

# THE BOND BUYER

## **Bond deal will fund convention center expansion in Seattle**

By

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Seattle wants to capitalize on its status as one of the nation's top travel destinations with a \$1.7 billion plan to double the size of its downtown convention center.

Construction will start next week on the project which will be funded primarily through \$1.15 billion in bond financing.

The primary funding for the project is coming through a lodging tax-backed revenue bond of \$589.3 million and a subordinate lodging tax revenue bond of \$384.3 million.

The Washington State Convention Center Public Facilities District will price the bonds on Aug. 1, said Fred Eoff, director with PFM Financial Advisors in Seattle, which is the financial advisor for the deal.

Pacifica Law Group is the bond counsel. Citibank and Goldman Sachs are the co-seniors of the underwriting team that also includes RBC Capital Markets, Bank of America Merrill Lynch and JPMorgan, Eoff said.

"We're expecting a pretty strong market reception based on earlier feedback," Eoff said. "The story here in terms of economics is not only the King County and Washington market but the service coverage on the debt and the history of the positive trend line on the hotel/motel lodging tax revenue."

The Washington State Convention Center now hosts trade shows and other events at a facility with 390,000 square feet of exhibition, ballroom and meeting space.

The center was built in 1988 and has been expanded twice – in 2001 and 2010 – but continues to get more booking requests that it can handle, according to the public facilities district that runs the center.

Over the past five years, the center couldn't accommodate 350 events due to lack of space or available dates, losing an estimated \$2.1 billion in economic activity, district officials say.

The new addition will be built as a separate facility one block north of the existing center, covering three city blocks on 7.67 acres. It will include 1.4 million square feet with a 155,000-square-foot exhibition hall, an additional 100,000 square feet of flexible space, 125,000 square feet in meeting rooms and a 60,000-square-foot ballroom.

The building will also feature 20,000 square feet of retail and restaurant use and three levels of parking that can fit about 800 vehicles.

The new center is expected to be open for business by 2021.

Expanding convention space has been a goal for about a decade, said Matt Griffin, managing partner for Pine Street Group, a development company overseeing the project for the convention center.

"The Washington State Convention Center has turned down more business than they've booked," he said. "We're fortunate to live in a city that has a strong economy. We wanted to capture this opportunity of people who want to come to Seattle."

The convention center hosted 285 events in 2017 with 385,000 attendees and 329,000 hotel room nights booked, according to the district.

A feasibility study by the district estimated a 70% increase in events and 61% increase in attendance within four years. The new center will create 3,900 new jobs and \$240 million in annual visitor spending, according to the district's claims.

The bonds are secured with revenue from lodging taxes collected by the public facilities district. The tax rate is 7% in Seattle and 2.8% in the remainder of King County.

Originally built and owned by the state, the center is run as an independent district overseen by a board with three members appointed each by the Washington governor, Seattle mayor and King County executive.

Since 2010, lodging tax revenues have grown 10% each year while the hotel occupancy rate in downtown Seattle last year was more than 84%, according to an investor presentation for the project. Real estate company CBRE expects hotel supply in the region to grow by 25% over the next five years with the occupancy rate staying above 77%, the presentation said.

S&P Global Ratings assigned an A-plus rating earlier this month to the lodging tax bonds and an A-minus to the subordinate series bonds. The agency also affirmed its A-plus long-term rating on the district's 2010 bonds and its stable outlook.

"The ratings reflect our view of such factors as the district's very strong and diverse regional economy, robust historical and prospective pledged revenue growth, and good historical maximum annual debt service coverage," said S&P Global Ratings credit analyst Chris Morgan.

Moody's Investors Service also assigns a stable outlook. The agency assigned Aa3 and A1 ratings respectively to the lodging tax bonds and subordinate bonds. It reaffirmed the Aa3 rating on the previous debt.

"The stable outlook reflects our expectations that the local economy will continue to perform well and the pledged revenue trends of the district will remain healthy," the agency said in its report.

In addition to the bond funding, the district will use about \$306 million from existing and future revenues while future development rights on part of the property will provide another \$122.9 million. The district has development rights for a 29-story, 400-unit residential tower and a 16-story, 500,000-square-foot office building on the property.

Underground truck loading bays will be built for the convention center with the two towers constructed above, Griffin said.

The district will sell that portion of the property to another developer to build and hopes to get at least \$50 million, he said.

The projects are expected to take 18 months to complete and should finish the same time the new addition is ready to open, he said.

The open glass design of the convention center addition and the retail, housing and office component are part of the goal of creating a vibrant neighborhood, Griffin said.

"One of the reasons people like to come to Seattle is the urban feeling of it and we don't want to lose that in the area," Griffin said. "Building a great neighborhood around a facility like this is what makes it exciting and fun."

As part of the project approval, the Seattle City Council agreed in May to permanently close some alleys and an underground bus tunnel needed for the project to be built.

Last year, the convention center agreed to provide about \$92 million in community benefits in a deal with the city and King County. Those include \$29 million for affordable housing, \$10 million for improvements to a nearby park and \$30 million for bicycle and pedestrian paths downtown.

“The expansion of the Washington State Convention Center will bring tremendous community and economic benefits to the region,” King County Executive Dow Constantine said last year when the deal was reached.