



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT


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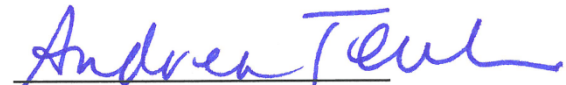
Budget Review Committee Docket Date: May 3, 2019

Review of City Agencies FY 2020 Budgets: Convention Center

The IBA has reviewed the San Diego Convention Center Corporation (SDCCC) proposed budget which is scheduled to be heard Friday, May 3, 2019. Our review is attached.



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City Agencies: Convention Center

Convention Center

Overview

The San Diego Convention Center Corporation (SDCCC) is a non-profit public benefit corporation created by the City to manage, market, and operate the San Diego Convention Center. A seven-member Board of Directors (Board) comprised of business and community leaders establishes policy for the SDCCC.

The mission of SDCCC is to “generate significant economic benefits for the greater San Diego region by hosting international and national conventions and trade shows in our world-class facility.”

SDCCC provides operating and economic performance measures to reflect the economic benefits resulting from Convention Center operations. These projections were updated on April 11, 2019. Estimated and projected performance measures for fiscal years 2018, 2019, and 2020 are shown in the table below. These measures were developed based on information and research provided by CIC Research, Inc. and Show Management data.

In recent years (notably FY 2017), most of these measures were at, or very near, all-time highs. These record performance levels pulled back slightly in FY 2018, but new record levels of building occupancy and associated revenues/economic impact are

projected for FY 2019. Current performance projections for FY 2020 also look to be very strong.

If voters support a citizen initiative ballot measure to expand the Convention Center in March 2020, there will be opportunities to increase the number and size of events going forward which could further enhance these performance metrics.

FY 2020 Proposed Budget

On March 26, 2019, the SDCCC Board reviewed and approved a budget for FY 2020. The budget is available at <https://visitsandiego.com/about/current-budget>.

A comparison of this budget to SDCCC’s FY 2019 operating budget is provided in the Summary of Operating Budget Changes table on the following page.

The FY 2020 expenditure budget for the Convention Center is approximately \$39.0 million, an increase of \$542,000 or 1.4% over the FY 2019 Budget.

Personnel Expense/Staffing

The FY 2020 budget includes total personnel expenses of \$23.9 million, a decrease of approximately \$256,000 or 1.1% from the FY 2019 budget. This reduction results from a reduction in FTE positions and a net \$298,000 decrease in fringe benefit expense (including a \$313,000 reduction in health insurance premiums), which is par-

Estimated and Projected Benefits from Operations ¹	FY 2018	FY 2019	FY 2020
• Regional Economic Impact	\$1.1 billion	\$1.3 billion	\$1.2 billion
• Direct Attendee Spending	\$660.2 million	\$742.3 million	\$698.2 million
• Hotel & Sales Tax Revenue	\$25.0 million	\$29.0 million	\$28.0 million
• Hotel Room Nights	694,000	823,000	796,000
• Exhibit Hall Occupancy	73.6%	83.2%	74.0%
• Number of Conventions and Events	130	140	156
• Attendance - Primary Business Attendees	553,000	614,000	611,000

¹ FY 2018 data based on SDCCC FY 18 Annual Report. FY 2019 and FY 2020 data projected by SDCCC as of April 11, 2019.

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SUMMARY OF CONVENTION CENTER OPERATING BUDGET CHANGES					
	FY 2018 Budget	FY 2019 Budget	FY 2020 Budget	Increase/ (Decrease)*	Percent Change*
OPERATING REVENUES					
Building Rent (net of rent credits)	\$8,726,398	\$9,510,829	\$9,358,263	(\$152,566)	-1.6%
Co-Promoted Events	400,000	300,000	60,000	(240,000)	-80.0%
Food and Beverage	9,828,167	11,793,253	11,649,835	(\$143,418)	-1.2%
Event Services	4,003,715	4,911,228	4,744,504	(166,724)	-3.4%
Utilities	4,926,921	6,418,337	6,039,732	(378,605)	-5.9%
Telecommunications	3,457,934	4,636,945	4,742,808	105,863	2.3%
Audio & Visual Services	1,432,170	1,287,350	1,352,738	65,388	5.1%
Naming Rights & Sponsorships	150,000	160,000	475,000	315,000	196.9%
Interest & Other	260,866	347,646	448,896	101,250	29.1%
City of San Diego	3,436,000	2,133,025	2,133,025	-	0.0%
TOTAL OPERATING REVENUES	\$36,622,171	\$41,498,613	\$41,004,801	(\$493,812)	-1.2%
OPERATING EXPENSES					
Salaries and Wages	\$16,709,696	\$18,491,192	\$18,529,047	\$37,855	0.2%
Overtime	102,138	105,852	109,325	3,473	3.3%
Fringe Benefits (Health)	2,040,439	2,314,566	2,001,376	(313,190)	-13.5%
Fringe Benefits (Pension)	2,372,890	2,560,791	2,590,335	29,544	1.2%
Fringe Benefits (Other)	642,408	717,281	703,298	(13,983)	-1.9%
Subtotal Personnel Expenses:	\$21,867,571	\$24,189,682	\$23,933,381	(\$256,301)	-1.1%
General Expenses	\$2,822,575	\$2,473,482	\$3,484,616	\$1,011,134	40.9%
Repair and Maintenance	2,970,124	2,741,523	2,600,247	(141,276)	-5.2%
Utilities	3,913,872	4,038,326	4,429,771	391,445	9.7%
Contracted Services	759,644	1,255,038	1,161,975	(93,063)	-7.4%
Travel & Transportation	102,791	156,260	147,742	(8,518)	-5.5%
Insurance	369,126	405,357	402,720	(2,637)	-0.7%
Telecommunications	52,696	44,935	45,114	179	0.4%
Sales & Marketing	2,087,958	2,310,136	2,337,192	27,056	1.2%
Supplies	637,460	820,722	434,846	(385,876)	-47.0%
Subtotal Non-Personnel Expenses:	\$13,716,246	\$14,245,779	\$15,044,223	\$798,444	5.6%
TOTAL OPERATING EXPENSES	\$35,583,817	\$38,435,461	\$38,977,604	\$542,143	1.4%
NET OPERATING REVENUES/(EXPENSES)	\$1,038,354	\$3,063,152	\$2,027,197	(\$1,035,955)	-33.8%

DEBT SERVICE OBLIGATIONS	FY 2018	FY 2019	FY 2020	\$ Change	% Change
Interest Expense	-	\$381,438	\$891,362	\$509,924	133.7%
Loan Administration Fee	-	70,125	74,487	4,362	6.2%
Principle: Warehouse Lease	-	2,197	2,197	-	0.0%
Principle: I-Bank Loan	-	670,975	756,061	85,086	12.7%
TOTAL DEBT SERVICE OBLIGATION	\$0	\$1,124,735	\$1,724,107	\$599,372	53.3%

* Increase/(Decrease) and Percent Change figures are calculated using budgeted numbers for FY 2019 and FY 2020.

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tially offset by salary and wage increases (including collective bargaining step increases and merit and other increases for non-represented staff).

Staffing

There are 347.46 FTE positions in the FY 2020 budget, a decrease of 8.44 FTE positions as compared to the FY 2019 budget. The decrease is primarily attributable to a reduction in part time hours (equivalent to 7.02 FTE positions) and a further net reduction in 1.42 FTE positions. Of the 347.46 FTE positions in the FY 2020 budget, 219.00 (63%) are full-time staff and 128.46 (37%) are hourly part-time employees.

Non-Personnel Expenses

Non-Personnel Expenses (NPE) increased by approximately \$798,000 or 5.6%, from \$14.2 million in FY 2019 to \$15.0 million in FY 2020. This year-over-year increase is primarily attributable to changes in the following NPE line items:

General Expenses: Increased by approximately \$1.0 million or 41% from \$2.5 million in FY 2019 to \$3.5 million in FY 2020. The increase is primarily due to furniture, fixtures and equipment purchases for meeting room chairs and recycle bins.

Repair and Maintenance: The building continues to be busy and experience additional wear which necessitates repair and maintenance expenditures. It can be challenging for SDCCC management to find opportune times to perform maintenance and repair in the busy facility. A modest reduction in anticipated maintenance needs results in this line item being reduced by \$141,000 or 5.2% in FY 2020.

Utilities: This expense category increases by \$391,000 or 9.7% due to the expectation for increased activity in the building

and energy price increases.

Supplies: The budget for this line item is decreasing by \$386,000 or 47.0% due to the removal of a significant one-time expense to repair and enhance leaking planter boxes at the facility in FY 2019. The project was not able to be completed in FY 2019 and is now planned for FY 2022.

Revenue

Budgeted revenue for the Convention Center decreases by approximately \$494,000 or 1.2% from \$41.5 million in FY 2019 to \$41.0 million in FY 2020. The year-over-year decrease in total budgeted revenue largely results from changes in the following revenue line items:

Net Building Rent: This revenue item is for rent paid for use of the facility net of any rent credits offered as a negotiating incentive to attract business. It is projected to decrease by \$153,000 or 1.6% in FY 2020. This is mainly due to a \$480,000 reduction in rental revenues from Corporate Events, Community Events, and Consumer Shows. This reduction is partially offset by \$313,000 in increased rent from Convention and Trade Shows.

Co-Promoted Events: Owing to a change of scope for Co-Promoted Events, revenue is budgeted to decline by \$240,000 or 80%, from \$300,000 in FY 19 to \$60,000 in FY 2020.

Food & Beverage: When conventions, trade shows, and corporate events book the facility, they often commit to a guaranteed minimum amount of food & beverage service. Based on advanced bookings, commissions are expected to decline by about \$143,000 or 1.2% in FY 2020. Declining commissions from Corporate Events are largely offset by increased commissions from Convention and Trade Shows.

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Event Services: In FY 2018, SDCCC began to directly provide exhibit booth cleaning, advertising, and other billable labor services which resulted in additional revenue. Given the anticipated demand for these services in FY 2020, SDCCC expects revenue to decrease by \$167,000 or 3.4% over the amount budgeted in FY 2019.

Utilities: SDCCC provide utility services (e.g., exhibit booth electrical hook-up) to users of the facility and receives a commission for these services. Based on the activity planned for the facility in FY 2020, budgeted revenue from utility-related services has been reduced by \$379,000 or 5.9% over the amount budgeted in FY 2019.

Telecommunications: SDCCC has an agreement with Smart City to provide telecommunications services to their clients. Based on a scheduled tech show in FY 2020 with high data demands and generally higher data demands from all users of the facility, revenue from telecommunications services has been increased by \$106,000 or 2.3% over the amount budgeted in FY 2019.

Naming Rights and Sponsorships: This revenue is budgeted to increase by \$315,000 or 197% due primarily to a projected \$200,000 increase in sponsorships inside the facility and \$100,000 from Digital Signage.

Interest and Other: Due to higher interest/investment income, this revenue is budgeted to increase by \$101,000 or 29.1% over the amount budgeted in FY 2019.

City of San Diego: Prior to FY 2019, the City provided SDCCC with a \$3.4 million annual support payment to cover the cost of the long-term marketing agreement with SDTA and also address some of the

capital needs at the facility. In FY 2019, the City reduced the support payment to \$2.1 million—an amount that covered the cost of the SDTA marketing agreement. This amount is budgeted again in FY 2020.

Issues to Consider

SDCCC's Reserve Policy

On February 5, 2016, the SDCCC Board amended their Reserve Policy. The amended Reserve Policy now calls for a minimum reserve of at least 8%, and a goal of attaining a 14% reserve, measured as a percentage of the most recent three-year average of annual audited operating revenues. The Policy further states that "Operating Reserves will be maintained to mitigate building maintenance, financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures and to sustain necessary operations in the case of unforeseen emergencies."

As shown in the table on the next page, the Ending Reserve Balance shows projected funds remaining after accounting for net operating revenues, debt payment obligations, loan proceeds received, and money spent for capital needs at the facility. The projected Ending Reserve Balance in FY 2020 is approximately \$3.6 million which equates to a 9.5% reserve.

It is important to note that the annual contribution to address identified CIP and Operating Capital needs (discussed below) has been accounted for before making the 9.5% reserve calculation for FY 2020.

In recent years, SDCCC management has generally maintained an Ending Reserve Balance in excess of their Reserve Policy percentage requirements. This can be a challenge as maintaining adequate reserves often competes with SDCCC's ability

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OPERATING RESERVE ACTIVITY	FY 2018 ACTUAL	FY 2019 FORECAST	FY 2020 BUDGET
Beginning Operating Reserve	\$ 5,303,993	\$ 9,017,714	\$ 10,199,516
+ Net Operating Revenues	3,456,713	4,868,927	2,027,197
- Debt Service Obligation	(2,197)	(1,124,735)	(1,724,107)
+ Loan Proceeds Received (from I-Bank Loan)	15,576,116	1,468,610	-
- Capital Outlay:			
- for Capital Infrastructure Projects (CIP)	(15,316,911)	(4,031,000)	(5,142,450)
- for Operating Capital Needs	-	-	(1,784,309)
Ending Reserve Balance	\$ 9,017,714	\$ 10,199,516	\$ 3,575,847
Ending Balance Expressed as Reserve Percentage	26.18%	27.61%	9.52%
Minimum Reserve Balance - 8% per policy	\$ 2,756,000	\$ 2,955,629	\$ 3,003,974
Over / (Under) Minimum Reserve Balance	\$ 6,261,714	\$ 7,243,887	\$ 571,873

to address identified CIP and Operating Capital needs.

Use of California Infrastructure Bank (I-Bank) Loan to Finance Needed Capital Projects

In a collaborative effort with the City, SDCCC finalized the terms of a \$25.5 million I-Bank loan in December 2016. The term of the loan is 25 years and rate of interest is 3.6%. Beginning in FY 2020, SDCCC will be required to make full annual debt service payments on the loan of approximately \$1.7 million through FY 2041.

The I-Bank loan required that all loan proceeds be expended for capital projects by January 2019. SDCCC has fulfilled that requirement and the following major capital projects have been financed and completed using I-Bank loan proceeds:

- Replace Sails Pavilion Fabric Structure (\$10.6 million)
- Concrete Replacement at Sails Pavilion (\$3.9 million)
- New Cooling Tower—West Bldg. (WB) (\$1.6 million)
- Fire Safety Equipment: Water Cannons (\$1.7 million)
- Chiller Improvements (\$272,000)

- Retrofit Escalators in WB (\$3.6 million)
- Fire/Life Safety System (\$1.3 million)
- Replace Rooftop Chiller (\$619,000)

10-Year CIP and Operating Capital Needs Assessment

On March 26, 2019, SDCCC's Board approved an updated 10-year assessment of Capital Infrastructure Projects (CIP) and Operating Capital needs for FY 2020 through FY 2029 as shown in the table on the next page. These projections are the result of condition assessments performed by SDCCC staff and consultants on the facility's infrastructure and other Operating Capital needs. The projections provide cost estimates, show which projects need to be undertaken, and when they should be undertaken, in order to properly maintain the Convention Center facility.

The rightmost column shows the total annual capital funding need. While SDCCC is projecting they will be able make the \$6.9 million capital contribution in FY 2020 and maintain a 9.5% reserve, the identified capital contributions for next three fiscal years are much larger (e.g., \$22.1 million in FY 2022). It may be challenging for SDCCC to continue to fund identified capital needs and also stay in compliance with

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10-Year Projections for Capital Improvement Projects (CIP) and Operating Capital Projects (\$ in millions)			
Fiscal Year	CIP Projects	Operating Capital	Total
FY 2020	\$5.1	\$1.8	\$6.9
FY 2021	\$7.7	\$0.9	\$8.6
FY 2022	\$18.8	\$3.3	\$22.1
FY 2023	\$8.5	\$2.5	\$11.0
FY 2024	\$2.0	\$1.2	\$3.2
FY 2025	\$3.7	\$0.6	\$4.3
FY 2026	\$11.0	\$0.1	\$11.1
FY 2027	\$3.8	\$0.2	\$4.0
FY 2028	\$3.4	\$0.0	\$3.4
FY 2029	\$0.0	\$0.0	\$0.0
Total:	\$64.0	\$10.6	\$74.6

their Reserve Policy in the coming fiscal years, particularly if record-setting activity levels and associated revenue at the facility return to prior levels.

Annual City Payments in support of the Convention Center—\$15.5M

The City makes annual payments totaling \$15.5 million for debt service, dewatering, and long-term marketing in support of the Convention Center. These payments are detailed in Volume 2 of the FY 2020 Proposed Budget (beginning on page 109).

The City makes annual debt service payments on the Convention Center Expansion Bonds that were issued in 1998 (these Bonds were subsequently refinanced in 2012). The proceeds of these Bonds were used to double the size of the original Convention Center which opened in 1989. The annual debt service payment for these Bonds is approximately \$12.6 million in FY 2020. Annual debt service payments will continue at this level until the bonds mature in FY 2028. Additionally, the City pays for annual dewatering costs (\$840,000 in FY 2020) – dewatering removes unwanted

groundwater from the site.

The City annually budgets a supporting contribution to Convention Center operations. Prior to FY 2019, the annual contribution was \$3.4 million. SDCCC used this amount to cover the cost of their long-term marketing and promotion agreement with the San Diego Tourism Authority (SDTA) and also to address some of the capital needs at the facility. As Convention Center activity and associated revenues increased in recent years, the City reduced its annual support contribution to \$2.1 million in FY 2019 and it remains budgeted at this level in FY 2020.

The City’s \$2.1 million contribution in FY 2020 will cover SDCCC’s annual payment obligation to SDTA for their marketing work. SDTA is responsible for marketing the Convention Center and securing new, and recurring, commitments for future (18 months and out) convention and trade show events.

Possible Ballot Measure to Expand and Modernize Convention Center

In January 2018, a citizens initiative was launched to increase the City’s Transient Occupancy Tax (TOT) to modernize and expand the Convention Center, and also generate revenue to alleviate homelessness and perform repair roads. Last year, the “For a Better San Diego” initiative was determined to have garnered sufficient signatures to be placed on the next November general election ballot unless the City Council decided to submit the initiative to voters at an earlier election. On April 15, 2019, the City Council adopted a resolution of intention to place the initiative on the March 2020 ballot.

The measure proposes to increase the City’s effective TOT rate from 12.5% to as high as 15.75% depending on the location

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of the hotel for up to 42 years. The initiative specifies that 59% of the resulting additional TOT proceeds would be used to expand the Convention Center. It has been estimated that this measure could generate approximately \$3.4 billion to expand the Convention Center facility.

If this measure were to be approved by the voters, it has the potential to increase future net operating revenues at the facility. Increased future net operating revenues would strengthen SDCCC's financial position, allow for more capital needs to be addressed, and reduce or eliminate the need for an annual operating subsidy from the City.