a new expanded center with the Egan Center. The spending estimate for the Egan Center is based on average revenues from 2001 through 2004. Direct spending for a new center in its fifth year of operation would be \$250.6 million—an increase of \$133.1 million over operation of only the Egan Center. Revenues from 2001 through 2004 were used to estimate revenues in Figure 10.

Figure 10. Annual Total Spending in Anchorage Generated by Egan/ACCC



Notes: Annual spending is expressed in 2004 dollars. Annual spending reflects average attendance at Egan Center events from 2001 to 2004 and projected increase in event days with the new facility and expenditure patterns of local and non-local delegates.

An activity metric used to standardize reporting practices in the performance of a civic and convention center is number of event days. Figure 11 shows the average number of event days for the Egan Center from 2001 to 2004 compared to the number of event days in the fifth year of operation of a new center. The new complex of the ACCC and Egan could jointly generate about 247 additional event days in Anchorage in the fifth year of operation.

Figure 11. Number of Event Days for Egan/ACCC

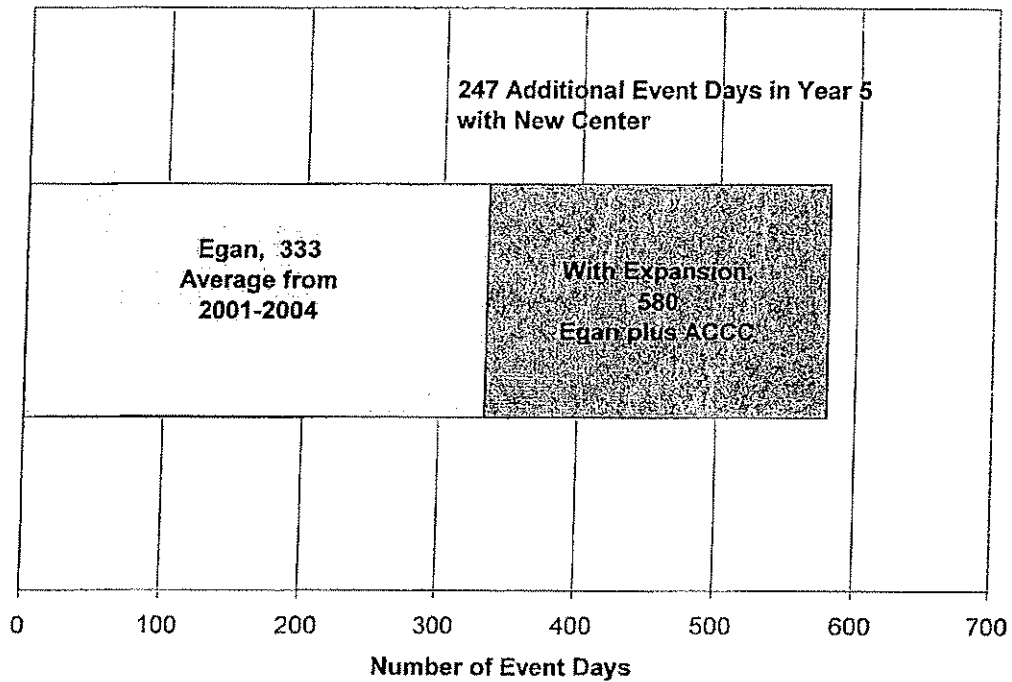
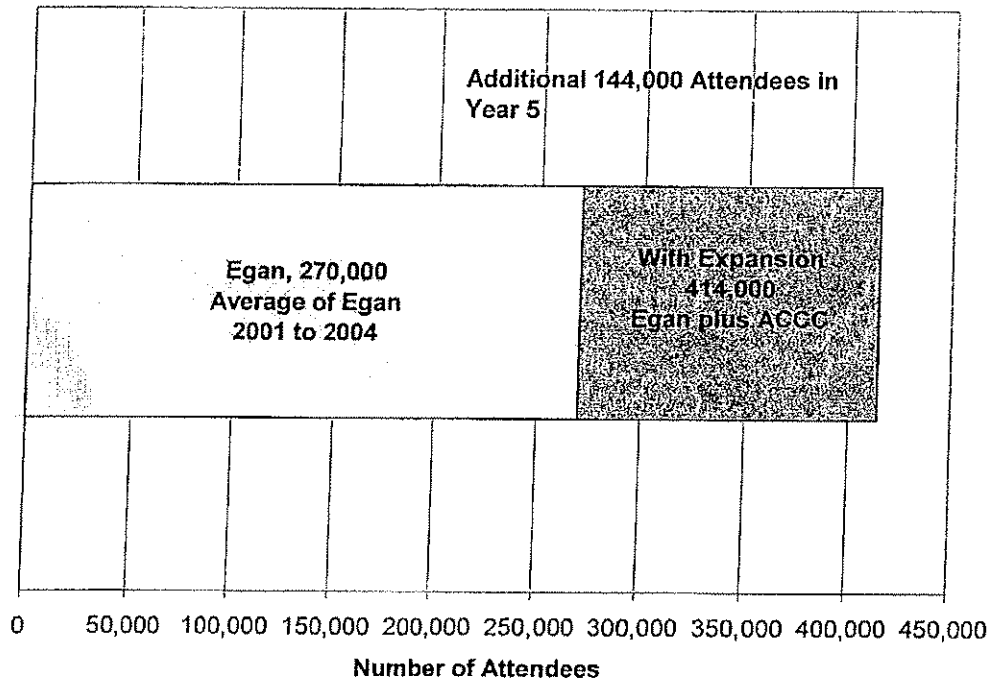


Figure 12 shows the number of attendees for the Egan Center based on an average of the Egan Center for 2001 through 2004 (270,000 attendees) compared to the number of attendees estimated for the fifth year of operation of a new complex (414,000). This change represents an increase of about 53 percent in the number of attendees. The Deloitte and Touche feasibility study estimated attendance at 388,142 for the new center in the fifth year of operation, but this estimate was for the operation of only one building and did not include continued operation of the Egan Center.

Figure 12. Number of Attendees at Egan/ACCC



Spending by the delegates, attendees, exhibitors, sponsors, and the operations and maintenance of the facility will result in new jobs in Anchorage. Figure 13 compares the number of direct and indirect jobs created by all economic activity associated with the Egan Center for 2001 through 2004, to the number of jobs that would be created by the new complex in its fifth year of operation. The Egan Center is estimated to generate about 1,780 full-time and part-time jobs in the community and the new complex is estimated to create about 3,705 jobs in its fifth year of operation.

Figure 13. Number of Jobs in Anchorage for Egan/ACCC

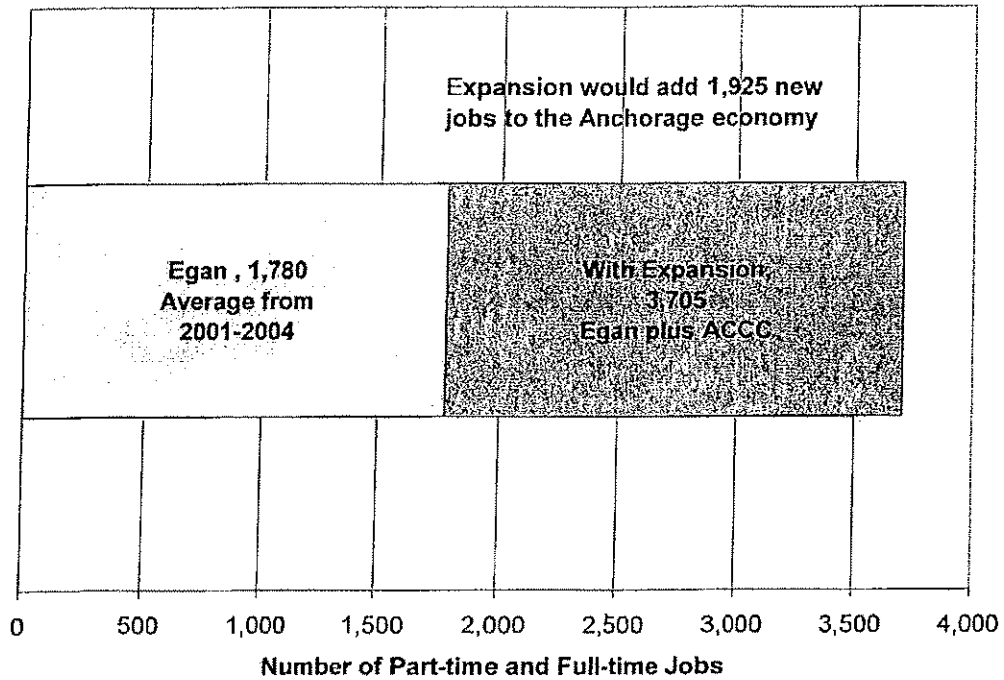
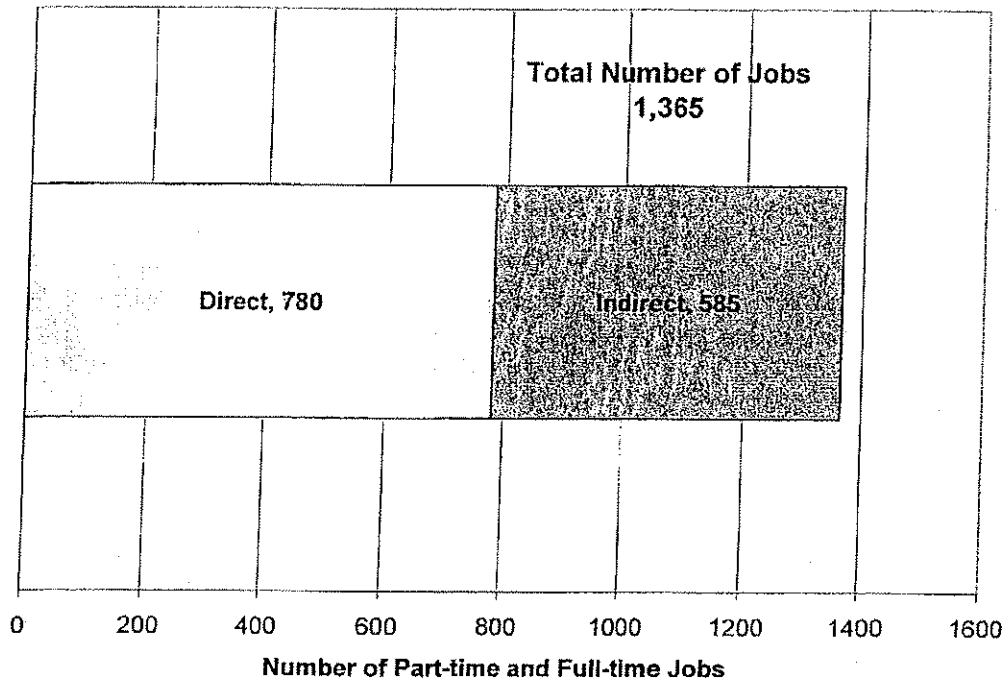


Figure 14 shows an estimate of the total number of part-time and full-time jobs that could be created by construction of the ACCC over the three-year construction period. Direct construction jobs, plus the other jobs generated in the community are estimated at 1,365 jobs over three years. The number of jobs created in each year of the construction period will depend on the value of the construction activity undertaken in a year.

Figure 14. Construction Jobs to Build the ACCC



Notes: Jobs would be over the three year period of construction

It should be noted that the economic impacts identified in these figures and discussed in the text are based on projections for the amount of business that can be generated by ACVB and SMG, as well as the latent demand for events and the lost business that has been identified. These projections are achievable, but like all business forecasts will depend on the ability of ACVB, SMG, and others to execute and succeed in their planning and marketing efforts



MUNICIPALITY OF ANCHORAGE

ASSEMBLY INFORMATION MEMORANDUM

NO. AIM 14-2005

Meeting Date: February 1, 2005

From: Mayor Begich and Assembly Chair Traini
Subject: AO 2005-17, Convention Center Proposition

In close cooperation with the Anchorage Convention and Visitors Bureau (ACVB), the Anchorage Chamber of Commerce, the Chugiak-Eagle River Chamber of Commerce, the Anchorage Economic Development Corporation (AEDC), and the Downtown Partnership, this administration has proposed and the Assembly has approved a comprehensive development plan for construction and operation of a new Civic and Convention Center for Anchorage.

In order to construct, operate, and maintain the new facility without risk to local property taxpayers, an increase in the existing hotel/motel bed tax has been proposed. An amendment to the Home Rule Charter providing for that increase is proposed through AO 2005-17 and, with the approval of the Assembly, will be submitted to Anchorage voters at the regular election of April 5, 2005. While state law permits amendment of home rule charters through ballot propositions approved by a simple majority of qualified local voters, the Anchorage Municipal Charter, since 1997, has required a vote of 60% to approve imposition of new sales taxes or increases in existing sales taxes.

In offering AO 2005-17 to the Assembly and to the voters for approval, it is our intent to retain and respect the historic commitment made by Anchorage voters in 1997 to impose a 60% or supermajority requirement for approval of general sales tax propositions within the Municipality. To that end, the Charter amendment proposed by AO 2005-17 is specifically limited to the 4% increase in hotel/motel bed sales taxes necessary to fully fund the construction, operation, and maintenance of a new Civic and Convention Center without risk to local property tax payers. The proposed amendment leaves the fundamental policy approved by voters in 1997 governing levy of additional sales taxes undisturbed and by no means is to be construed as opening the door to additional sales taxes on other goods and commodities except as otherwise allowed under the current Charter.

With these principles in mind, submission of the ballot proposition contained in AO 2005-17 to the voters in April, 2005 is recommended.

Prepared By: Mike Gutierrez, Utility Budget Analyst
Reviewed By: Elvi Gray-Jackson, Director of Assembly Budget and Legislative Services
Submitted By: Mayor Begich and Assembly Chair Traini