



OFFICE OF THE CITY MANAGER



Memorandum

To: Mayor Jim Ardis
Members of the City Council

From: Patrick Urich, City Manager

Date: February 10, 2014

Re: Economic Analysis of Peoria Sports Center and Holiday Inn Project

On February 11, 2014 the City Council will be asked to approve the First Amendment to the Annexation Agreement for property along Orange Prairie Road that will be the home of the Peoria Sports Center. As has been reported, the Center will include 10 all-weather fields as well as a 125,000 square foot dome. Additionally, the project involves the construction of the nearby Holiday Inn and Suites, which will consist of 114 hotel rooms plus meeting space.

The project, when completed, should provide a positive economic benefit to the City of Peoria in terms of additional revenues, as well as greater activity at Peoria businesses. The Peoria Sports Center will be a unique venue in the Midwest and should draw teams and their families from a considerable distance. According to the National Association of Sports Commissions, the youth sports travel industry is worth an estimated \$7 billion and is growing by 3 to 5 percent annually.¹ The developer has stated that teams will only play one to two games each day. The idle time between games should result in increased sales at local restaurant and retail establishments as well as increased attendance at venues such as the Peoria Riverfront Museum.

Below is an analysis of how the Peoria Sports Center project might impact City revenues and the overall economy.

Costs

Per the Agreement, the City will borrow \$9.6 million through a general obligation bond and provide the proceeds to the Developer to complete the project. Bonds will be repaid through the creation of Special Service Areas (SSAs) for the Holiday Inn and Suites site and an area that includes the Peoria Sports Complex and the other four hotels owned by the Developer (Wingate, Hampton Inn, Candlewood Suites and Country Inn and Suites). Within these areas, the hotel tax will be raised by 3% (from 6% to 9%) and sales tax will be increased by 1% (from 8.25% to 9.25%). Should the revenues generated by these taxes be insufficient to cover the cost of annual repayment, an additional property tax will be levied on each of the properties within the SSAs, proportional to their value. Under this structure, the development is essentially taxing itself. There is very little risk to the City that it would be forced to repay bonds from

¹ <http://www.sportsbusinessdaily.com/Journal/Issues/2013/07/22/In-Depth/Youth-sports-travel.aspx>

general revenues. Failure by the Developer to pay property taxes would result in a lien being placed against the properties. Property tax liens are superior even to conventional bank notes.

There has been some concern on the part of nearby residents that their property values will be negatively impacted. This is difficult to prove wrong or right, but the Developer researched the values of homes in the area surrounding Eastside Center, a similar facility in East Peoria. They found that the change in property values for these homes kept pace with overall property values in the entire community.

Finally, the Peoria Sports Complex and Holiday Inn do not increase any operational or capital costs to the City. The extension of Orange Prairie Road was already planned in advance of the project, so any costs associated with its construction or maintenance are already set. Similarly, the project will not require any additional police or fire resources.

Finding: There is no identifiable cost to the City for proceeding with the project.

Revenues

The analysis of revenues will be generally limited to a projected increase in funds available to the City and other local units of government. This comes in the form of increased property taxes, hotel taxes, restaurant taxes and sales taxes. It is important to note that this positive impact does not include the proceeds from additional taxes levied in the SSAs.

Property Taxes

The Developer is the current owner of four hotels in the area (listed above) that have a combined Equalized Assessed Value (EAV) of approximately \$6.6 million. The average EAV of these hotels is \$1.6 million. The proposed Holiday Inn and Suites will occupy a parcel that already has an EAV of \$453,000. When the hotel is completed, its estimated EAV will be \$1.8 million. This a conservative estimate considering the other four hotels, which have an average EAV of around \$1.6 million, are considerably smaller than the proposed Holiday Inn and Suites. On average, the other four hotels have 75 rooms; the Holiday Inn will have 114 rooms. Still, even conservatively, the completed Holiday Inn will pay about \$148,000 in property taxes each year, or about \$110,000 more because of project completion. That amount yields an additional \$13,000 to the City of Peoria, about \$11,000 each for the County and Park District, and about \$56,000 for School District 323.

In addition, the 55 acre parcel upon which the Peoria Sports Center will be built has a current EAV of about \$20,000 and contributes about \$1600 in taxes each year. When completed, the Developer estimates the complex's EAV will be \$1.25 million. This EAV would yield \$104,000 in property taxes or about \$102,000 more than at present. This new property tax will mean an additional \$11,000 in taxes to the City; \$10,000 to the County; \$9,000 to the Park District; and \$51,000 to School District 323.

Hotel Taxes

The business model of the Peoria Sports Center is based on generating business from outside the immediate area and increasing demand for the local hotels owned by the Developer. The construction of the Holiday Inn is directly tied to that expected increase in demand. In Peoria,

hotel room sales are taxed at 6%. The Developer provided information that showed the existing 302 rooms have an average occupancy of 77% and an average daily rate of \$102. The new Holiday Inn and Suites will add 114 rooms to the market. The brand and product is a higher quality than the other hotels and average daily rate is anticipated to be \$125. While demand is anticipated to be strong, it is unlikely that all five hotels would perform at 77% occupancy. However, even if the combined 416 rooms are occupied 70% of the time, hotel taxes are anticipated to increase by about \$173,000 each year (before accounting for inflation).

Sales Tax and Restaurant Taxes

The project is anticipated to raise additional revenues from sales and restaurant taxes. This increase comes from food and beverage sales at the Holiday Inn (which will have a small conference center with banquet capabilities) and Peoria Sports Center (concessions), as well as merchandise sales at the Sports Center. In Peoria, food and beverage are subject to a 2% restaurant tax. Food and beverage, as well as general merchandise, is also subject to 8.25% sales tax. The City receives 2.5% of this total. The following table shows anticipated tax revenue increases directly associated with the project:

Item	Volume	R Tax	Sales Tax	Total
Holiday Inn F&B	\$1,000,000	\$20,000	\$25,000	\$ 45,000
Sports Center F&B	\$ 850,000	\$17,000	\$21,250	\$ 38,250
Sports Center Merchandise	\$ 850,000	\$ 0	\$21,250	\$ 21,250
Total	\$2,700,000	\$37,000	\$67,500	\$104,500

It should be noted that Peoria County should see an increase in sales tax proceeds of about \$20,000 based on their 0.75% sales tax rate on food, beverage and general merchandise sales.

Other Impacts

The property, hotel, restaurant and sales tax increases outline above show positive local impact. Not calculated are increase in local utility taxes (natural gas, telephone, electricity) generated by operation of the new developments. The volume of hotel room nights generated is likely to be greater than the 416 rooms included in this analysis, which will have a positive impact on other Peoria hotels. Similarly, out-of-town visitors will likely shop at the nearby Shoppes at Grand Prairie, eat at local restaurants, see a movie between games at Carmike Cinemas, and buy fuel at Peoria gas stations. All of these activities generate additional tax revenue.

Most importantly, the project creates jobs in three ways: temporary construction jobs; permanent direct jobs at the hotel and Sports Center; and permanent indirect jobs at other Peoria businesses that benefit from a more vibrant visitor economy.

Finding: The combined project is conservatively estimated to generate, for the City alone, an additional \$24,000 in property taxes; \$173,000 in hotel taxes; \$37,500 in restaurant taxes; and \$67,500 in sales taxes.

Conclusion: The City bears little, if any, risk in providing conduit financing for this project. There are no readily identifiable costs, but considerable financial benefits.