



THE CITY OF SAN DIEGO

DATE: August 21, 2012

TO: Carol Wallace, President and Chief Executive Officer
San Diego Convention Center Corporation

FROM: Eduardo Luna, City Auditor

SUBJECT: **Hotline Investigation Report of San Diego Convention Center Statistic Reporting**

The Office of the City Auditor received a Fraud Hotline complaint on December 16, 2011 that alleged that the San Diego Convention Center Corporation (SDCCC) has been misstating the number of hotel room accommodations for conventions in their public reports in order to favorably portray the economic impact of the Convention Center and to justify the proposed approximate \$550 million expansion. The complainant stated that the facts of the misstatement of hotel room-nights were published in a print and digital media article.

We found that the allegation that the SDCCC has misstated the actual hotel-room night totals to be substantiated. Specifically, we found that the Transient Occupancy Tax (TOT) and Total Tax Revenue statistics were based on attendance and spending per attendee averages, as opposed to actual hotel room-night figures. The SDCCC used attendance and spending per attendee averages to forecast and report economic impact statistics and hotel and sales taxes generated by events at the Convention Center.

Fraud Hotline Investigation:

The investigation examined figures that were published in the SDCCC's Forecasts for Fiscal Years 2008 through 2012; SDCCC's Annual Reports for Fiscal Years 2009 and 2010; and figures reported in a document titled "Refined Analysis of Additional Business Capture Derived from a Potential Expansion of the San Diego Convention Center," dated November 15, 2010 and prepared by AECOM (AECOM Report). Forecasts are published for the calendar year, and annual reports are published for the fiscal year (July 1 through June 30).

The SDCCC Forecasts for 2008 through 2012 identified 339 events (conventions and trade shows) that were estimated to bring out-of-town visitors to San Diego. A sample



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of 37 events held at the Convention Center for 30 clients were selected to examine source documents that verified the number of actual attendees and the number of contracted and actual hotel room-nights published in the Forecasts, Annual Reports, and/or AECOM Report for the 37 events.

A review of the source documentation provided by SDCCC staff indicated that a high percentage of the attendance and hotel room-night statistics were based on verbal conversations and/or historical client records with no documentary evidence supporting the published figure. In order to test the verbally-obtained statistics, we selected a sample of 10 Convention Center events to directly contact the client to obtain the actual event attendance and hotel room-night data.

The documentation provided by these 10 clients indicated that the attendance figures reported in the SDCCC Annual Reports were accurate and that SDCCC may have actually underreported actual attendance. SDCCC's Annual Reports reported attendance for the 10 events at 127,878 when confirmation from the clients themselves indicated attendance of 133,433. However, the documentation obtained did also indicate that the hotel room-night figures were overstated for the 10 events by approximately 29 percent. SDCCC's Annual Reports reported 281,903 hotel room-nights for the 10 events when confirmation from the 10 clients indicated 200,550 hotel room-nights.

Hotel Room-Nights

Convention Center staff explained that the tracking and compiling of accurate data on hotel room-nights is complex due to the wide variance between "contracted" block room-nights and the actual room-nights utilized by Convention Center attendees. The staff also indicated that studies have determined that the "out-of-block" room-nights may account for between 30-50 percent of the actual contracted room nights. The convention staff explained that although hotel room-nights are reported in forecasts and annual reports, the calculations for direct attendee spending, hotel taxes, total taxes, and total economic impact is based entirely on the event's attendance.

Spending Per Attendee

The SDCCC utilized a consultant, CIC Research of San Diego (CIC), to conduct visitor interviews with primary convention attendees along with other visitors to San Diego County during the years 2005 through 2008. For calendar years 2009 and 2010, CIC provided SDCCC with updated adjustment factors to the prior years' studies on attendee spending.

Based on CIC data, average attendee spending totaled \$1,609 in 2009, of which \$672 was for lodging, and averaged \$1,382 in 2010, of which \$469 was for lodging.

Calculation of Spending, Taxes, and Economic Impact

SDCCC staff utilized event attendance and the spending per attendee factor to calculate a “Direct Attendee Spending” (DAS) amount for each event and then calculated the hotel and total tax portion of the DAS. The hotel tax, or Transit Occupancy Tax (TOT), rate in San Diego is 10.5 percent. Therefore, 10.5 percent (or approximately \$63.86) of the \$672 spending per attendee total for lodging was attributable to TOT.

For example, an event held in July 2009 reported attendance of 16,014. Using the spending per attendee factor of \$1,609, the event generated DAS of \$25,766,526. The portion of DAS attributable to lodging is \$672 per attendee or \$10,761,408 and the TOT attributable to \$10,761,408 is \$1,022,577. A similar formula is used to determine sales taxes.

An industry standard of 2.4 times DAS is used to determine economic impact. A study¹ conducted by CIC, focused primarily on convention and tradeshow events hosted by SDCCC in FY 2002, determined that these events generated an economic impact factor of visitor spending that was 2.4 times the amount of DAS.

SDCCC currently has a consultant conducting an extensive and thorough study to determine a current economic impact factor.

Conclusions and Recommendations

The investigation determined that SDCCC misstated hotel room-night statistics in its annual reports and AECOM Report. The misstatements do not appear to be made with the intention of falsification of hotel or sales tax revenue but rather caused by unaudited and/or unverified figures from SDCCC’s clients. The attendance figures were, however, found to be more accurate and the statistics based on attendance figures tend to represent good-faith estimates of tax revenues and economic impact based on calculation factors provided by a consultant.

Any discrepancy in published figures for attendance and/or hotel room-nights casts doubt on the veracity of all statistics reported. Therefore, based on the observations made during the investigation of this complaint, we make the following recommendations to the SDCCC regarding the publishing of their forecasts, annual reports, and studies prepared by consultants that utilize attendance and hotel room-night figures in their analysis.

1. We recommend that any post-event attendance or hotel room-night figure that does not have a source document from the client verifying the statistic published be marked as an estimated figure.
2. We recommend that sections be added to forecasts and annual reports that describe the calculations for direct attendee spending, hotel tax and total tax

¹ The City Auditor did not complete any data verification testing on this study, “The Economic and Fiscal Impacts of the San Diego Convention Center,” dated October 9, 2002 and prepared by CIC Research, Inc.

revenues, and economic impact. It should be made clear that these totals are calculated from direct attendee spending and all assumptions and formulas be disclosed.

San Diego Convention Center Corporation Response:

In response to the Hotline Investigation Report of the San Diego Convention Center's Statistical Reporting, the San Diego Convention Center Corporation (SDCCC) accepts and understands the recommendations of the auditor's report.

SDCCC uses the most accurate information provided by its clients on hotel room night totals and does not intend to be misleading with any reported statistics. SDCCC will comply with the recommendations made by the City of San Diego Auditor to all future studies, reports and publications.

SDCCC appreciates the attention brought to these matters and is readily willing to comply with the stated recommendations in an effort to make the Corporation's practices more transparent to the local San Diego community and industry.

Below you will find SDCCC's response to both recommendations made by the auditor in his August 2012 report.

1. Recommendation by City Auditor:

"We recommend that any post-event attendance or hotel room night figure that does not have a source document from the client verifying the statistic published be marked as an estimated figure."

In response, with hotel room night figures currently being based on client's best estimations, SDCCC will comply with the recommendation by noting all post-event attendance and hotel room night figures as estimations, unless otherwise documented. This includes all future studies, reports and publications generated by SDCCC.

2. Recommendation by City Auditor:

"We recommend that sections be added to forecasts and annual reports that describe the calculations for direct attendee spending, hotel tax, and total tax revenues, and economic impact. It should be made clear that these totals are calculated from direct attendee spending and all assumptions and formulas be disclosed."

In response, based on confirmed statistics, the figures provided in the stated reports are correct and related data is available for review. SDCCC acknowledges and understands the need to include a descriptive for clarification and will include a summary of the methodology of calculations moving forward. This includes all future studies, reports and publications generated by SDCCC.

We appreciate the assistance we received from the San Diego Convention Center Corporation during our investigation. Thank you for taking action on this issue. Please contact me if you have any questions.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna". The signature is written in a cursive, flowing style.

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable Members of the City Council
Honorable Members of the Audit Committee
Jay M. Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst