



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** July 25, 2013

**IBA Report Number:** 13-31

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# Review of the FY 13 Performance Overview Report for the San Diego Convention Center

## OVERVIEW

On March 20, 2012, the City Council approved the First Addendum (Addendum) to the Third Amended and Restated Management Agreement between the City and the San Diego Convention Center Corporation (SDCCC). The Addendum allowed SDCCC to contract with a third party for sales, marketing and promotion obligations for long-term events, defined as those booked more than 18 months in advance. There was an interest, supported by the SDCCC Board, to have SDCCC outsource their long-term sales, marketing and promotion to CONVIS (now the San Diego Tourism Authority or SDTA). Short term events, defined as those booked within 18 months, remained the responsibility of SDCCC staff.

On July 10, 2012, the City Council approved the Sales and Marketing Service Contract between SDCCC and the SDTA. This contract assigned responsibility for sales, marketing and promotion of long-term events to SDTA for an initial term of four years (through June 30, 2016) with options for two-year extension terms. Given Council's interest to stay apprised of SDTA's performance with respect to the assigned responsibility for long-term marketing, the IBA recommended the contract require semiannual performance reports be provided to the Rules & Economic Development (R&ED) Committee and the City Council.

The first semiannual performance report was a PowerPoint presentation made to the R&ED Committee on April 24, 2013. Following the report, the Committee expressed concern about 1) SDTA's lack of a long-term sales and marketing plan as required by the Contract and 2) testimony by Joe Terzi (President & CEO of SDTA) that SDTA might not be able to meet their primary performance goal of 860,000 room nights in FY 2013 (SDTA had only achieved 46% of this goal through the first three quarters of FY 2013).

The Committee requested that written performance reports be developed for the City Council going forward in addition to a PowerPoint presentation. Additionally, the Committee requested the IBA review the marketing contract between SDCCC and SDTA to suggest additional performance measures that could be included in the written performance report. The IBA worked with the R&ED Committee Consultant to convey suggestions for inclusion into the report on May 3, 2013.

In response to the Committee's direction, SDCCC and SDTA have submitted a comprehensive FY 13 Year-End Performance Overview Report (FY 13 Performance Report) for discussion at the Council meeting on July 30<sup>th</sup>. This report comments on the marketing plans and performance measures, and also discusses significant SDCCC budget related issues raised in the FY 13 Performance Report.

## FISCAL/POLICY DISCUSSION

### Long-Term Sales and Marketing Plan

The Scope of Work section of the Sales and Marketing Service Contract requires SDTA to:

“Develop and implement a comprehensive long term sales and marketing plan to promote, market, advertise, and publicize the Center to conventions, trade shows, conferences and other events that will seek to maximize hotel room night generation from the destination, produce economic benefit to the region, and maximize operating revenue for the Convention Center.”

SDTA is further required to annually present the sales and marketing plan to SDCCC's Sales and Marketing Committee for approval. At the R&ED Committee meeting on April 24<sup>th</sup>, SDTA had yet to develop such a plan. Mr. Terzi explained that SDTA had been focused on initial staff transition and was otherwise trying to better understand if they were to be marketing the existing or expanded Convention Center facility going forward. This response created concern for some of the Committee members at the time. A 5-Year Long-Term Sales and Marketing Plan has now been developed and is provided in Appendix B of the FY 13 Performance Report.

As stated in the Executive Overview, the 5-Year Long-Term Sales and Marketing Plan is focused on maximizing the room nights and revenue generated for the Convention Center. The Plan is comprised of six key objectives, each with associated strategies and measurements. The six key objectives are:

1. Maximize Destination Hotel Room Night Production
2. Secure Facility Revenue
3. Focus on the Open Dates within the next ten years
4. Develop New Accounts
5. Secure Medical Citywide Rotations
6. Leverage SDTA Sales Team Synergies

### Short-Term Sales and Marketing Plan

SDCCC staff continues to be responsible for soliciting and booking Convention Center events in the near term (within 18 months.) SDCCC's Short-Term Sales and Marketing Plan is provided in Appendix C of the FY 13 Performance Report. The Short-Term Marketing Plan has the following five objectives with associated strategies and measurements:

1. Maximize Short-Term Revenue Opportunities for SDCCC.
2. Generate incremental hotel room night for the destination as a result of SDCCC short-term booking activity.
3. Closely monitor and evaluate short-term staffing deployment and expenses to maintain maximum ROI and cost savings for the SDCCC.
4. Leverage existing SDCCC stakeholder relationships to help generate more booking opportunities from local organizations, with which SDCCC stakeholders are closely aligned.
5. Generate new short-term booking opportunities for SDCCC sales team within 18 months, through prospecting and market analysis.

#### FY 2013 Performance Goals and Results

SDTA's primary performance goal is room night bookings attributable to events at the Convention Center. Long-term (SDTA) and short-term (SDCCC) room night booking goals are stipulated on page 1 of Exhibit B (Booking Guidelines) to the Sales and Marketing Service Contract. SDTA's long-term marketing goal for FY 2013 was 860,000 room nights. SDCCC's short-term marketing goal for FY 2013 was 40,000 room nights.

As noted above, when SDTA reported results to the R&ED Committee in April, they had only achieved 46% of their goal (377,265 room nights) through the first three quarters of FY 2013 which raised Committee concern about performance. Mr. Terzi informed the R&ED Committee that while he was not certain the 860,000 goal could be met in FY 2013, the last quarter of the fiscal year typically yields the greatest production. Page 8 of the FY 13 Performance Report shows that SDTA had a very strong final quarter increasing room nights booked from 377,265 to 813,662, or 95% of their performance goal. Mr. Terzi informed the IBA that the strong final quarter was not unusual given historical event booking patterns.

To their credit, SDCCC staff exceeded their short-term marketing goal of 40,000 room nights by 9,923 or 25%. In the aggregate, SDTA combined with SDCCC to book 863,585 room nights or approximately 96% of the 900,000 goal for FY 2013.

#### SDTA Contract Performance and Challenges Going Forward

Despite a slow start, SDTA finished strong to achieve 95% of their long-term room night booking goal. When the long-term marketing contract with SDTA was initially proposed, a concern shared with the IBA was that SDTA might increase the use of rental discounts to book events at the expense of SDCCC revenue. The chart on page 16 of FY 13 Performance Report shows that while rental discounts did increase by approximately \$457,000 (from \$5.49 million in FY 2012 to \$5.94 million in FY 2013), there was an offsetting increase of \$1.4 million in food and beverage commitments (from \$18.54 million in FY 2012 to \$19.98 million in FY 2013). As approximately 35% of the additional \$1.4 million food and beverage commitment (\$490,000) is new revenue for SDCCC, the increased use of facility rent discounts in FY 2013 was more than offset by additional food and beverage revenue for SDCCC.

It is important to note that the long-term events booked by SDTA in FY 2013 are the sum total of event commitments made over the next 10+ fiscal years. This is illustrated by the orange portion of the bar chart on the top of page 13 in FY 13 Performance Report. With the expanded Convention Center facility expected to be open by 2018, it is important that the City not book too many smaller events into the current facility in future years. This is because the larger goal is to attract premier, top-tier conventions (typically in the medical category) given their favorable economic and participant demographics for the City.

These premier conventions will typically book all, or a significant portion of, the expanded Convention Center facility. When asked about the go-forward sustainability of the 860,000 room night long-term booking goal, Mr. Terzi indicated the goal would be a challenge if the primary strategy is to attract premier, top-tier conventions for the expanded Convention Center beginning in 2018. Mr. Terzi indicated he planned to request that SDCCC's Sales and Marketing Committee consider reducing the annual room night booking goal in order to preserve Convention Center capacity to facilitate the ability to attract premier, top-tier conventions.

#### Significant SDCCC Budget Related Issues

At the R&ED Committee meeting on April 24<sup>th</sup>, the Committee requested SDCCC return to Council in July with a written performance report that addressed budget-related performance measures in addition to marketing performance. Specifically, the Committee requested discussion of operational revenues, reserve fund levels, maintenance needs, and the operating subsidy provided by the City's General Fund. SDCCC has included information relating to these issues in the FY 13 Performance Report.

The IBA raised the above budget-related issues during the FY 2013 and FY 2014 City Council budget hearings for SDCCC. Most notably, we highlighted the depletion of SDCCC's operating reserve to fund Phase III Convention Center Expansion activities and the \$31.1 million list of deferred capital maintenance and equipment needs. These issues are more fully discussed in the Issues to Consider section of the IBA's Overview of SDCCC's FY 2014 Budget presented at the Budget Hearing on May 9, 2013 (Attachment 1).

SDCCC provides a history of the City's prior practice of using TOT funding to support Convention Center marketing and operations on page 23 of the FY 13 Performance Report. The background of the current General Fund operating subsidy is presented on pages 23-24. Depletion of the operating reserve is shown on pages 24-25. Finally, maintenance and capital funding needs are discussed on pages 25-27.

The budget and infrastructure challenges for SDCCC are significant and will require time/effort to address. In the IBA's Overview of SDCCC's FY 2014 Budget, we recommended the City Council direct the SDCCC Board and their President & CEO to work independently, and then with City staff, to develop an implementable five-year plan of finance to begin to address the \$31.1 million backlog of deferred capital maintenance and equipment needs. We suggested deferred capital maintenance and equipment items should be carefully re-evaluated to ensure that only the most critical needs are identified and prioritized. Citing the critical need to use all available funds to begin to reestablish an operating reserve and reduce the significant deferred maintenance backlog for this important public facility, the IBA further recommended the City maintain the annual subsidy to SDCCC at its current level.

On pages 29-31, SDCCC staff has identified several "Policy Options" the Council could consider as a means of helping SDCCC begin to address their budgetary and capital challenges. Of the five policy options suggested, the IBA believes some of these options (particularly 1, 2 and 5) are feasible and may warrant further discussion/consideration. Additionally, the IBA recommends the SDCCC Board revisit the Fiscal and Organizational Analysis Audit concluded in December 2012 to determine if the resulting suggestions for reducing operating costs can be implemented. The Fiscal and Organizational Analysis Audit identified potential savings ranging from \$983,000 to \$1.7 million annually.


## CONCLUSION

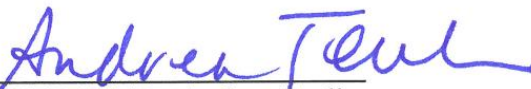
In response to direction from the R&ED Committee on April 24, 2013, SDCCC has submitted a comprehensive FY 13 Performance Report for discussion at the Council meeting on July 30<sup>th</sup>. Although initially intended to provide semi-annual performance updates on SDTA's long-term marketing efforts and SDCCC's short-term marketing efforts, the FY 13 Performance Report additionally discusses significant budget-related issues that need to be addressed in the near future. The IBA believes the FY 13 Performance Report is responsive to the Committee's direction.

The primary long-term marketing performance goal for the SDTA is room night bookings attributable to events at the Convention Center. The SDTA had a strong final quarter increasing room nights booked from 377,265 through the first three quarters of FY 2013 to finish the fiscal year with 813,662, or 95% of their 860,000 performance goal. SDCCC staff exceeded their short-term marketing goal of 40,000 room nights by 9,923 or 25%. In the aggregate, SDTA combined with SDCCC to book 863,585 room nights or approximately 96% of the 900,000 goal for FY 2013.

The IBA discussed the sustainability of the total 900,000 room night goal going forward with SDCCC and SDTA representatives. Mr. Terzi explained that the 900,000 room night goal may be a challenge if the primary marketing strategy is focused on attracting premier, top-tier conventions to an expanded Convention Center beginning in 2018. The IBA recommends the City Council ask SDCCC and SDTA representatives about future room night booking goals as they relate to the planned long-term marketing strategy.

Finally, at the request of the R&ED Committee and in response to comments received at the City Council FY 2014 budget hearing on May 9<sup>th</sup>, the FY 13 Performance Report discusses significant SDCCC budget issues including a fully depleted reserve fund, the need for an ongoing operating subsidy from the City and a \$31.1 million list of deferred capital maintenance and equipment needs. SDCCC staff identifies five "Policy Options" for the City Council to consider as part of the FY 13 Performance Report. The IBA believes these Policy Options warrant further consideration in the interest protecting the City's investment in the Convention Center and ensuring its ongoing marketability. We additionally recommend the Council request the SDCCC Board to revisit the Fiscal and Organizational Analysis Audit concluded in December 2012 in an effort to reduce operating costs to help address their significant budgetary challenges.

  
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Deputy Director

  
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Attachment: 1. IBA Overview of SDCCC's FY 2014 Budget presented at the Budget Hearing on May 9, 2013