

## EOS Report Executive Summary

Unbeknownst to the public, the Sacramento Convention Center has been racking up losses of \$16 million annually for over a decade and the convention center shows no signs of improving its abysmal performance. Cumulative convention center losses over the past 14 years stack up to an eye-popping \$218 million - greater than the city council's proposed \$211 million cash subsidy of a proposed sports arena.

The annual \$16 million deficit is being funded by the city's 12% hotel tax. Fully four-fifths of the \$20 million annually brought in by the hotel tax is consumed by losses at the convention center, while most California cities use their hotel tax revenue to fund an array of services, particularly support for the arts. Eliminating the \$16 million annual subsidy of convention center losses would allow the city to hire 160 new police officers. The annual loss equates to 59% of the new taxes the city is collecting from voter passage last year of a one-half percent hike in the sales tax (Measure U). The annual \$16 million loss is more than the city spends out of its general fund each year on park maintenance.

In what amounts to a doubling down on failure, the Sacramento Convention & Visitors Bureau is now proposing that the city spend between \$50 million and \$200 million to further expand the convention center, even though the previous convention center expansion in 1996 failed to meet overly optimistic revenue projections and greatly increased annual center losses.

Further, the city council in March announced its plan to pledge the hotel tax as additional collateral to secure repayment of hundreds of millions of dollars of new arena bonds, tapping a revenue source that is already largely consumed by convention center losses, leaving the hotel tax a weak bulwark against future arena bondholders' claims against the city's general fund (the ultimate guarantor of the arena bonds) should future city parking revenues (the primary source for repayment of the proposed bonds) fall short of city projections.

Meanwhile, a long-planned, ADA-mandated \$50 million rehab of the Community Center Theater has been in limbo. It, too, will be dependent on the city's hotel tax to fund repayment of Theater construction bond payments. Finally, there is Sacramento's chronically underfunded arts community, which has received prior city assurances that hotel tax revenues would be available to fund an array of new arts facilities in town. In short, the city has massively overcommitted its hotel tax, while doing nothing to bring down the convention center's annual chronic losses that is consuming the tax.

EOS recommends that the city renegotiate the arena term sheet to drop the hotel tax as collateral for arena bonds and examine opportunities to reduce convention center losses by outsourcing convention bookings and/or convention center management to private, experienced firms, while providing incumbent agencies the opportunity to bid for such work. If such efforts are not successful in dramatically reducing losses, the city should seriously consider options for adaptive re-use of the convention center.