PERFORMANCE AUDIT OF THE SAN DIEGO CONVENTION CENTER

Improvement in Performance Measures and Collaboration Between Stakeholders is Needed to Help Ensure the Continued Success of the San Diego Convention Center as a Premier Tourist Destination

Office of the City Auditor

City of San Diego

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January 2017

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THE CITY OF SAN DIEGO

January 18, 2017

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report of the San Diego Convention Center. This report was conducted in accordance with the City Auditor's Fiscal Year 2016 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief are presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 51 of this report.

We would like to thank staff from the San Diego Convention Center Corporation and the City of San Diego Financial Management Department for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Shawneé Pickney, Shoshana Aguilar, Stephanie Chernau, and Kyle Elser.

Respectfully submitted,

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Results In Brief

The San Diego Convention Center (Convention Center) is the region's premiere gathering place, hosting international and domestic conventions, trade shows, and community events. These events benefit the City of San Diego (City) by generating tax revenue and advancing the City's tourism industry. In 1984, City Council created and incorporated the San Diego Convention Center Corporation (SDCCC), a non-profit, public benefit corporation, to manage and operate the facility. SDCCC estimates regional economic impact at $1 billion per year.

When the Convention Center books events, it generates Transient Occupancy Tax (TOT) revenue by securing hotel room nights with convention attendees who pay the TOT as part of their hotel bill. The City collects TOT and uses a portion for Convention Center-related expenditures. Each year, the City spends approximately $13.6 million of TOT revenue for debt service lease payments, dewatering costs, administrative and insurance expenses.[1] The City contributes an additional $3.4 million of TOT revenue to SDCCC's operating revenues for marketing, promotions, and capital projects.

In FY 2013, SDCCC entered into a Sales and Marketing Services Contract (contract) with the San Diego Tourism Authority (SDTA). SDCCC uses approximately $1.9 million of the City's annual contribution to pay SDTA. Since SDCCC pays the SDTA contract with City funding, it is imperative that SDCCC monitor SDTA's performance.

We found that SDCCC did not provide sufficient oversight in the development of the SDTA contract. While the contract includes the goal of 860,000 total projected room night bookings, the contract does not include other measurable performance targets or a robust corrective action clause. Without enhanced oversight of the SDTA contract, SDCCC runs the risk of underutilizing public tax dollars, receiving lower quality service, and the potential for fraud and abuse. SDCCC

[1] Dewatering is the removal of groundwater or surface water from a site.

should improve its oversight of SDTA's services by strengthening performance measures and corrective action protocols when the contract is up for renewal at the end of FY 2017.

We also found that SDCCC developed a ten-year capital needs plan dated FY 2017 to FY 2026, totaling $53.4 million in expenditures.[2] After accounting for a California Infrastructure and Economic Development Bank loan of $25.5 million and the City's anticipated contribution of approximately $13.5 million available for capital needs between FY 2018 to FY 2026, a funding gap of $12.6 million still remains.

While the Convention Center benefited from Unified Port of San Diego (Port) and City funding, those dollars were allocated for specific purposes and cannot be devoted exclusively to the remaining unfunded capital projects. Additionally, SDCCC has lost revenue that could have been used for capital projects on an unsuccessful Convention Center Expansion effort and an attempt to generate naming rights revenue.[3] Also, to address the ongoing capital needs, SDCCC is making efforts to decrease expenses and generate additional revenue to help fund capital projects. However, the funding gap still exists.

SDCCC operates the Convention Center within a unique governance structure. In the typical government owned and non-profit operated governance structure, one government entity, e.g. a city, state, or county, owns the convention center.[4] The government owner is often responsible for capital and expansion financing. San Diego has two separate government entities as owner and operator of the Convention Center. As these duties will remain shared, the City and Port must collaborate to ensure that the capital needs of the Convention Center are addressed.

[2] Capital needs are updates and replacements of building infrastructure.

[3] An organization purchases naming rights when it pays an organization to advertise on its building. City leadership reported that during the course of the audit it was in discussions with the Unified Port of San Diego regarding approval and revenue distribution for naming rights

[4] See Exhibit 5.

Underinvestment in capital needs results in deferred maintenance, deteriorating assets, decreased performance, and decreased reliability. In order for SDCCC to prepare for capital funding needs, it should prioritize expected capital project needs by order of importance within each year. SDCCC should prioritize the capital projects that pose the greatest risk to the Convention Center if left unattended. Furthermore, SDCCC and the City, in conjunction with all relevant stakeholders incluing the Port, should develop a financing plan that addresses the prioritized capital needs. Deferring investment may prove costlier in the long run.

Given that capital project funding is limited, SDCCC could better manage and maximize the funding it does receive from the City. While SDCCC spent City funds on allowable capital projects, it could improve internal invoice authorization procedures and its prioritization for the use of available City funds. We found that SDCCC should update its internal invoice payment authorization procedures to reflect appropriate practices. Furthermore, SDCCC should develop a policy on how to use any available City funds should all capital needs be paid for in any given year. The policy should prioritize capital needs and require that SDCCC consult the City in writing in order to agree on whether excess funds are to be used for rental credits, reserves for future year capital projects, or be returned to the City.

We made a total of six recommendations to address the issues outlined above, and management agreed to implement all recommendations.

Background

Introduction

In accordance with the Office of the City Auditor's Fiscal Year 2016 Audit Work Plan, we conducted a performance audit of the San Diego Convention Center (Convention Center). Councilmember Scott Sherman requested the audit, and we also built on the work of the San Diego Grand Jury's May, 2015, Convention Center report. The overall objective of this audit was to evaluate the efficiency and effectiveness of the management and operations of the Convention Center. To achieve this objective, we:

- Identified the City's financial obligations related to the Convention Center and the sources of funding, and internal controls of San Diego Convention Center Corporation's (SDCCC) payment authorization process. Our observations can be found in the Background and Finding 3;
- Identified the City's division of oversight responsibilities for the Convention Center in comparison to typical governance structures within the convention center industry and its effects on funding for Convention Center capital projects as discussed in the Background and Finding 2; and
- Assessed SDCCC's oversight of its Sales and Marketing Contract (contract) with the San Diego Tourism Authority (SDTA) as discussed in Finding 1.

A detailed objective, scope, and methodology statement is found in **Appendix B**.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

History

The San Diego Convention Center (Convention Center) is the region's premiere gathering place, hosting conventions, trade shows, and community events. These events benefit the City of San Diego (City) and advance the City's convention and tourism industry. The Convention Center was completed in 1989 with voter approval on 11 acres of Unified Port of San Diego (Port) land. The momentum to build the Convention Center came from a downtown redevelopment campaign in the late 1970s. In 1984, City Council created and incorporated the San Diego Convention Center Corporation (SDCCC) to manage and operate the new facility. The Convention Center began its last expansion in 1999.

Economic Benefits of Convention Center Events as Reported by the San Diego Convention Center Corporation

SDCCC is a non-profit, public benefit corporation with a mission to generate significant economic benefits for the greater San Diego region. SDCCC staff also seek to provide clients and guests with outstanding service so visitors want to return to San Diego. It accomplishes its mission by hosting international and domestic conventions and trade shows, which generate tax revenue for the City. SDCCC reports annually on their events, including attendance counts, attendee spending, and impact to the San Diego region. As shown in **Exhibit 1**, from FY 2013 to FY 2015, the Convention Center reportedly held 473 events with approximately 2.4 million attendees. According to SDCCC, the events and the attendees generated approximately \$61 million in tax revenue with an estimated regional impact of \$3.0 billion dollars.[5]

[5] Of the \$61 million, \$58 million is hotel tax revenue and \$3 million is sales tax revenue that convention center attendees generate.

Exhibit 1

Economic Benefits of Convention Center Events to the San Diego Economy From FY 2013 to FY 2015

473 Events

2.4 Million Attendees

$1.8 Billion Direct Attendee Spending

$61 Million Tax Revenue

$3.0 Billion Regional Impact

Source: OCA generated from San Diego Convention Center Corporation data.

Note: The regional impact calculation includes direct attendee spending.

The City Uses a Portion of Hotel Tax Revenue for Convention Center-Related Expenditures

The City administers and collects Transient Occupancy Taxes (TOT) from guests at lodging businesses such as hotels, motels, short-term vacation rentals, and recreational vehicle parks and campgrounds. When the Convention Center books events, it contributes to the City's TOT revenue by securing hotel room nights with convention attendees who pay the TOT as part of their hotel bill.

The City collects TOT for the following purposes:

- Planning, construction, maintenance, and operation of tourist-related cultural, recreational, and convention facilities; and
- Additional general fund governmental purposes, such as police and street repair, as determined by City Council through appropriation ordinances.

The City uses a portion of all TOT revenue received for Convention Center-related expenditures. From FY 2013 to FY 2015, the City received approximately $245 million in TOT revenue. During that time period, the Convention Center received approximately $10.2 million ($3.4 million annually) of TOT revenue as part of its operating revenues to pay for marketing, promotions, and capital projects related to the Convention Center. Additionally, the City spent approximately $41 million ($13.6 million annually) of TOT revenue for:

- **Debt Service Lease Payment** - affiliated with the second expansion of the Convention Center which began in 1999. The debt service accounted for approximately 92 percent (an average of $12.5 million) of annual payments.
- **Dewatering** - the City assumes operation of the de-watering system at the Convention Center.[6] Dewatering accounted for approximately nine percent (an average of $1.0 million) of annual payments.
- **Administrative and Miscellaneous Expenses** - includes fees related to managing the debt service account.
- **Insurance** – includes the City's share of insurance.

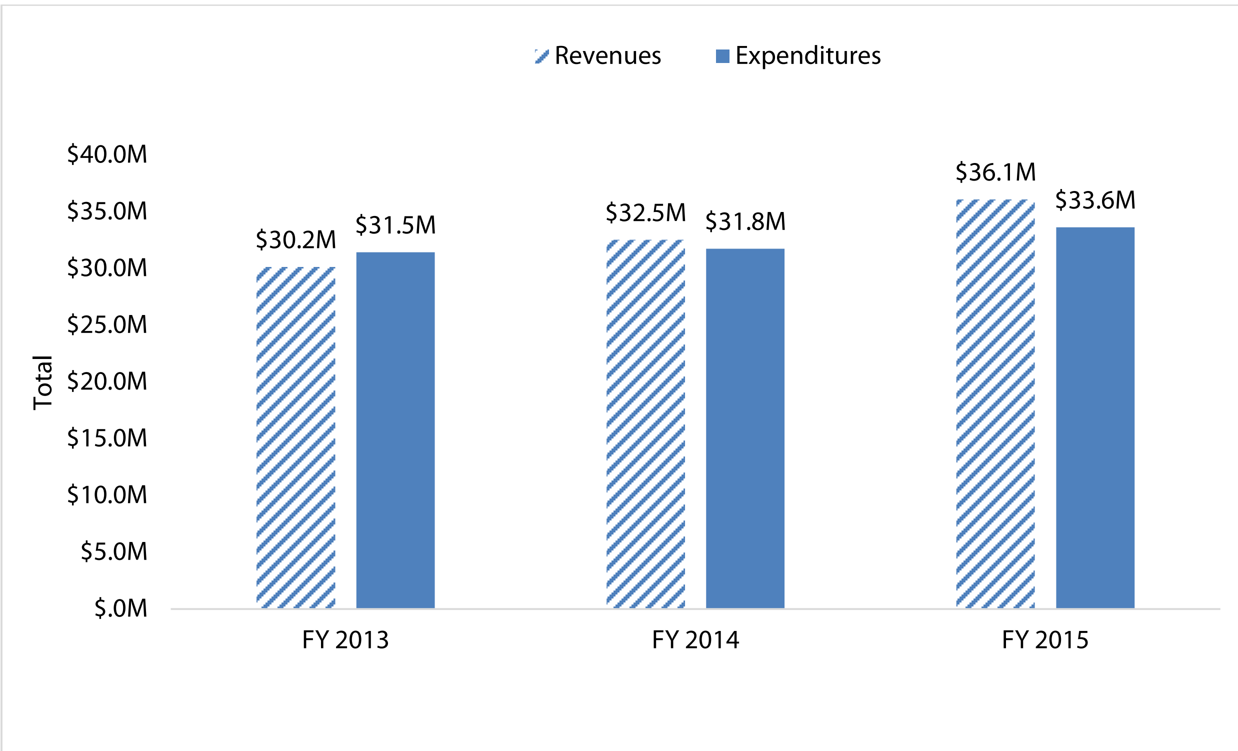
[6] Dewatering is the removal of groundwater or surface water from a site.

San Diego Convention Center Financial Overview

From FY 2013 to FY 2015, on average, SDCCC's operating revenues exceeded operating expenses. The Convention Center reported a yearly average of $33 million in operating revenues and $32.2 million in operating expenses. As shown in **Exhibit 2**, SDCCC's operating revenues exceeded expenditures except for in FY 2013 due primarily to an increase in electricity costs, according to SDCCC.

Exhibit 2

San Diego Convention Center Corporation's Operating Revenues Exceeded Expenditures Except in FY 2013

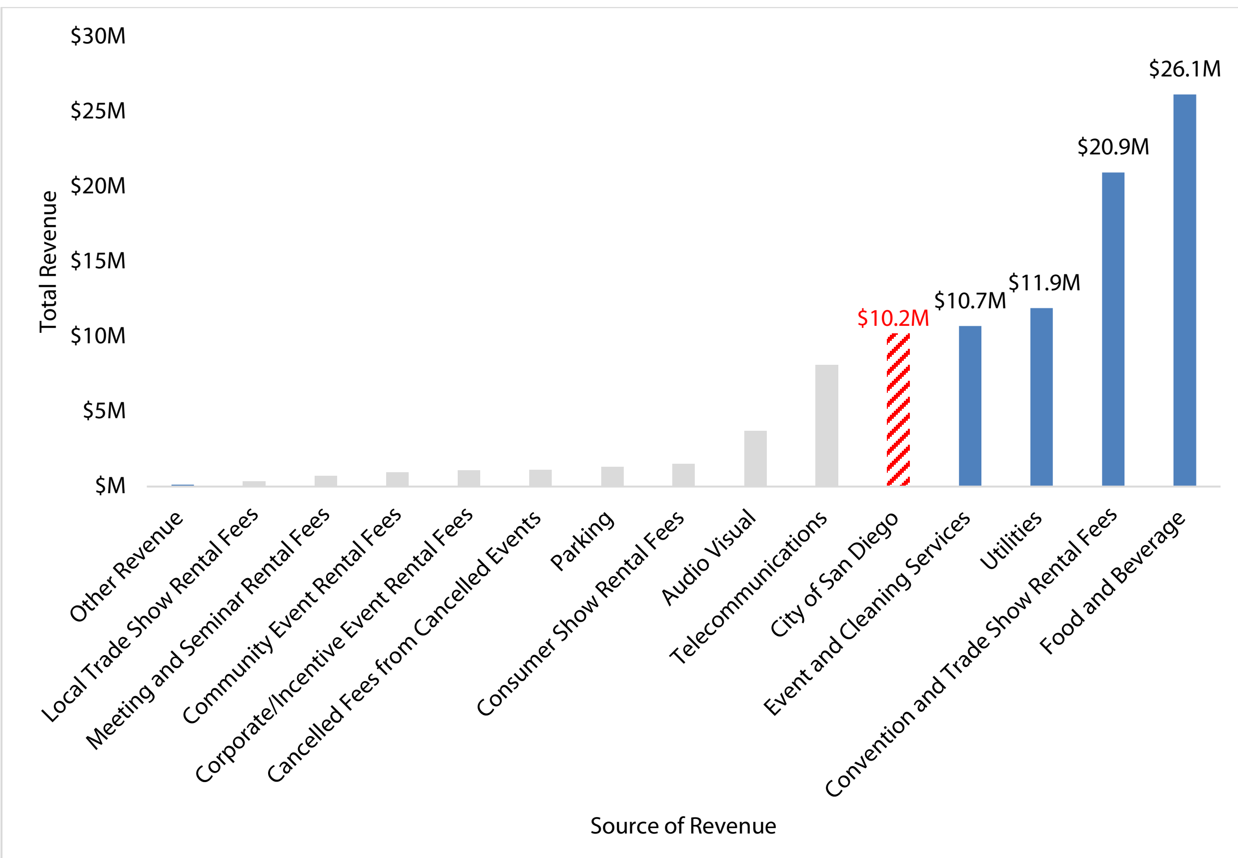


Source: OCA generated based on San Diego Convention Center Corporation Audited Financial Statements for FY 2013 to FY 2015.

From FY 2013 to FY 2015, SDCCC's top five sources of operating revenue were food and beverage sales, convention and trade show rental fees, utilities, event and cleaning services, and the City. As shown in **Exhibit 3,** the City's $10.2 million (approximatley $3.4 million annually) contribution rounded out the top five sources of operating revenue and accounts for approximately 10 percent of all operating revenues. The Management Agreement between the City and SDCCC requires SDCCC to use the City's annual $3.4 million contribution in funding for marketing, promotions, and capital projects specific to the Convention Center.

Exhibit 3

The City of San Diego Accounted for $10.2 Million of the San Diego Convention Center Corporation's Operating Revenues from FY 2013 to FY 2015

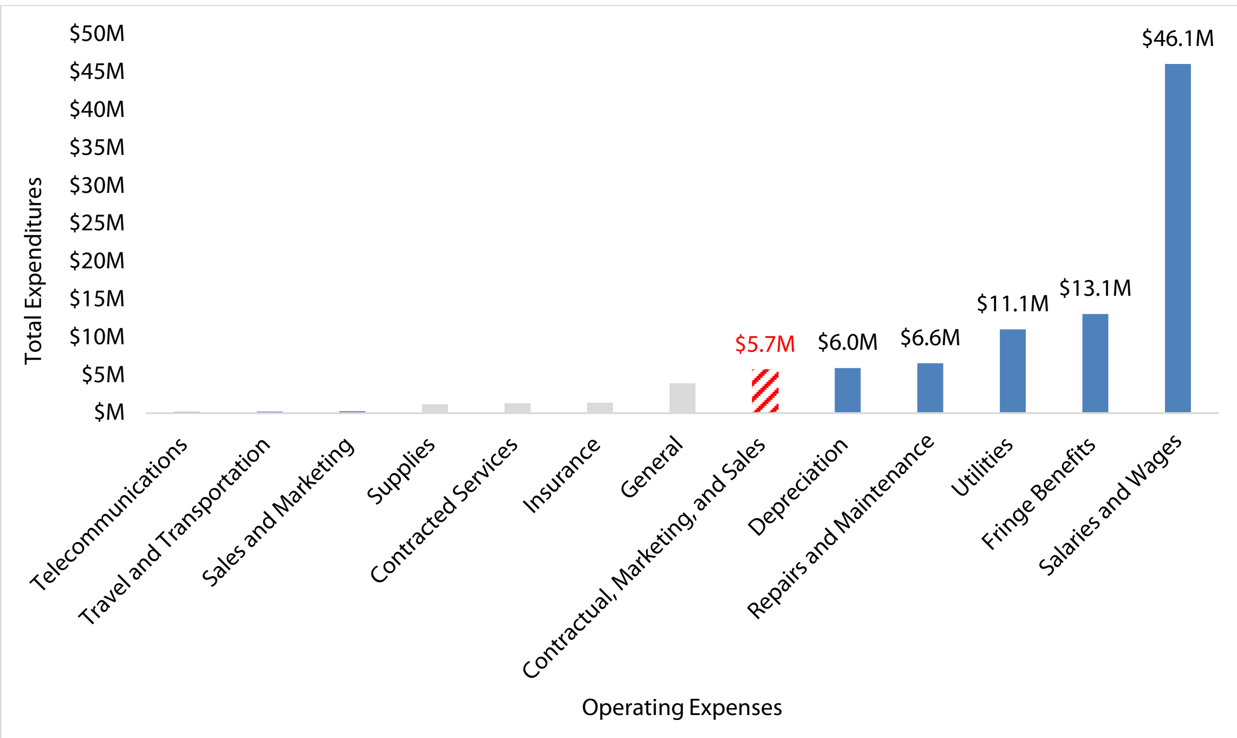


Source: OCA generated based on San Diego Convention Center Corporation Audited Financial Statements for FY 2013 to FY 2015.

From FY 2013 to FY 2015, SDCCC's top five categories of operating expenditures were salaries and wages, fringe benefits, utilities, repairs and maintenance, and depreciation. As shown in **Exhibit 4**, contractual, marketing, and sales fell just outside of the top five list but is a notable expenditure. SDCCC uses a portion of the City's annual $3.4 million contribution (approximately $1.9 million annually) for a Sales and Marketing Contract (contract) with the San Diego Tourism Authority (SDTA).[7] Contractual, marketing, and sales accounted for approximately six percent of all operating expenditures.

Exhibit 4

The San Diego Convention Center Corporation Uses a Portion of City Funding on Contractual, Marketing, and Sales, Accounting for $5.7 Million of Total Expenditures from FY 2013 to FY 2015



Source: OCA generated based on San Diego Convention Center Corporation Audited Financial Statements for FY 2013 to FY 2015.

[7] The San Diego Tourism Authority is formally known as the San Diego Convention & Visitors Bureau.

Typical Governance Structures Within the Convention Center Industry

According to our benchmarking research, there are generally four governance structures for oversight of convention centers. The structures include:

- A government entity owning and operating the convention center;
- A government entity sharing convention center operations and maintenance responsibilities with a non-profit organization;
- A government entity sharing convention center operations and maintenance with a for-profit organization; or
- A privately owned, operated, and maintained convention center with no government assistance.

Exhibit 5 provides a visual of the types of governance structures and the division of oversight responsibilities for each party involved.

Exhibit 5

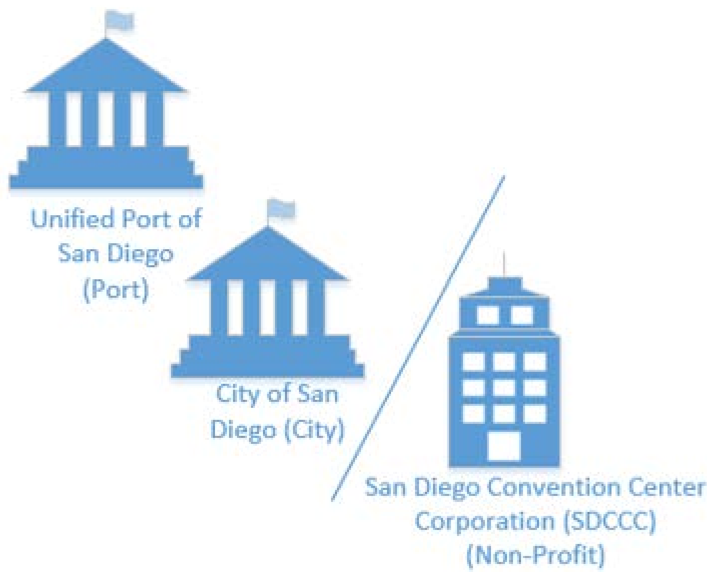
Governance Structures for Convention Center Oversight

Source: OCA generated based on benchmarking research.

In three of the four structures presented above, the government entities involved represented one city, county, or state agency in charge of the convention center. Since the San Diego Convention Center is owned by a government entity and operated by the non-profit SDCCC, it is most similar to the government owned non-profit operated model in **Exhibit 5** above**.** However, as shown in **Exhibit 6** below, the Convention Center has a unique governance structure because oversight is shared by two government entities, the City and the Unified Port of San Diego (Port).

Exhibit 6

City of San Diego Governance Structure is Unique Because Two Government Entities Share Oversight



Source: OCA generated from review of management agreements.

The Port of San Diego owns the Convention Center and the land on which the center sits. The City is responsible for management, operation, maintenance, and promotion of the Convention Center, but the City has passed these duties to SDCCC. Both the City and SDCCC share responsibility for capital needs, where typically the government agency is responsible.

In FY 2013, SDCCC signed an agreement with SDTA to book long-term events.[8] Partnerships with outside organizations to assist with event and hotel booking is not uncommon. Other convention centers partner with outside organizations for booking, such as Visit Phoenix for the Phoenix Convention Center and San Francisco Travel for the Moscone Center in San Francisco.[9]

Exhibit 7, shows the responsibilities of each entity involved in the governance of the Convention Center.

Exhibit 7

The Four Entities Involved in City of San Diego Convention Center Operations

Source: OCA generated based on review of relevant contracts and agreements between the above-mentioned parties.

[8] SDCCC and SDTA split booking responsibilities for the Convention Center. SDCCC is responsible for short-term events, which are events booked 18 months or less into the future. SDCCC contracts long-term bookings to SDTA. Long-term bookings are events booked more than 18 months into the future.

[9] Booking is when an organization contracts with a convention planner to hold an event in a convention center.

City of San Diego Convention Center Management Agreements and Service Contracts

Each of the entities above has management agreements or service contracts that govern:

- Their respective roles and responsibilities for Convention Center operations and maintenance;
- Event booking and marketing expectations; and
- The distribution of revenue from Convention Center activities.

Exhibit 8 displays the key features of the Management Agreement between the Port and the City.

Exhibit 8

Agreement Between the Unified Port of San Diego and the City of San Diego

Unified Port of San Diego

- Manages the public tidelands where the Convention Center is located
- Receives all revenue from and is responsible for the operation of parking facilities in connection with the Convention Center
- Approves all design and construction documents for expansion planning

The City of SAN DIEGO

- Leases the site from the Port for $1 per year
- The City itself, or through the San Diego Convention Center Corporation, supervises, directs, and controls the management, operation, maintenance, and promotion of the Convention Center
- Uses best efforts to continuously use, manage, operate, maintain, and promote the Convention Center to enhance occupancy of hotels
- Receives all income from operating the Center, with the exception of parking
- Cleans, paints, maintains, and provides custodial services for the Convention Center and furniture, fixtures, and equipment including the routine maintenance of some parking facility building equipment

Source: OCA generated based on the Management Agreement between the Unified Port of San Diego and the City of San Diego.

In the Management Agreement between the City and SDCCC, shown in **Exhibit 9**, the City transferred responsibility for managing, operating, marketing, and promoting the Convention Center to SDCCC.

Exhibit 9

Agreement Between the City of San Diego and the San Diego Convention Center Corporation

The City of SAN DIEGO

SAN DIEGO convention center

- Allocates funding to the San Diego Convention Center Corporation for marketing, promotion, and/or capital projects for the Convention Center
- Pays the Corporation for the cost of any parts or services required to repair or maintain the storm drain pumping system

Maintains the exclusive authority to manage, operate, market, and promote the Convention Center including:

- Developing and implementing marketing and promotional programs for use of the Center and hotels
- Entering into licenses and other contracts or agreements with third parties for marketing, promotion, and use of the Center for events booked more than 18 months into the future.
- Sales, marketing, and promotion of Center events booked 18 months or less in advance
- Adopting and implementing appropriate fiscal policies for management and operation of the Convention Center
- Coordinating and assembling room blocks for hotels used in connection with Convention Center events
- Maintaining, cleaning, painting, and providing custodial services for the building, furniture, fixtures, and equipment, and day-to-day maintenance on the storm drain pumping system
- May arrange financing, construction, and installation of any necessary or desirable additions, improvements, or alterations to the Convention Center

Source: OCA generated based on the Management Agreement between the City of San Diego and the San Diego Convention Center Corporation.

In the contract between SDCCC and SDTA, shown in **Exhibit 10**, SDTA provides long-term sales and marketing services.

Exhibit 10

Sales and Marketing Contract Between the San Diego Convention Center Corporation and the San Diego Tourism Authority

SAN DIEGO convention center

San Diego TOURISM AUTHORITY

- Allocates funding to the Tourism Authority for the performance of long-term sales and marketing services

- Develops and implements a comprehensive long-term sales and marketing plan to promote, market, advertise, and publicize the Convention Center
- Fulfills production goals set forth within the Booking Guidelines outlined in the contract
- Provides written status reports on the programs and activities funded by the San Diego Convention Center Corporation
- Maintains accurate financial books and business records, in accordance with generally accepted accounting principles (GAAP), related to services provided pursuant to the contract

Source: OCA generated based on the Sales and Marketing Contract between the San Diego Convention Center Corporation and the San Diego Tourism Authority.

Audit Results

Finding 1: The San Diego Convention Center Corporation Should Improve Oversight of its Marketing Services Contract with the San Diego Tourism Authority by Strengthening Performance Measures and Corrective Action Protocols

In FY 2013, the San Diego Convention Center Corporation (SDCCC) entered into a Sales and Marketing Services Contract (contract) with the San Diego Tourism Authority (SDTA). SDCCC uses approximately $1.9 million of the City's annual $3.4 million Transient Occupancy Tax (TOT) contribution to pay SDTA. The contract requires SDTA to provide long-term sales and marketing services that promote, market, advertise, and publicize the Convention Center.

Contracts lay a legally-binding foundation for what is expected of contractors performing the work. Contracts should specify performance measurement and outcome criteria and clearly identify targets for accountability.

In the contract, SDTA agreed to:

- Develop and implement a comprehensive long-term sales and marketing plan (plan) to maximize hotel room night generation, produce economic benefit to the region, and maximize operating revenue for the Convention Center; [10] and
- Provide long-term sales in accordance with the annual plan, including compliance with the production goals set forth in the contract's Booking Guidelines. The Booking Guidelines are utilized to ensure that all Convention Center events maximize hotel room night production.

SDTA developed a Five-Year Long-Term Sales and Marketing Plan (plan) in FY 2013. However, SDCCC accepted the plan

[10] Long-term sales and marketing refers to events booked more than18 months into the future.

without ensuring all outlined objectives included measureable targets for evaluating SDTA's progress. Additionally, the contract specifies one clear goal of booking 860,000 total projected room nights every year.[11] According to SDTA, they met the goal when totaling all three years. However, SDTA's reported numbers included short-term bookings, which should not contribute towards the goal of booking 860,000 projected room nights. Short-term bookings are SDCCC's responsibility. To that end, SDTA did not meet the annual goal in two of the three years reviewed even when including the short-term bookings. SDCCC and SDTA mutually agreed upon the strategy that led SDTA to miss its yearly total projected room night goal. Additionally, SDCCC needs to strengthen the contract to include the steps it can take when corrective action is necessary for SDTA performance. While a termination clause is included, the contract does not clearly articulate how SDCCC will proactively monitor and communicate performance expectations to SDTA. Without a strengthened corrective action clause, SDCCC cannot ensure that it promptly responds to performance issues and develops a plan for resolving them.

We also found that SDCCC should not use the Booking Guidelines as the standard for evaluating SDTA's performance. The Booking Guidelines include incomplete and conflicting performance expectations.

There are several factors that contributed to the issues in the contract. Primarily, SDCCC did not provide complete oversight in the development of the SDTA service contract. For instance, the contract mandates strict adherence to the established Booking Guidelines. However, language within the Booking Guidelines does not make the guidelines mandatory. To that end, SDTA treats them as a discretionary framework. Given that SDTA makes exceptions to the Booking Guidelines to secure business, SDCCC needs another method for evaluating SDTA performance that is not so variable. Also, when developing the contract, SDCCC did not use best practices. SDCCC renewed the

[11] SDCCC defines total projected room nights as the total number of hotel room nights booked in a given year for future events.

contract in FY 2016 but performance metrics and corrective action clauses remained unchanged.

Without enhanced oversight of the SDTA contract, SDCCC runs the risk of underutilizing public tax dollars, receiving lower quality service, and the potential for fraud and abuse.

SDCCC should enhance its oversight of SDTA's services by strengthening performance measures and corrective action protocols when the contract is up for renewal at the end of FY 2017. Since SDCCC pays the SDTA contract with City funding, it is imperative for SDCCC to monitor SDTA's performance.

SDTA's Five-Year Long-Term Sales and Marketing Plan Needs Measurable Performance Targets

Per the scope of work in the contract, in FY 2013, SDTA developed a Five-Year Long-Term Sales and Marketing Plan (plan). According to SDTA, it established the objectives to guide performance in achieving the goal of booking 860,000 total projected room nights per year. However, the plan does not clearly articulate performance targets that would allow SDCCC to evaluate SDTA's performance.

SDTA collaborated with SDCCC to develop the plan to promote, market, advertise, and publicize the Convention Center to conventions, trade shows, conferences, and other events. The goals are to maximize hotel room night generation, produce economic benefit for the San Diego region, and maximize operating revenue for the Convention Center. The plan has six objectives including maximizing hotel room night production, developing new accounts for the Convention Center, and securing facility revenue.

The performance management community affirms that effective key performance indicators are:

- **Specific** – focusing on results that tie directly to objectives;
- **Measurable** – including quantifiable targets for comparison over periods of time;
- **Achievable** – including realistic indicators for comparison with baseline performance;

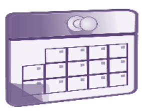
- **Relevant** – including indicators important to stakeholders that embody a direct link between the objective and the performance indicator; and
- **Timed** – including well-defined timeframes for completing objectives.

Collectively, these characteristics are commonly known as the SMART criteria. SDTA presented an updated plan in FY 2016. As illustrated in **Exhibit 11,** the performance indicators outlined in the updated plan for each objective do not meet all of the elements of the SMART criteria with the exception of the 860,000 total projected room night goal. SDCCC and SDTA agree that the total projected room night goal is the most important metric. However, the other objectives primarily lack specific, measurable, and achievable metrics.

In addition, the Destination Marketing Association International has noted that Destination Marketing Organizations (DMO) such as SDTA should "systematically and credibly articulate their contribution to the destination." Effective reporting is also a key resource management tool for guiding sales and marketing decisions, staff development, and demonstrating the value of their services to a city.

Exhibit 11

San Diego Tourism Authority Performance Measures Do Not Meet SMART Criteria

Objective	SDTA Measurements	Specific	Measurable	Achievable	Relevant	Timed
 Maximize Hotel Room Night Production	Secure 860,000 Total Projected Room Nights Annually	✓	✓	✓	✓	✓
 Secure Facility Revenue	Facility Rental Revenue. Revenue Generated from Bookings.				✓	
 Focus on Short-term Open Dates	Monthly review of the room nights summary booked per calendar year.				✓	✓
 Develop New Accounts	Track research progress monthly listing the new accounts generated.				✓	✓
 Focus on Medical Citywide Groups[12]	Quarterly review of the medical Citywide groups booked per year.				✓	✓
 Leverage Synergies	Track the number of client visits on the sales activity report and leads generated per event.				✓	

Source: OCA generated based on San Diego Convention Center Corporation Mid-Year FY 2016 Sales and Marketing Update and SMART Performance Evaluation Criteria.

[12] The Convention Center seeks to host medical conventions each year. According to San Diego Convention Center Corporation media materials, medical conventions perform well, even in economic downturns and have larger budgets. These events bring an estimated 42,000 visitors to the region and attract attendees more likely to bring their families and stay for an extended vacation. These attendees spend significantly while in San Diego, contributing to the Convention Center's regional impact and increasing tax revenue for the City.

For example, SDTA's objective to focus on medical Citywide groups does not meet all of the SMART criteria. SDCCC cannot determine if SDTA achieved its goal of focusing on medical events because SDTA did not state a measurable target. Instead, SDTA's measurement for securing medical events is a quarterly review of medical events booked per year, presented below in **Exhibit 12**. It is impossible to know whether the medical groups booked met, did not meet, or exceeded expectations.

Exhibit 12

SDTA's Measurement of the Medical Citywides Booked as of FY 2016

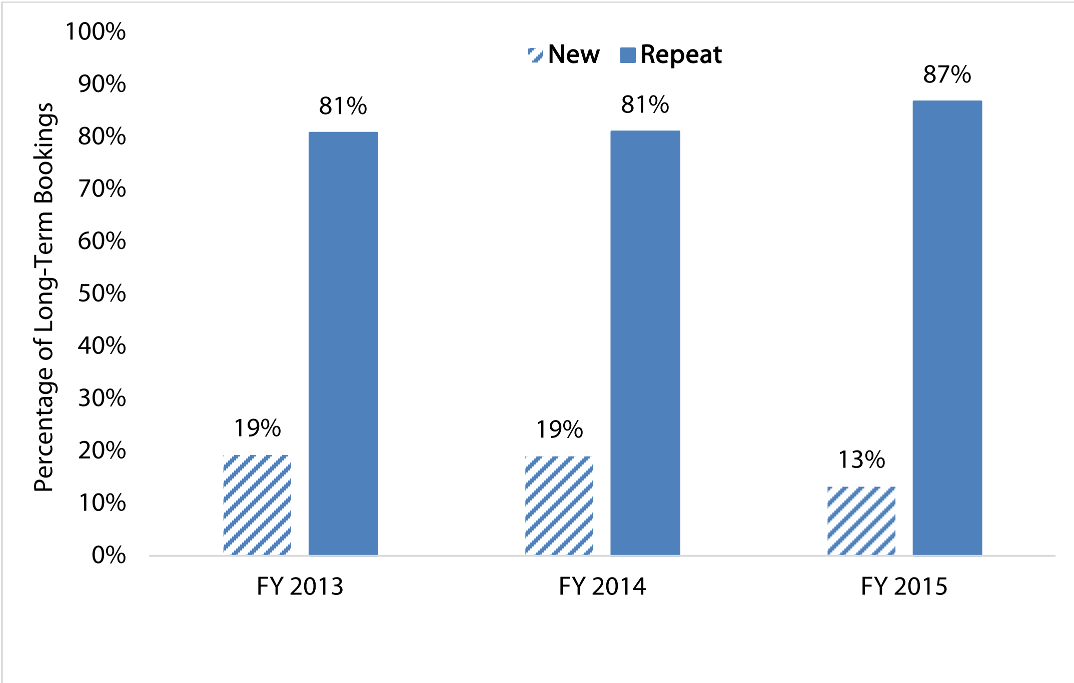
Medical Groups						
2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
18	15	18	18	19	15	19

Source: San Diego Convention Center Corporation's Mid-Year FY 2016 Sales and Marketing Update to the City of San Diego.

Another example is SDTA's goal to develop new business for the Convention Center. The goal does not specify how many new bookings SDTA should secure each year. In fact, since SDTA began managing long-term bookings in FY 2013, new convention business has declined. **Exhibit 13** shows that the percentage of new business has decreased from 19 percent in FY 2013 and FY 2014 to 13 percent in FY 2015. This data excludes short-term events. If SDTA does not develop new business, its performance is not in alignment with its plan and new business may go elsewhere, leaving the Convention Center dependent on repeat business returning to fill exhibit hall space.

Exhibit 13

New Bookings Have Declined from FY 2013 to FY 2015



Source: OCA generated based on FY 2013 to FY 2015 data that San Diego Tourism Authority management provided.

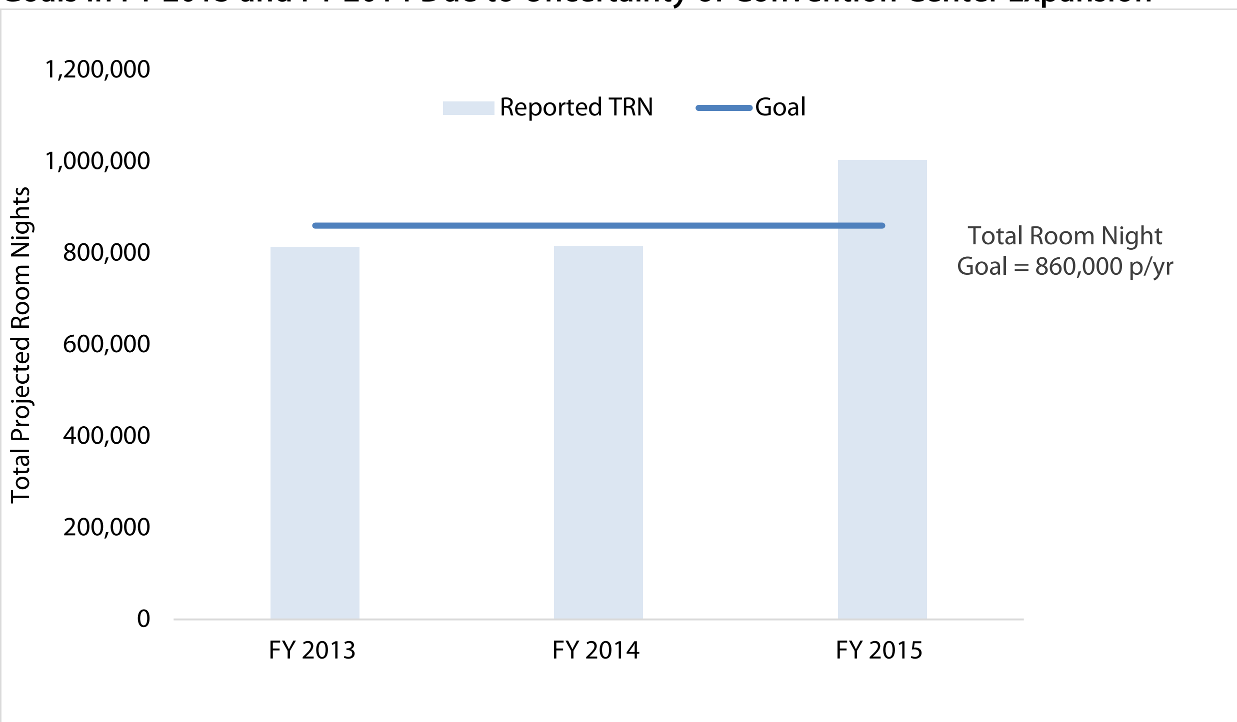
According to SDTA, the uncertainty surrounding the Convention Center expansion caused the slight downward trend in new bookings once the proposed San Diego Convention Center Phase III Expansion Project haulted. According to SDTA, it reported 23 percent of FY 2016 bookings as new business. Nevertheless, this objective still lacks a measurable target. SDCCC pays SDTA for services but cannot hold SDTA accountable to meeting its objectives without enhanced performance measures. SDCCC, and by extension the City, cannot determine if it is maximizing the potential on its investment for the approximately $5.7 million paid to SDTA between FY 2013 and FY 2015.

The San Diego Tourism Authority Sales and Marketing Contract Does Not Contain A Corrective Action Clause

For the three-year period reviewed, the Booking Guidelines required SDTA to book 860,000 total projected room nights each year. This means that in FY 2013, booking agents should have booked a minimum of 860,000 room nights for events that will occur 18 months or more in the future. The same applies to FY 2014 and FY 2015. Based on sales results that SDTA reported, SDTA did not meet its total projected room night goal in two of the three years reviewed.[13] **Exhibit 14** below shows SDTA's total projected room night booking performance from FY 2013 to FY 2015.

Exhibit 14

The San Diego Tourism Authority Did Not Meet Total Projected Room Night Booking Goals in FY 2013 and FY 2014 Due to Uncertainty of Convention Center Expansion



Source: OCA generated based on San Diego Tourism Authority FY 2013 to FY 2015 Booking Data.

[13] According to SDTA, it met the goal when totaling all three years. The goal was 2,580,000, and SDTA booked 2,632,538 projected room nights. However, SDTA's reported numbers included 62,444 projected room nights for short- term bookings, which should not contribute towards the goal. Short-term bookings are SDCCC's responsibility. To that end, SDTA did not meet the annual goal in two of the three years reviewed even when including the short-term bookings.

Additionally, the SDTA reported numbers included short-term bookings, which should not contribute towards the goal of booking 860,000 room nights. Short-term bookings are SDCCC's responsibility.

According to SDCCC and SDTA, both parties mutually agreed on a strategy that resulted in SDTA missing its yearly total projected room night targets. According to SDTA, in FY 2013 and FY 2014, the uncertainty about the proposed San Diego Convention Center Phase III Expansion Project impeded its ability to book future events. Convention planners were hesitant to book in San Diego without knowing whether the Convention Center would expand its space. As a result, SDTA asserts that it and SDCCC agreed to hold key dates for booking with the anticipated expanded space. When the expansion plan halted, SDTA faced difficulties with filling the available dates.

In June of 2016, SDCCC extended the contract with SDTA for another year under the same terms. We found that SDCCC needs to strengthen the contract to include steps it can exercise when corrective action is necessary for SDTA performance. While a termination clause is included, the contract does not clearly articulate how SDCCC will proactively monitor and communicate performance expectations to SDTA. According to the Committee on Sponsoring Organizations of the Treadway Commission (COSO), management should properly monitor activities, including development and review of performance measures that demonstrate progress towards achievement of goals and objectives. Management should have processes in place to ensure that issues requiring follow-up and corrective action are translated into implementable actions. Moreover, according to the Unitied Nations Procurement Practitioner's Handbook, corrective action should be timely in order for it to have the greatest impact.

The Booking Guidelines in the Sales and Marketing Contract Should Not Be Used As An Evaluative Tool for SDTA Performance

A disconnect exists between the Sales and Marketing Contract (contract) and the Booking Guidelines. The contract requires SDTA to abide by the criteria established in the Booking Guidelines. On the other hand, the Booking Guidelines include language that states it is not required, and, to that end, SDTA uses them discretionarily.

Per the contract, SDTA and its employees, agents, and representatives shall follow and meet the production goals set forth in the Booking Guidelines. When evaluating SDTA's performance per the contract, SDTA appears to miss the production goals in the Booking Guidelines. Given the disconnect, the Booking Guidelines should not be used as the evaluative tool for measuring SDTA's performance as currently designated in the contract. Moreover, the Booking Guidelines include incomplete and conflicting performance expectations. We explain in more detail below.

Peak Room Night Targets Are Based on Incomplete Booking Time Frame Scale

Typically, larger events book convention center space more than 18 months out to reserve enough hotel rooms for participants and ensure the proper amount of time and space for event set up and cleanup. In order to maximize hotel tax revenue, the Convention Center aims to book peak room nights.[14] The Booking Guidelines in the contract outline the number of minimum peak room nights SDTA should guarantee based on how far in advance an event is booked.[15] For example, if SDTA books an event more than 10 years in the future, SDTA should secure a minimum of 7,000 peak room nights.

However, the booking time frame scale is incomplete. As shown in **Exhibit 15**, the scale omits periods and excludes minimum peak room night goals for events booked between 19 and 24 months in the future and between 9 and 10 years in the future. It also includes the short-term period of 12 to 18 months when the contract is only for long-term events.

[14] Peak room nights are the nights during an event when most attendees would occupy rooms. These nights generate the most hotel revenue.

[15] Booking is when an organization contracts with a convention planner to hold an event in a convention center.

Exhibit 15

Minimum Peak Room Night Requirement Booking Time Frame Includes Short-Term Booking Dates and Omits Time Periods from the Scale

Booking Time Frame	Minimum Peak Room
12-18 months out	750
*Scale omits 19-23 months out	
2 years out	1,000
3 years out	1,500
4 years out	2,500
5 years out	3,000
6 years out	4,000
7-9 years out	5,000
*Scale omits 10 years out	
Greater than 10 years out	7,000

Source: OCA generated based on the July 2012 Sales and Marketing Services Contract between the San Diego Convention Center Corporation and the San Diego Tourism Authority.

When adjusting the booking time frame scale to include the omitted time periods (shown in **Exhibit 16**), and after removing events booked less than 18 months in advance, SDTA appears to miss minimum peak room night targets.

Exhibit 16

Adjusted Minimum Peak Room Night Requirement Booking Time Frame Scale

Booking Time Frame	Minimum Peak Room
18-23 Months	750
2 Years Out	1,000
3 Years Out	1,500
4 Years Out	2,500
5 Years Out	3,000
6 Years Out	4,000
7 - 10 Years Out	5,000
Greater than 10 Years	7,000

Source: OCA generated based on the July 2012 Sales and Marketing Services Contract between the San Diego Convention Center Corporation and the San Diego Tourism Authority.

When Evaluating SDTA's Performance Based on the Current Booking Guidelines, SDTA Appears to Miss the Booking Time Frames Goal

Specifically,

- SDTA missed the peak room night minimum in approximately 55 percent (90 of 163) of the long-term events booked from FY 2013 to FY 2015.
- Based on an average of hotel rates from FY 2013 to FY 2015 and the booking timeframe guidelines, the missed peak room night minimums equates to approximately $22.5 million in potential lost hotel revenue, which would include a minimum of $2.3 million in City tax revenue.[16]

Similarly to the booking time frame expectations, the Booking Guidelines require SDTA to achieve minimum peak room nights based on the amount of exhibit space booked. The requirement does not apply to events booked within three years (0-35 months). For example, as shown in **Exhibit 17**, according to the Booking Guidelines, if SDTA books an entire exhibit hall for an event, SDTA should secure a minimum of 6,000 peak room nights. However, from FY 2013 to FY 2015, SDTA appears to miss minimum peak room night requirements in almost half of the events booked.

Exhibit 17

Minimum Peak Room Night Requirement Associated with Exhibit Hall Space Booked

Exhibit Hall Allocation (Based on 750,000 gsf)	Minimum Peak Room
Entire Exhibit Hall	6,000
¾ Exhibit Hall Space	5,000
1/2 Exhibit Hall	3,000
¼ Exhibit Hall	2,000
1/8 Exhibit Hall	1,000

Source: OCA generated based on the July 2012 Sales and Marketing Services Contract between the San Diego Convention Center Corporation and the San Diego Tourism Authority.

[16] This estimation is conservative as the hotel rate averages used do not reflect the higher prices for peak nights nor do they account for the possible fluctuations in hotel rates at the time of the events.

When Evaluating SDTA's Performance Based on the Current Booking Guidelines, SDTA Appears to Miss the Exhibit Hall Allocation Goal

Specifically,

- SDTA missed targets in approximately 49 percent (67 of 137) of the long-term events booked from FY 2013 to FY 2015.[17]
- Based on an average of hotel rates during the three-year period reviewed and the exhibit hall allocation guidelines, the missed peak room night minimums equates to approximately $14.4 million in potential lost hotel revenue, which would include a minimum of $1.5 million in City tax revenue.[18]

Booking Time Frame and Exhibit Hall Space Peak Room Targets Conflict

We also found that it is not clear whether the booking time frame or amount of exhibit hall space booked takes precedence in dictating SDTA's required peak room night goal. Based on our review, SDTA appears to miss its peak room night booking targets based on either requirement. However, had SDTA met the targets in one requirement and not the other, it would be unclear for SDCCC to determine if SDTA met, did not meet, or exceeded its performance goals.

Insufficient Contract Oversight by SDCCC Contributed to Inadequate Performance Measures and Corrective Action

There are several factors that contributed to the lack of measurable targets and a robust corrective action plan in the contract. Primarily, SDCCC did not provide sufficient oversight in the development of the SDTA service contract. For instance, the contract mandates strict adherence to the established Booking Guidelines. However, language within the Booking Guidelines do not make the guidelines mandatory. To that end, SDTA treats them as a discretionary framework. To book events at the Convention Center, according to SDTA, it evaluates each event to decide whether it would provide the profits, food and beverage guarantees, and room nights of most benefit to the Convention Center's operating revenues. SDTA may also exempt events from the Booking Guidelines to fill exhibit hall space that would otherwise remain empty due to a difficult time of year or to fill hotel room night availability. Given that SDTA makes exceptions to the Booking Guidelines to secure

[17] The Exhibit Hall Allocation does not apply to events booked within three years (0-35 months).

[18] This estimation is conservative as the hotel rate averages used do not reflect the higher prices for peak nights nor do they account for the possible fluctuations in hotel rates at the time of the events.

business, SDCCC needs another method for evaluating SDTA performance that is not so variable.

Moreover, according to SDCCC, the Booking Guidelines were developed based on SDTA and SDCCC management's best judgments and understanding of industry standards. However, SDCCC did not use best practices when drafting the contract. It does not include a robust corrective action clause. The contract was revisited in FY 2016 but performance metrics and corrective action clauses remain unchanged. Without these standard contract clauses, SDCCC cannot hold SDTA accountable to its agreed-upon services. By extension, the City cannot ensure that its annual $1.9 million contribution towards marketing and promotions is maximized.

Unless revisited and revised, the contract as currently constructed will not allow SDCCC to comprehensively assess SDTA's performance and its stewardship of City funds. SDCCC has an immediate opportunity to revise the contract as it is up for renewal at the end of FY 2017. According to SDCCC, while at first an adjustment, the relationship with SDTA has improved. SDCCC enjoys a successful collaboration with SDTA now and anticipates the positive relationship to continue into the future.

Recommendation #1

Upon renewal of the San Diego Tourism Authority Sales and Marketing Contract, the San Diego Convention Center Corporation should:

- **Review and revise the contract to include specific, measureable, achievable, relevant, and timely performance targets for evaluating the San Diego Tourism Authority's booking performance. The performance targets should include the annual minimum total projected room night goal.**
- **Include a corrective action clause with annual review for San Diego Tourism Authority performance. This clause should include escalating corrective action options ranging from a written warning, a formal corrective action plan, up to contract termination. (Priority 2)**

Recommendation #2

Upon renewal of the San Diego Tourism Authority Sales and Marketing Contract, the San Diego Convention Center Corporation should:

- **Establish the Booking Guidelines as a framework and not as the standard for the San Diego Tourism Authority's performance evaluation. If included in the new contract, the Booking Guidelines should:**
    - **Include a complete Booking Time Frame Scale; and**
    - **Identify how Booking Time Frame and Exhibit Hall Allocation Requirements will be monitored, reviewed, and prioritized. (Priority 2)**

Finding 2: The San Diego Convention Center Corporation, City, and Unified Port of San Diego Efforts Are Not Sufficient To Address Future Convention Center Capital Improvement Needs

As the region's premiere gathering place, the Convention Center hosts international and domestic convention and trade shows for clients and guests that generate tax revenue for the City. The Convention Center's physical foundation for providing services to customers includes its infrastructure and major equipment. It is extremely difficult for entities to address the current and long-term needs of their customers without a sound multi-year capital plan that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts.

The Government Finance Officers Association (GFOA) recommends that government entities develop comprehensive, multi-year capital plans to effectively manage capital assets. Prudent plans identify and prioritize expected needs, establish project scope and cost, detail estimated funding sources, and project future operating and maintenance costs. A capital plan should cover a period of at least three years, preferably five or more.

SDCCC developed a ten-year capital needs plan dated FY 2017 to FY 2026 totaling $53.4 million in expenditures.[19] The plan identifies anticipated capital projects and establishes project estimates. For capital projects planned from FY 2018 to FY 2026, a funding gap of $12.6 million still remains after accounting for the City's annual $1.5 million contribution available for capital projects (approximately $13.5 million over nine years) and a California Infrastructure and Economic Development Bank (IBANK) loan of $25.5 million.[20] Contrary to GFOA guidance, the $12.6 million deficit has no identified

[19] Capital needs are updates and replacements of building infrastructure.

[20] The City contributes $3.4 million each year to SDCCC. SDCCC allocates an annual $1.9 million to their marketing contract with SDTA and applies the remaining $1.5 million to capital projects. The City's annual contribution may or may not continue to be $3.4 million per year.

funding sources. In addition, SDCCC needs to prioritize the projects that present the greatest risk in the event that funding is not sufficient to cover all projected needs.

While the Convention Center benefited from Unifed Port of San Diego (Port) and City funding, those dollars are allocated for specific purposes and cannot be devoted exclusively to the remaining unfunded capital projects. Additionally, SDCCC has lost revenue that could have been used for capital projects due to an unsuccessful Convention Center Expansion effort and an attempt to generate naming rights revenue.[21] Also, to address the capital needs, according to SDCCC it is making an effort to decrease expenses and generate additional revenue to help fund capital projects. However, the funding gap still exists.

In the typical government owned and non-profit operated governance structure, one government entity, e.g. a city, state, or county, owns the convention center. The government owner is often responsible for capital and expansion financing. San Diego has two separate government entities as owner and operator of the Convention Center. As these duties will remain shared, the City and Port must collaborate to address the capital needs of the Convention Center.

For any convention center, it is critical to identify funding for capital improvements. Underinvestment in capital results in deferred maintenance, deteriorating assets, decreased performance, and decreased reliability. Deferring investment may prove costlier in the long run.

In order to address capital needs, SDCCC and the City should prioritize the capital projects that pose the greatest risk to the Convention Center if left unattended. Furthermore, the City should continue discussions with the Port to develop a capital financing plan that addresses the prioritized capital needs.

[21] An organization purchases naming rights when it pays another organization to advertise on its building, such as the Convention Center.

The Convention Center Has $12.6 Million in Unfunded Capital Needs for FY 2018 to FY 2026

The Government Finance Officers Association (GFOA) recommends that government entities develop comprehensive, multi-year capital plans to effectively manage capital assets. A prudent multi-year capital plan identifies and prioritizes expected needs, establishes project scope and cost, details estimated funding sources, and projects future operating and maintenance costs. A capital plan should cover a period of at least three years, preferably five or more.

SDCCC developed a ten-year capital needs plan dated FY 2017 to FY 2026. The plan identifies anticipated capital projects and establishes project estimates totaling $53.4 million. However, a $12.6 million dollar funding deficit remains. Contrary to GFOA guidance, the remaining $12.6 million deficit has no identified funding sources.

Projects listed in the ten-year capital needs plan include items such as replacing heating and air conditioning pumps, upgrading the fire system, and roof replacement. SDCCC secured an IBANK loan for $25.5 million to finance immediate capital needs. The IBANK projects include Sails Pavilion upgrades, escalator modernization, cooling tower replacement, and fire life safety system replacement.

While the Port owns the Convention Center, it is not contributing to the acquisition or payment of the loan. SDCCC will pay the loan off over 25 years. As a co-lessee, the City will pay any deficiency. Effective FY 2020, SDCCC begins paying $1.7 million in principal, interest, and loan fee payments.

After accounting for the $25.5 million IBANK loan, $26 million remains in capital needs for FY 2018 to FY 2026. The City's annual $1.5 million capital projects contribution may yield approximately $13.5 million total during FY 2018 to FY 2026. However, $12.6 million in unfunded capital needs still exist. **Exhibit 18** summarizes capital needs and funding sources as listed in the 2017 to FY 2026 capital needs plan.

Exhibit 18

Convention Center Capital Needs and Funding Sources between FY 2017 to FY 2026

Capital Needs Funding	Amount
FY 2017 to FY 2026 Capital Needs	$53,448,714
IBANK Projects	($25,288,245)
FY 2017 Capital Needs SDCCC and City Funded	($2,034,350)
City's annual contribution FY 2018 to FY 2026	($13,500,000)
Remaining unfunded capital needs FY 2018 to FY 2026	**$12,626,119**

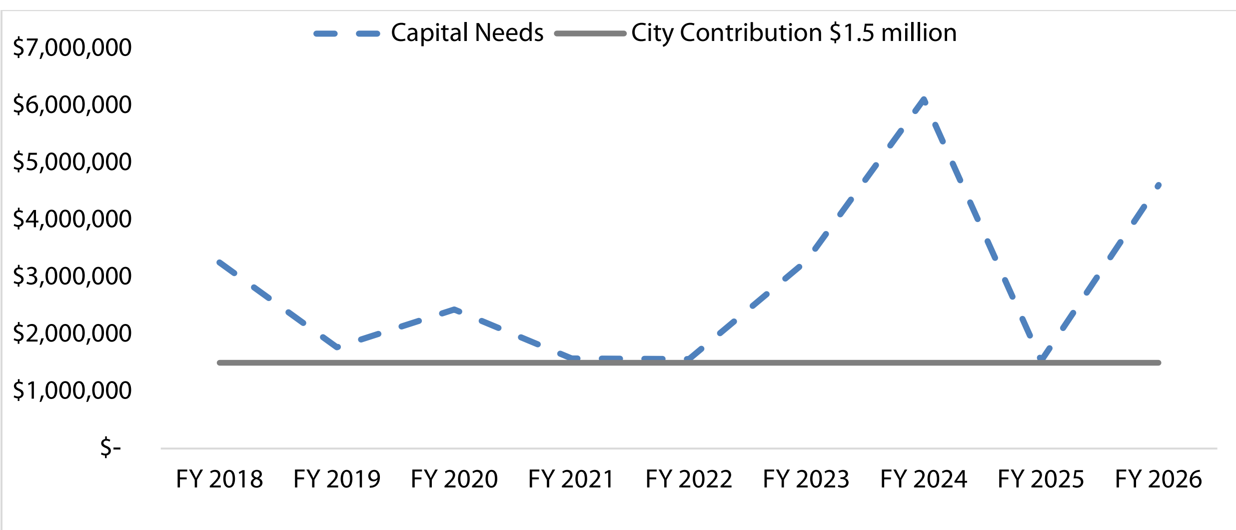
Source: OCA based on SDCCC board-approved capital needs as of April 2016 and City of San Diego Convention Center adopted budgets for FY 2015 to FY 2017.

Note: While the total IBANK loan amount is for $25.5 million, the IBANK Projects amount listed above, approximately $25.3 million, does not include loan administrative fees.

SDCCC has identified $26 million in capital needs scheduled between FY 2018 and FY 2026. As shown in **Exhibit 19,** the City's annual contribution of $1.5 million, which is currently the only source of funding, is not enough to cover those needs, leaving a funding gap. Projected funding needs will peak in FY 2024.

Exhibit 19

The Convention Center Has More Capital Needs Than City Funds Will Cover between FY 2018 and FY 2026



Source: OCA generated based on San Diego Convention Center Corporation board-approved capital needs.

The Unified Port of San Diego's $4.5 Million Annual Contribution Towards Debt Service for Phase II Expansion Ended in FY 2014

Commencing in June 1999 and ending in June 2014, the Port paid the City $4.5 million annually to help finance the construction of the Convention Center's 1999 expansion. The Port agreed to contribute since the expansion benefitted the Port via Convention Center parking revenue and percentage leases with hotels on Port-owned land that rent rooms to convention goers. As agreed, the Port's contribution has ended. The Port continues to operate the Convention Center parking garage and receives all parking revenue generated. According to the San Diego Grand Jury, parking revenue is approximately $3 million per year, and the Port also derives revenue from its percentage leases with three major bay-front hotels near the Convention Center. Now, the Port's only contractually obligated payment is to reimburse the City for 17 percent of property insurance costs for the Convention Center. Per the management agreement between the City and the Port, the Port does not have any other requirement to contribute towards the operations and maintenance of the Convention Center.

The City Pays Approximately $17 Million Annually Towards Convention Center Obligations, But Only $1.5 Million is Available for Capital Needs

The City pays approximately $17 million annually towards Convention Center obligations, but only $1.5 million is available for capital needs. The City uses $13.6 million for ongoing Convention Center expenditures that include debt service for Phase II Expansion, dewatering, administrative costs, and insurance fees associated with the Convention Center. The City is obligated by its agreement with the Port to operate the dewatering system and pay most insurance costs as part of its overall permission to manage the Convention Center until 2028. The City is also ultimately responsible for the debt service for Expansion II, with payments ending in 2028.

In addition to the $13.6 million the City spends on debt service, dewatering, and administrative expenses, it also pays $3.4 million directly to SDCCC for marketing, promotions, and capital projects to comply with its management agreement with SDCCC. SDCCC designates approximately $1.9 million of City funding annually for its long-term marketing services contract with SDTA. Only the remaining $1.5 million is spent annually on capital projects.

In Anticipation of a Third Expansion, SDCCC Spent $6.5 Million to Secure Land When Those Funds Could Have Been Used for Capital Needs

In anticipation of a third expansion, in FY 2010 SDCCC purchased a leasehold from a holding company called Fifth Avenue Landing to secure land adjacent to the existing Convention Center location. However, the expansion effort was unsuccessful. A California state appeals court ruled that the City's financing for the expansion was unlawful because the anticipated increased hotel tax did not have voter approval. As a result of the ruling, according to SDCCC, it lost approximately $6.5 million in expenditures related to lease acquisition costs, design and planning costs, and interest payments. The $6.5 million could have been used for capital needs.

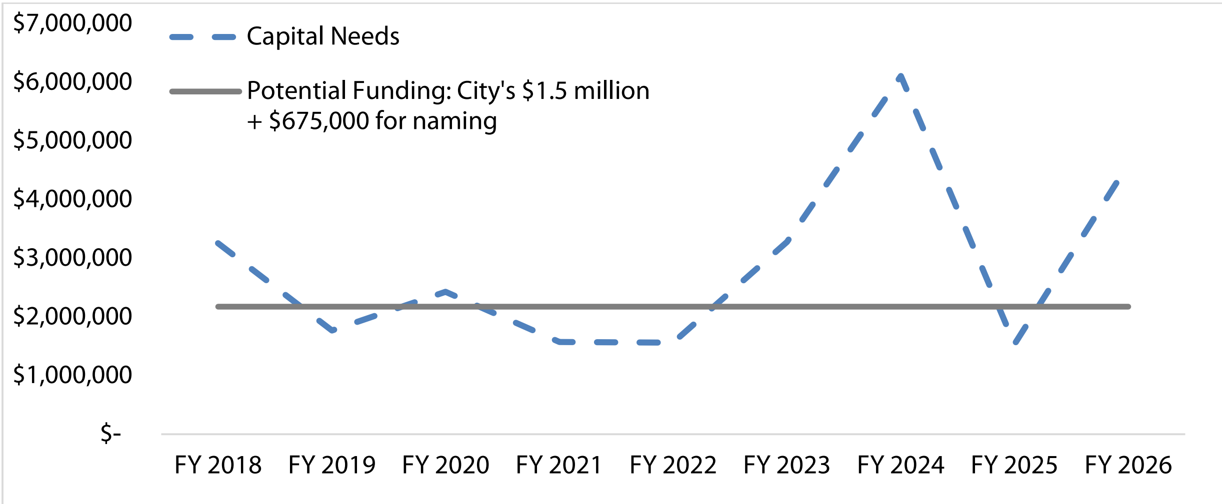
SDCCC's Attempt to Generate Additional Revenue by Selling Naming Rights is On Hold

In July 2014, SDCCC entered into a contract with The Superlative Group (TSG) to provide naming rights consulting services. TSG identified and evaluated all naming rights assets available throughout the Convention Center and assigned values to the inventoried assets. TSG estimated annual revenue for selling naming rights to the Convention Center and interior venues in the range of $675,000 and $955,000, or at least $6.8 million over 10 years.

However, naming rights have still not been sold, and SDCCC has lost out on revenue that could have paid for capital needs. To date, SDCCC has paid TSG approximately $179,000 but has not yet sold or received revenues from naming rights. As shown in **Exhibit 20**, if SDCCC were to earn naming rights revenue of approximately $675,000 per year and continues to apply the City's $1.5 million contribution, more capital needs would be funded. The total funding for capital needs would increase from $1.5 million to approximately $2.2 million annually. SDCCC could use surpluses in some years to fund future years. However, an overall deficit would still remain.

Exhibit 20

Convention Center Has Unfunded Capital Needs Even with the Sale of Naming Rights



Source: OCA generated from San Diego Convention Center Corporation board-approved capital needs and TSG naming revenue estimates.

During the course of the audit, City leadership reported that it was in discussion with the Port regarding approval and revenue distribution for naming rights.

In Addition to Naming Rights Revenue, SDCCC is Exploring Other Revenue Generating Opportunities

SDCCC has been exploring additional revenue sources and ways to decrease expenditures on which they can act without City and Port approval. For example, according to SDCCC, it changed how it processes credit cards, which is projected to save $59,000 per year. Additionally, SDCCC notes that the new President and CEO is tasked with helping SDCCC:

- Create, execute, and enhance sales for the facility;
- Increase sponsorship revenue;
- Identify business development opportunities;
- Identify branding opportunities;
- Identify partnerships that enhance profitablity opportunties;
- Pursue local, state, and federal grant opportunties; and
- Assist in the development of Convention Center owned and co-owned events.

The Convention Center's Unique Governance Structure Makes Capital Funding and Expansion Discussions More Complex

The Convention Center's unique governance structure makes capital funding and expansion discussions more complex. As stated on page 11, the Port owns the Convention Center building and land. The City is responsible for management, operation, maintenance, and promotion and has passed these responsibilities to SDCCC.

In the typical government owned and non-profit operated governance structure, one government entity, e.g. a city, state, or county, owns the convention center. The government owner is often responsible for capital and expansion financing. San Diego has two separate government entities as owner and operator of the Convention Center. As these duties will remain shared, the City and Port must collaborate to address the capital needs of the Convention Center.

A Unified Strategy for Unfunded Capital Needs is Necessary as Deferring Investment May Prove Costly

For any convention center, it is critical to identify funding for capital improvements. Underinvestment in capital needs results in deferred maintenance, deteriorating assets, decreased performance, and decreased reliability. Deferring investment may prove costlier in the long run and may eliminate revenue generating opportunities for all parties involved. While the Convention Center has been proactive in identifying capital needs, it is at risk of deferring capital projects as it already faces numerous funding challenges.

According to GFOA, governments are continually faced with extensive capital needs and limited financial resources. Therefore, prioritizing capital project requests is a critical step in the capital plan preparation process. Moreover, GFOA recognizes the importance of establishing a viable financing approach for supporting the multi-year capital plan.

Financing capital needs requires a unified approach from all stakeholders that benefit from the Convention Center, its events, its TOT and parking revenue generation, and its national representation of the City of San Diego. The Convention Center is a shared asset between the Port, the City, SDCCC, the hotel and tourism industry, and the residents of San Diego. Although this arrangement has made funding of capital needs more complex, it also presents opportunities to maximize the usage of the Convention Center and its benefits to the region. According to the Office of the New York State Controller Local Government Guide on Capital Assets, local government entities sharing ownership and costs of an asset can improve the asset's overall performance by taking a unified approach to management of the asset. For example, shared ownership can result in reduced finance and maintenance costs for each party involved, increasing possibilities for fully funding maintenance activities. It can also lead to more revenue generating opportunities as the asset remains properly maintained and ready for continued use.

Recommendation #3

In order for the San Diego Convention Center Corporation to prepare for capital funding needs, it should prioritize expected capital project needs by order of importance within each year. (Priority 2)

Recommendation #4

The City of San Diego Chief Operating Officer or designee should continue discussions with the Unified Port of San Diego to develop a financing plan that addresses the capital projects funding gap and recognizes the shared responsibility and benefit to the region. (Priority 2)

Finding 3: While Capital Projects Were Allowable, the San Diego Convention Center Corporation Should Update Its Internal Payment Authorization Procedures and Consult With the City Regarding the Use of Available Funding

Given that capital project funding is limited, SDCCC could better manage and maximize the funding it does receive from the City. While SDCCC spent City funds on allowable capital projects that met City cost and useful life thresholds, it should update internal payment authorization procedures. Additionally, we found that SDCCC did not prioritize available City funding towards capital projects during one of the three years in our audit scope from FY 2013 to FY 2015.

SDCCC's internal invoice authorization to pay procedures require that authorized staff stamp and sign invoices for payment approval of City-funded capital projects. However, invoices without the authorization stamp accounted for six percent, approximately $252,000, of total capital project expenditures paid with City funds from FY 2013 to FY 2015. SDCCC did provide evidence of authorization to pay via signatures on check registers for all remaining capital expenditures reviewed. However, by not complying with its internal authorization to pay procedures, SDCCC cannot consistently ensure that all expenditures are suitably authorized and demonstrate a responsible and appropriate use of City funds.

Also, in FY 2015, SDCCC used a portion of the City's $3.4 million annual contribution on rental credits to book conventions after having paid for scheduled capital projects and marketing services.[22] As a recipient of City funds, it is SDCCC's responsibility to ensure strong stewardship of taxpayer dollars while adhering to policies governing the use of those funds. The Management Agreement between the City and SDCCC states that SDCCC should use the City's contribution for

[22] SDCCC defines rental credits as reduced or discounted deviations from standard license fee rates.

marketing, promotions, and capital projects. It does not specify how SDCCC should prioritize available funds from the City's yearly allocation. However, the agreement does state that SDCCC has the authority to retain any excess revenue at the Convention Center to fund reserves for capital projects to the extent such reserves are not required for operations. When SDCCC spends City tax dollars on rental credits, those dollars are not spent on capital improvements or on operational and maintenance needs.

In order to strengthen its stewardship of City funds, SDCCC should update its internal invoice authorization procedures to reflect appropriate practice. SDCCC should also develop a policy that requires SDCCC to consult with the City regarding the use of available City funds.

While Capital Projects Were Allowable, SDCCC Should Update Its Internal Invoice Payment Authorization Procedures

Given that capital project funding is limited, SDCCC could better manage and maximize the funding it does receive from the City. SDCCC spent City funds on allowable capital projects that met City cost and useful life thresholds. According to City and SDCCC guidelines, capital projects must be worth $5,000 or more and have a useful life of more than one year. SDCCC uses approximately $1.5 million of the City's $3.4 million annual contribution on capital projects ranging from office furniture to leasehold improvements.

SDCCC should update its internal invoice payment authorization procedures to reflect appropriate practice. SDCCC did not follow its procurement policy to stamp and sign invoices for payment approval of City-funded capital projects. According to SDCCC, there are other procedures in place designed to secure the appropriate approvals for invoice payment. SDCCC notes that accounts payable does not pay an invoice until it receives either:

- A signed invoice, bill of lading, or packing list signifying the receipt of goods;
- An entry into the accounts payable system certifying the receipt of goods; or
- A signed approval-to-pay stamp, per its procurement policy.

According to SDCCC, after shipping and receiving acknowledges receipt of a good, authorized management or the executive team conducts a review before remitting payment.

Nevertheless, SDCCC's written purchasing procedure does not include this practice. The Government Finance Officers Association states that entities should establish procedures for identifying authorized personnel and their established approval dollar limits. By not operating from updated payment authorization procedures, SDCCC cannot consistently ensure that all expenditures are suitably authorized and demonstrate a responsible and appropriate use of City funds.

SDCCC Should Consult With the City Regarding the Use of Available Funding

SDCCC could also improve its use of City funds by consulting with the City regarding the use of available funding. In FY 2015, SDCCC used a portion of the City's $3.4 million annual contribution on rental credits to book conventions after having paid for scheduled capital projects and marketing services.[23] As a recipient of City funds, it is SDCCC's responsibility to ensure strong stewardship of taxpayer dollars while adhering to policies governing the use of those funds.

The Management Agreement between the City and SDCCC states that SDCCC should use the City's contribution for marketing, promotions, and capital projects. It does not specify how SDCCC should prioritize available funds from the City's yearly allocation. SDCCC did provide documentation that rental credits in FY 2013 to FY 2015 received appropriate approvals. We also found that rental credits decreased overall from FY 2013 to FY 2015.

However, the Management Agreement states that SDCCC has the authority to retain any excess revenue at the Convention Center to fund reserves for capital projects to the extent such reserves are not required for operations. When SDCCC spent available funds on rental credits, those dollars were not used for potential capital improvements or operational and maintenance needs. Specifically in FY 2015, SDCCC spent

[23] SDCCC defines rental credits as reduced or discounted deviations from standard license fee rates.

$421,000 on rental credits that could have paid for future capital projects.

SDCCC should consult with the City for agreement on how to use available funds. Given that SDCCC has future unfunded capital needs and given that funding options are limited, SDCCC should prioritize available funds for scheduled capital projects. Other options for consideration include returning the funds to the City, and in years without immediate capital needs, using the funds for promotions and marketing.

Recommendation #5 **SDCCC should update its internal invoice payment authorization procedures to reflect appropriate practice. (Priority 2)**

Recommendation #6 **SDCCC should develop a policy on how to use any available City funds if SDCCC pays for all scheduled capital projects in any given year. The policy should prioritize capital needs and require that SDCCC consult the City in writing to agree on whether excess funds are to be used for rental credits, reserves for future year capital projects, or be returned to the City. (Priority 3)**

Conclusion

The San Diego Convention Center (Convention Center) is the region's leading gathering place, hosting conventions, trade shows, and community events. These events benefit the City of San Diego (City) and advance the City's convention and tourism industry. The San Diego Convention Center Corporation (SDCCC) estimates regional economic impact at $1 billion per year.

SDCCC operates the Convention Center within a unique governance structure. The Convention Center is a shared asset between the Unified Port of San Diego (Port), the City, SDCCC, the hotel and tourism industry, and the residents of San Diego. Primarily, the Port owns the Convention Center and the land on which the center sits. The City is responsible for management, operation, maintenance, and promotion of the Convention Center. The City passed these duties to SDCCC, and SDCCC contracts with the San Diego Tourism Authority (SDTA) for marketing and promotion services. Although this arrangement has made funding of capital needs more complex, it also presents opportunities to maximize the usage of the Convention Center and its benefits to the region.

In order to better assess the quality of marketing services received from SDTA, SDCCC should improve its oversight of the contract with SDTA by strengthening performance measures and corrective action protocols. The contract does not contain measurable performance targets for most of SDTA's objectives and does not contain a robust corrective action clause for underperformance. Furthermore, the contract includes incomplete and conflicting guidelines. SDCCC should revise its contract with SDTA to include specific, measurable, achievable, relevant, and timely performance targets. Furthermore, SDCCC should strenghten its corrective action clause for SDTA underperformance. SDCCC has an immediate opportunity to revise the contract as it is up for renewal at the end of FY 2017.

In order for the Convention Center to remain a premier tourist destination, SDCCC, the City, and the Port must collaborate to ensure capital needs of the Convention Center are addressed. Current funding efforts are not sufficient to address future Convention Center capital improvement needs. A $12.6 million funding gap remains for capital projects scheduled through FY 2026. While SDCCC benefitted from Port and City funding, those dollars are for specific purposes and not devoted exclusively to unfunded capital projects. To that end, SDCCC should prioritize expected capital project needs by importance within each year. The City should continue discussions with the Port to develop a financing plan that addresses the capital projects funding gap and recognizes the shared responsibility and benefit to the region.

Given that capital project funding is limited, SDCCC could better manage and maximize the funding it does receive from the City. While SDCCC spent City funds on allowable capital projects, it could improve internal invoice authorization procedures and its prioritization for the use of available City funds. SDCCC should update its internal invoice payment authorization procedures to reflect appropriate practice. Also, SDCCC should develop a policy on how to use any available City funds if all capital needs are paid in any given year. The policy should prioritize capital needs and require that SDCCC consult the City in writing in order to agree on whether excess funds are to be used for rental credits, reserves for future year capital projects, or be returned to the City.

Recommendations

Recommendation #1

Upon renewal of the San Diego Tourism Authority Sales and Marketing Contract, the San Diego Convention Center Corporation should:

- Review and revise the contract to include specific, measureable, achievable, relevant, and timely performance targets for evaluating the San Diego Tourism Authority's booking performance. The performance targets should include the annual minimum total projected room night goal.
- Include a corrective action clause with annual review for San Diego Tourism Authority performance. This clause should include escalating corrective action options ranging from a written warning, a formal corrective action plan, up to contract termination. (Priority 2)

Recommendation #2

Upon renewal of the San Diego Tourism Authority Sales and Marketing Contract, the San Diego Convention Center Corporation should :

- Establish the Booking Guidelines as a framework and not as the standard for the San Diego Tourism Authority's performance evaluation. If included in the new contract, the Booking Guidelines should:
  - Include a complete Booking Time Frame Scale; and
  - Identify how Booking Time Frame and Exhibit Hall Allocation Requirements will be monitored, reviewed, and prioritized. (Priority 2)

Recommendation #3

In order for the San Diego Convention Center Corporation to prepare for capital funding needs, it should prioritize expected capital project needs by order of importance within each year. (Priority 2)

Recommendation #4

The City of San Diego Chief Operating Officer or designee should continue discussions with the Unified Port of San Diego to develop a financing plan that addresses the capital projects funding gap and recognizes the shared responsibility and benefit to the region. (Priority 2)

Recommendation #5

SDCCC should update its internal invoice payment authorization procedures to reflect appropriate practice. (Priority 2)

Recommendation #6

SDCCC should develop a policy on how to use any available City funds if SDCCC pays for all scheduled capital projects in any given year. The policy should prioritize capital needs and require that SDCCC consult the City in writing to agree on whether excess funds are to be used for rental credits, reserves for future year capital projects, or be returned to the City. (Priority 3)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3

AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class[24]	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls.
3	Operation or administrative process will be improved.

[24] The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B: Objectives, Scope, and Methodology

Objective

The overall objective of this audit was to evaluate the efficiency and effectiveness of the management and operations of the Convention Center. To achieve this objective, we:

- Identified the City's financial obligations related to the Convention Center and the sources of funding, and internal controls of San Diego Convention Center Corporation's (SDCCC) payment authorization process. Our observations can be found in the Background and Finding 3;
- Identified the City's division of oversight responsibilities for the Convention Center in comparison to typical governance structures within the convention center industry and its effects on funding for Convention Center capital projects as discussed in the Background and Finding 2; and
- Assessed SDCCC's oversight of its Sales and Marketing Contract (contract) with the San Diego Tourism Authority (SDTA) as discussed in Finding 1.

Scope & Methodology

Our audit focused on the period from FY 2013 to FY 2015. To identify the City's obligations and sources of funding related to the Convention Center, we identified the Convention Center-related accounts that receive Transient Occupancy Tax (TOT) revenue. We then reviewed those accounts to detemine the City's financial obligations for the Convention Center. For TOT revenue allocated directly to SDCCC's operating revenue, we assessed whether these funds were spent in accordance with applicable agreements and City policies during the period from FY 2013 to FY 2015. We also identified capital improvement project needs and determined whether a funding plan exists.

To identify the City's division of oversight responsibilities for the Convention Center, we reviewed relevant agreements and contracts that delineated the roles and responsibilities of the Unified Port of San Diego (Port), the City, SDCCC, and SDTA. Through interviews, questionnaires, and research we gathered information on typical governance structures and the roles and responsibilities of the entities owning and operating other convention centers within the United States. We selected six convention centers for comparison that represented a range of governance structures which are discussed in greater detail in the Background. The typical structures are: 1) government owned and operated; 2) government owned and non-profit operated; 3) government owned and for-profit operated; and 4) for profit owned and operated. Our benchmarking research revealed variation in the sources of ancillary revenue and in expansion funding mechanisms. One unifying characteristic is that government typically funds capital projects regardless of the kind of entity that is responsible for day-to-day operations.

To assess SDCCC's oversight of its contract with SDTA, we evaluated the performance measures outlined in the contract. Specifically, we identified SDTA's scope of work and evalauted SDTA's performance data against their agreed-upon scope of work to determine if SDTA met its contractual obligations. To test SDTA's compliance with policies and provide for greater data reliability, auditors reviewed event data within SDCCC's database to verify the source of the data received.

Also, as part of our analysis, we removed short-term events (events booked less than 18 months into the future) from the SDTA data set reviewed. Per the contract, SDTA is responsible for developing and implementing a long-term sales and marketing plan to maximize hotel room night utilization. Long-term marketing refers to events booked 18 months or more into the future. To that end, SDCCC is responsible for short-term marketing. We did not review SDCCC's short-term event data because SDCCC does not use City TOT funding for these services.

SAN DIEGO
convention center
CORPORATION

MEMORANDUM

DATE: January 17, 2017

TO: Eduardo Luna, City Auditor

FROM: Clifford "Rip" Rippetoe, President & CEO

SUBJECT: Management Response to the San Diego Convention Center Performance Audit

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This memorandum is in response to the audit recommendations within the San Diego Convention Center Performance Audit. We thank the Office of the City Auditor's staff for their work and efforts on this performance audit.

Overview

We appreciate the recommendations and have agreed with each of them. We provide the enclosed for context related to two of the findings. First, as to Finding 1 of the report, the San Diego Convention Center Corporation ("SDCCC") works carefully and extensively with the San Diego Tourism Authority ("SDTA") to make sure the needs of the SDCCC are met. We understand the findings and recommendations to be focused on technical issues within the agreement between the parties, how the agreement can be strengthened, when it is renewed in the coming year, and to make sure the SDCCC creates more metrics to monitor the relationship than currently exists. We discuss our thoughts on this in more detail below.

As to Finding 3, we want to make sure it is clear to the public that the appropriate procedures/practices being recommended have been in use for many years and are currently being used. As correctly noted, however, the written policies have not been updated to reflect the use of the current procedures/practices. We will correct this issue and follow the recommendation.

Recommendation #1 - **We Agree with this Recommendation and provide further context for the Underlying Assumptions used to Support the Conclusions below.**

Anticipated implementation: July 2017

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Upon renewal of the San Diego Tourism Authority Sales and Marketing Contract, the San Diego Convention Center Corporation should:

- *Review and revise the contract to include specific, measurable, achievable, relevant and timely performance targets for evaluating the San Diego Tourism Authority's booking performance. The performance targets should include the annual minimum total projected room night goal.*
- *Include a corrective action clause for San Diego Tourism Authority performance. This clause should address contract termination, staffing adjustments, and other corrective options.* *(Priority 2)*

Recommendation #2

- **We Agree with this Recommendation and provide further context for the Underlying Assumptions used to Support the Conclusions below.**

Anticipated implementation: July 2017

Upon renewal of the San Diego Tourism Authority Sales and Marketing Contract, the San Diego Convention Center Corporation should:

- *Establish the Booking Guidelines as a framework and not as the standard for the San Diego Tourism Authority's performance evaluation. If included in the new contract, the Booking Guidelines should:*
    - *Include a complete Booking Time Frame Scale; and*
    - *Identify how Booking Time frame and Exhibit Hall Allocation Requirements will*

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be monitored, reviewed, and prioritized.
(Priority 2)

Overview response to recommendations 1 & 2:

The contract with the SDTA is a service/marketing agreement and not a contract for tangible goods. We have requested agreements from other cities to review industry standards used between Destination Marketing Organizations (DMO) such as the SDTA and that respective city's convention center. Over 90% of destinations that have a comparable sized convention center have contracted with the DMO to provide sales & marketing services.

Every one of our key competitors and the largest convention cities has such an arrangement. While there may be some differences in the relationship, depending on the ownership of the convention center, the following destinations in this group rely on a DMO for sales & marketing support:

- Seattle
- San Francisco
- Los Angeles
- Anaheim
- Phoenix
- Las Vegas
- Denver
- Chicago
- Orlando
- Atlanta
- Boston
- Dallas
- Houston
- New Orleans
- Miami

A review of these DMO's show that a relationship between a DMO and a convention center is the most common method of selling the destinations to tradeshows, events and conventions with significant roomnights more than 18 to 24 months out from the show dates. Each destination is different with some destinations having as little as 9 months or as long as 24 months for the short term sales efforts. Furthermore, most destinations have the graduated scale capability of being able to book further out. Currently, the SDTA has shows booked out to the year 2035 at the SDCC.

The decision to contract with the SDTA was driven by the anticipation of an expanded convention center and the ability to collaborate more with the hotel properties. This model, used most frequently in the industry, allows for the most effective way to achieve the total number of roomnights established and listed by the goals in the agreement. Additionally, the SDTA could provide these services more cost effectively than the SDCCC. The cost to keep this service in-house exceeds the contracted amount between the SDCCC and the SDTA. A cost analysis for FY 17 shows that the same effort in-house would have cost $300,000 or more.

The individual objectives for selling the center are not weighted in the same manner - the key objective is roomnight production. This objective is acknowledged in the audit report. Ensuring the SDTA contracts the most revenue for SDCCC possible with each license agreement is next in importance. The objectives and production are evaluated twice a year in the San Diego City Council meetings with the ED&IR Committee and quarterly with the SDCCC Board of Directors Sales & Marketing Committee, with monthly reports provided to the same body.

These meetings and reports provide substantial oversight.

This oversight includes monitoring roomnight production. The SDTA met and exceeded the roomnight production goal of the 4 year contract in the aggregate. The aggregate review is preferable to a year by year review because of the impact of booking cycles and strategy shifts.

SDTA did not meet its goal to book 860,000 total roomnights annually in FY 13 and FY 14; however, SDTA exceeded the goal in FY 15 and FY 16. Uncertainty regarding the Phase III Expansion impeded its ability to book future events in FY 2013 and 2014. Convention planners were hesitant to book in San Diego due to both the possibility of pending construction and without knowing with certainty whether the center expansion would actually proceed. SDTA and SDCCC agreed to hold key dates for bookings that needed the expanded square footage. When the expansion plan halted, it was challenging for SDTA to fill those dates.

The SDTA produced the following roomnights, which when combined, exceeded the contract's requirement over a 4 year period:

- 2013 - 813,662
- 2014 - 816,188
- 2015 - 1,002,688
    - ***Total roomnights booked for the first 3 years: 2,632,538 to a goal of 2,580,000 roomnights.
- 2016 - 1,092,889

4-year Contract requirement – 3,440,000

4-year SDTA Achievement – 3,725,427 108%

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Booking Guidelines space and minimum peak roomnight requirement:

There are two key points concerning booking guidelines we provide context for below:

- The booking guidelines are based on the Expansion III space which does not exist.
- The guidelines do not take into account what space is remaining in the building to be booked.

The Booking Guidelines that were part of the 2012 contract between the SDCCC and SDTA were formulated specifically for an expanded building. As stated on page one of the Booking Guidelines:

> *"The guidelines outlined are based upon the proposed expansion of the existing convention center. Upon completion of the expansion, the center's space inventory will be as follows:*
>
> *-750,000 gsf[1] of contiguous exhibit space*
> *-One (1) 80,000 gsf Ballroom*
> *-Two (2) 40,000 gsf ballrooms*
> *-Approximately 123 meeting rooms*
> *-Sail Pavilion (90,000 gsf)*
>
> *Exceptions to these booking guidelines must be approved by ConVis Senior VP of Convention Center Sales. Although as a general rule these guidelines are consulted when reviewing all booking opportunities, they are not requirements, and many different factors are considered before determining if a booking opportunity business will be pursued by ConVis sales staff."*

Listed below is the current space available to be booked:
-525,701 gsf of contiguous exhibit space (Halls A-H)
-Two (2) 40,000 gsf ballrooms
-63 meeting rooms
-Sail Pavilion (90,000 gsf)

This is 33 percent less than the proposed expansion space and what is referenced in the Guidelines.

[1] "gsf" = gross square footage

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To maximize the current space in the facility and reach one of the highest Center occupancies in the country, many factors are taken into account by the SDCCC and the SDTA for evaluating business:

- The number of roomnights generated on the peak night is the most important factor. How many years out the group is looking to book and how much exhibit and meeting space is needed is the next consideration.

- What time of year and what dates the group is looking to book is also an important factor (i.e., Is the request for peak season, spring and fall or for a shoulder or holiday week?)

- The remaining space in the center is very important in the decision. The key here is that most lucrative medical citywides book 10+ years out, and then the smaller groups are layered together within the next 10 years. The audit report does not review which accounts were already on the books, and how much space was remaining for the FY booking activity.

- To maximize the space, the SDTA is constantly reviewing their database to ensure there is not a more valuable piece of business available to book.

- This effort to secure the right group in the best dates for the center is very important, due to the nature of how the citywides book their conventions. When the conventions go out to bid and a city is chosen, they rarely cancel and move cities, so if you miss a rotation you can be without a group for years even a decade before they return.

- Many competing destination's centers give their space for free to attract the business to their city. These rental credits come in many forms to fund the sales effort. As listed in the guidelines, the SDTA is allowed only up to a 15% discount off the rental rates. The collaboration between the SDCC and SDTA is very important to our mutual success. Jointly, we evaluate every group that needs more discounting to make the best decision.

We have included the FY 2013, 2014 and 2015 booking reports, along with comments of why they were booked in those specific dates. As you can see in those reports, the majority are stacked with another group, merging two groups over the same dates.

Bookings within 18 months from the SDTA:

To ensure proper account management between the two organizations, some of the usual long term accounts are booked by the SDTA within 18 months. When booking large citywides, either the process started outside 18 months and ended up contracting within 18 months or they booked very short term due to the nature of their business. The same situation arises with the

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SDCCC Short Term Sales Team, if the right dates for their accounts are found; they book the smaller conventions outside of 18 months. The SDTA and SDCCC sales teams work together to ensure the correct account coverage and to maximize the SDCC exhibit and meeting space.

Contracting timeline varies depending on many factors; however, it is most often driven by the customer and their leadership (i.e., the contract signer or decision maker). SDTA may begin bidding on a booking more than 18 months in advance. The sales process takes many months, and years in some cases. By the time the contract is executed it can be within the 18 month booking window. In this case, SDTA alerts SDCCC that they are now within 18 month and obtain approval to continue working the event. (Examples of this occurring are: Heineken USA, Xilinx Inc., National Association of Secondary School Principals). Additionally, for groups that are very large and require multiple hotels but are within 18 months, SDTA obtains approval from SDCCC to handle. (Examples of this collaboration occurring are: IBM Corp, Starwood, RealPage Inc., Subway, Social Media.)

In some instances SDTA has existing relationships with customers who request SDTA to continue working even in the instance that the booking is within 18 months, and in which case SDTA obtains approval from SDCCC to handle. (Examples of this occurring are: Kawasaki, Advanstar, Petco Animal Supplies.)

New Bookings:
The New Bookings data given to the auditors was entered incorrectly by the sales team. Listed below is the updated data:

FY13 - There were 8 accounts marked as "New" which should be designated as Repeat; and 2 accounts marked as Repeat which should be New.
FY14 - There were 3 accounts marked as "New" which should be designated as Repeat; and 1 account marked as Repeat which should be New.
FY15 – no change

The revised figures show a slight downward trend from FY13 thru FY15 that may be attributed to uncertainty surrounding convention center expansion. The significant spike in new accounts in FY16 may be attributed to 28% increase in total bookings over FY15.

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Revised

	FY13		FY14		FY15		FY16	
New	13	22%	12	20%	10	18%	17	23%
Repeat	45	78%	49	80%	47	82%	56	77%
Total	58		61		57		73	

Previous

New	19	33%	14	23%	10	18%
Repeat	39	67%	47	77%	47	82%
Total	58		61		57	

FY13 8 accounts marked New, s/b Repeat - *Nephrology, Am Staffing, FASEB (2x), IDSA, OSA (3x)*
2 accounts marked Repeat, s/b New - *Cattlemen's, Starwood Hotels*

FY14 3 accounts marked New, s/b Repeat - *Research in Vision, Cardiovascular Research, Safety Council*

Rental Credits and Subsidies by competitors to buy business:

Within the TMD Master plan that reviewed top competing cities, San Diego is the only destination without a subsidy or fund to incentivize groups to buy San Diego. This makes booking business in the need dates and filling the holes between groups more difficult.

In summary, the booking guidelines allow flexibility to maximize the space remaining. We do not believe having a metric for every variable is feasible for the convention sales business. It is important to note that bookings need to merge into the remaining space at the SDCC. The weeks before or after a Holiday are very difficult to fill. Many cities continue to buy the business with discounts or free space, San Diego does not have this funding available.

We will strive to incorporate industry appropriate aspects of recommendations #1 and #2 into the new contract when it is negotiated. It is important to point out that the current contract is a one year extension of the original contract with the same terms and conditions. The SDCCC will be negotiating a completely new contract for future years. While we will strive to incorporate the recommendations, the terms and conditions will be negotiated based on industry standards and the betterment of the City of San Diego.

Recommendation #3 - **We Agree with this Recommendation**

Anticipated implementation: Completed March 2017

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In order for the San Diego Convention Center Corporation to prepare for capital funding needs, it should prioritize expected capital project needs by order of importance within each year. (Priority 2)

This is being implemented as part of the FY 18 budget process.

Within finding #2 there are references to naming rights and that there have not been any revenues derived from sales of same. The mitigating factor is that the Port of San Diego has claimed jurisdiction for the exterior of the convention center and the revenues derived from any sales of naming rights. This is currently under negotiation between the Port and the City of San Diego. These discussions currently prevent the SDCCC from selling any naming rights at this time.

Recommendation #5 - **We Agree with this Recommendation**

Anticipated implementation: March 2017

SDCCC should update its internal invoice payment authorization procedures to reflect appropriate practice. (Priority 2)

The appropriate procedures are currently being performed and have been performed for many years. The current written policy does not match the procedures. The policy will be amended to reflect the procedures/practices currently in place.

Recommendation #6 - **We Agree with this Recommendation**

Anticipated Implementation: March 2017

SDCCC should develop a policy on how to use any available City funds if SDCCC pays for all scheduled capital projects in any given year. The policy should prioritize capital needs and require that SDCCC consult the City in writing to agree on whether excess funds are to be used for rental credits, reserves for future year capital projects, or to be returned to the City. (Priority 3)

The current management agreement between the City of San Diego and the SDCCC allows for the expenditure of monies for marketing and promotion efforts at the SDCC. This has

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included the use of rental credits in past years. The use of monies for the credits is consistent with the working definition of marketing promotion efforts. However, we consider the use of the City funds a priority for capital and agree with this recommendation.

Conclusion:

Thank you for the opportunity to respond to the audit report. The San Diego Convention Center drives economic impact for the community. As an example of our purpose, in FY 2015, the facility generated 22.1 million in total tax revenues to the City. These funds relieve the burden on taxpayers and are used to pay for essential services like fire and police protection, street, park, beach maintenance, library and recreation services to name a few.

Even if the annual $12.6 million taxpayer-approved bond payment to fund the expansion, the $3.4 million investment used for marketing, promotion and/or capital projects and the $1 million for de-watering expenses are taken into account, the city nets $5.1 million or a 30 percent return on investment for San Diegans from this tax revenue. We are proud to be a contributor to our city and our community through the work we do.

Our purpose is to be the premier gathering space for conventions, tradeshows, events and community activities. Our promise under my administration is to provide excellent customer service so that our clients and visitors continue to return and invest further in our local economy. We are committed to collaboration and operating with transparency and integrety at all times.

THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: January 9, 2016

TO: Eduardo Luna, City Auditor

FROM: Scott Chadwick, Chief Operating Officer

SUBJECT: Management Response to the San Diego Convention Center Performance Audit

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This memorandum is in response to the audit recommendations within the San Diego Convention Center Performance Audit. We would like to thank the Office of the City Auditor's staff for their work and efforts on this performance audit.

Recommendation 4:
The City of San Diego Chief Operating Officer or designee should continue discussions with the Unified Port of San Diego to develop a financing plan that addresses the capital projects funding gap and recognizes the shared responsibility and benefit to the region. (Priority 2)

Management Response:
Agree. The City of San Diego will continue negotiations with the Unified Port of San Diego to identify additional revenue and use these funds for the sole purpose of addressing capital project needs at the Convention Center. Additionally, we will continue to consult with the Convention Center staff to apprise them of the status of these negotiations.

Target Implementation Date: December 2017

Scott Chadwick
Chief Operating Officer

SC

cc: Stephen Puetz, Chief of Staff, Office of the Mayor
Stacey LoMedico, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Rolando Charvel, City Comptroller
Mike Hansen, Deputy Chief of Staff, Office of the Mayor
Marshall Anderson, Director of Council Affairs, Office of the Mayor