



COUNCIL PRESIDENT SHERRI S. LIGHTNER

CITY OF SAN DIEGO

October 6, 2015

Judge David J. Danielsen
Presiding Judge
San Diego Superior Court
220 West Broadway
San Diego, CA 92101

Re: Grand Jury Report: "San Diego Convention Center Corporation"

Dear Judge Danielsen:

Pursuant to California Penal Code Section 933.05(a),(b) and (c), the City of San Diego provides the attached response from the Mayor and City Council to the applicable findings and recommendations included in the above referenced Grand Jury Report.

If you require additional information or have any questions, please do not hesitate to contact Diana Jurado-Sainz, Director of Legislative Affairs, at 619-533-3920.

Sincerely,

Sherri Lightner
Council President
City of San Diego

Encl: City Council Resolution R- 309993
IBA Report Number 15-31 AMENDED



RESOLUTION NUMBER R- 309962

DATE OF FINAL PASSAGE SEP 14 2015

APPROVING THE CITY COUNCIL'S RESPONSE TO THE
2014-2015 SAN DIEGO COUNTY GRAND JURY REPORT
TITLED "SAN DIEGO CONVENTION CENTER
CORPORATION."

WHEREAS, on May 19, 2015, the 2014-2015 San Diego County Grand Jury (Grand Jury) filed a report titled "San Diego Convention Center Corporation" (Report) that requested a response from the City Council (Council) and Mayor, along with responses from the Board of Directors of the San Diego Convention Center and the Chief Executive Officer and President of the San Diego Convention Center; and

WHEREAS, the Report discusses a number of financial and contractual issues related to the San Diego Convention Center's operations; and

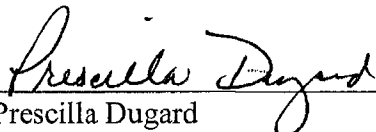
WHEREAS, the Report includes six findings and seven recommendations directed to the Council and Mayor, with three other recommendations directed to the Board of Directors and Chief Executive Officer and President of the San Diego Convention Center; and

WHEREAS, under California Penal Code section 933(c), within 90 days after the filing of the report, each public agency which the Grand Jury reviewed, and about which it issued the Report, must comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency; and

WHEREAS, the comments required from the Council and Mayor are due to the Presiding Judge of the Superior Court on October 16, 2015, as the City requested and received an extension of time to respond, due to the Council's legislative recess in August; and

BE IT FURTHER RESOLVED, that the Council President is authorized and directed, on behalf of the San Diego City Council, to execute and deliver the above-described response to the Presiding Judge of the San Diego County Superior Court no later than October 16, 2015.

APPROVED: JAN I. GOLDSMITH, City Attorney

By 
Prescilla Dugard
Chief Deputy City Attorney

SBS:PMD:jdf
08/10/2015
Or.Dept: IBA
Doc. No.: 1078901

**City Response to
San Diego County Grand Jury Report Entitled
“SAN DIEGO CONVENTION CENTER CORPORATION”**

Pursuant to California Penal Code Section 933(c), the City of San Diego provides the following responses to the findings and recommendations included in the above referenced Grand Jury Report:

FINDINGS 01 THROUGH 06

Below are the Mayor and City Council’s responses to Findings 01 through 06:

Finding 01: *The Management Agreement between the City and the San Diego Convention Center Corporation is not sufficiently clear in defining responsibilities with respect to financial expenditures.*

Response: The Mayor and City Council disagree with the Grand Jury’s finding.

As noted in the Grand Jury Report, the San Diego Convention Center Corporation (SDCCC) was created as a not-for-profit public benefit corporation to operate, maintain, market and promote the San Diego Convention Center (Center). The City provides significant direction for the corporation through its Bylaws which were recently amended and restated to incorporate a number of policies including some related to financial documents and public disclosure.

The Management Agreement provides that SDCCC “adopt and implement appropriate fiscal policies for the management and operation” of the Convention Center, as well as procure goods and services and enter into contracts for the management of the Center. SDCCC is further required to maintain the building, furniture, fixtures and equipment and may also finance and construct capital improvements. The Management Agreement allows SDCCC to fund capital projects using excess revenue when available.

Furthermore, the Management Agreement requires SDCCC to “project and request an allocation of City funding to be solely used for marketing, promotion and/or capital projects for the Center in an amount sufficient to ensure its ability to perform its obligations.” This request is to be made during the City’s annual budget process. The City’s annual support allocation to SDCCC contemplates this request and takes into consideration competing City priorities.

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Finding 02: *The reserve threshold of 14% of operating budget may be appropriate for the City but is not necessarily appropriate for the San Diego Convention Center Corporation.*

Response: **The Mayor and City Council agree with the Grand Jury’s finding.**

While a 14% reserve is a responsible goal, it may be larger than necessary when considering SDCCC’s fiscal operating history and competing capital needs. The City’s CFO and the Independent Budget Analyst will meet with SDCCC’s CFO in order to establish a more reasonable reserve threshold.

Finding 03: *Integrating the Convention Center’s bondable capital improvement projects into the City’s Capital Improvement Program would be beneficial to the San Diego Convention Center Corporation.*

Response: **The Mayor and City Council partially disagree with the Grand Jury’s finding.**

Given that responsibility for the Center is shared among SDCCC, the City, and the Port Authority, it would not be reasonable for the City to assume full responsibility for the Center’s identified capital improvements. The source of funding for any major Capital Improvements Program (CIP) project at the Center will be included in discussions for revising and updating the Management Agreement between the City and the Port Authority. In addition, SDCCC has the responsibility to maintain the facility, and receives annual funding from the City that can be used for this purpose. Projects can be booked as an expense of the Center, and can either be cash funded through SDCCC’s operating budget or, alternatively, financed by SDCCC. After establishing an appropriate reserve, SDCCC’s excess revenue can, and should, be used to address capital needs at the Center.

Finding 04: *An independent analysis is needed to determine whether the dual booking system is effective.*

Response: **The Mayor and City Council partially disagree with the Grand Jury’s finding.**

While an independent analysis of the effectiveness of the current dual booking system could provide the City with additional information before the San Diego Tourism Authority contract expires in 2016, the City Council’s Economic Development and Intergovernmental Relations Committee has received room night results (and related information) semi-annually as required since the inception of the 2012 long-term

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marketing contract. In lieu of an independent analysis, the City could alternatively compare marketing results before and after the dual booking system was initiated and before the contract expires in 2016.

Finding 05: *The budget and other publications of the San Diego Convention Center Corporation would be more transparent if they included all of the City’s financial contributions on behalf of the Center.*

Response: **The Mayor and City Council agree with the Grand Jury’s finding.**

See response to Recommendation 15-18.

Finding 06: *The credibility of the Corporation’s economic forecasts would be enhanced by reporting the mathematical formulas used to compute the economic indicators.*

Response: **The Mayor and City Council agree with the Grand Jury’s finding.**

With respect to reported economic impact figures, we agree that SDCCC should note the source of data, industry related assumptions and the mathematical formulas (where appropriate).

RECOMMENDATIONS 15-14 THROUGH 15-20

Below are the Mayor and City Council’s responses to Recommendations 15-14 through 15-20, which were directed to the Mayor and City Council:

Recommendation 15-14: *Amend the Management Agreement with the San Diego Convention Center Corporation to include the same City Council oversight for financial and budgetary matters, such as review and approval of the annual budget, as it gives to City Departments.*

Response: **The recommendation will not be implemented because it is not warranted.**

As prescribed in SDCCC’s Bylaws, the City maintains oversight for financial and budgetary matters in the following manner: monthly financial statements are to be provided to the City’s CFO; an annual audit is required to be provided to the City Comptroller and the City Council; and SDCCC’s accounting and financial books and records may be reviewed by the City upon demand. Additionally, the Management Agreement requires SDCCC to annually submit to the City a five-year financial forecast, the annual audit, and if the City requests, salary and wage information, employee business expense policies and a related statement of actual expenditures.

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In addition to periodic budget-related updates to the City's Budget and Government Efficiency Committee, the City Council annually reviews and comments on SDCCC's operating budget during the City's annual budget hearings. The Council's review is supplemented by independent reviews of SDCCC's operating budget presented by the Office of the Independent Budget Analyst and the Financial Management Department. However, SDCCC is a separate corporate entity with which the City contracts to run and maintain the Center. As such, the City Council typically asks questions and provides feedback in analyzing the SDCCC operating budget, but does not take action to approve it.

Recommendation 15-15: *Amend the Management Agreement with the San Diego Convention Center Corporation to include specific language which clearly delineates between expenditures for which the City is responsible and expenditures for which the Corporation is responsible, especially expenditures related to a potential Phase III Expansion.*

Response: The recommendation will not be implemented because it is not warranted.

As outlined in the response to Finding 01, the City believes there is sufficient expenditure responsibility detail in the SDCCC Bylaws and the Management Agreement. The Management Agreement allows SDCCC to use excess revenue for capital projects. Alternatively, SDCCC can pursue other strategies (including naming rights revenue and low interest loans) to address capital needs. It is important to note that 1) the City makes an annual support allocation to SDCCC that can be used for capital projects and 2) the Management Agreement does not preclude the City from making contributions for capital improvements. The availability of City funding for Center capital projects is evaluated on a case-by-case basis and determined, in part, by considering competing infrastructure needs in the City.

Recommendation 15-16: *Amend the Management Agreement with the San Diego Convention Center Corporation to include a requirement that the Convention Center Corporation report at least semi-annually to an appropriate Council Committee.*

Response: The recommendation will not be implemented because it is not warranted.

In recent years, the City Council has been proactive in requesting and reviewing SDCCC reports/updates related to budgeting, marketing and capital needs. Three City Council Committees regularly request and receive reports from SDCCC management. First, semi-annual marketing updates are required to be presented to the Economic

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Development and Intergovernmental Relations Committee per Council resolution. Second, in addition to the Council's annual review of SDCCC's operating budget, the Budget and Government Efficiency Committee requests periodic budget related updates as needed. Lastly, the Council's Infrastructure Committee has requested reports on SDCCC's capital project needs and challenges.

Recommendation 15-17: *Direct the City of San Diego's Chief Financial Officer to meet with the San Diego Convention Center Corporation Chief Financial Officer to establish a mutually negotiated reserve threshold.*

Response: The recommendation has been implemented.

While a 14% reserve is a responsible goal, it may be larger than necessary when considering SDCCC's fiscal operating history and competing capital needs. The City's CFO has met with the Convention Center Corporation's CFO and discussed SDCCC's current reserve threshold. Going forward, the City's CFO and the Independent Budget Analyst will meet with SDCCC's CFO in order to establish a more reasonable reserve threshold.

Recommendation 15-18: *In the interest of transparency, mandate that the San Diego Convention Center's Annual Budget include all payments made by the City, including payments for dewatering and for the Phase II Expansion bond debt service as income and expenditures, where applicable. Or alternatively: Make that information conspicuously available in its publications and its website.*

Response: The recommendation has not yet been implemented, but will be implemented in the future.

The City expects openness and transparency and will examine the most effective means to ensure that financial information is conspicuously available in SDCCC's publications and website. After discussing this recommendation with SDCCC staff, it is our understanding that SDCCC will be modifying its website to provide a link to the City's budget pages for debt service on the Phase II Expansion Bonds, annual de-watering expense and other miscellaneous expenses. While relevant to the Center, these City expenses are appropriately not included in SDCCC's annual operating budget.

Recommendation 15-19: *Integrate major bondable capital improvement projects of the Convention Center into the City's capital improvement program.*

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Response: The recommendation will not be implemented because it is not warranted.

As stated in the response to Finding 03, given that responsibility for the Center is shared among SDCCC, the City, and the Port Authority, it would not be reasonable for the City to assume full responsibility for the Center’s identified capital improvements. The source of funding for any major CIP project at the Center will be included in discussions for revising and updating the Management Agreement between the City and the Port Authority. Additionally, SDCCC should be pursuing reasonable opportunities to help address their capital needs (e.g., naming rights or low-interest State loans). SDCCC can also use excess revenue when available to help address capital improvement projects.

The City has numerous identified capital needs that have yet to be incorporated into the CIP because of a lack of funding or insufficient staff capacity to manage the project. The availability of City funding for Center capital projects is evaluated on a case-by-case basis and determined, in part, by considering competing infrastructure needs in the City.

Recommendation 15-20: *Commission a study by the Department of Performance Analytics and the Independent Budget Analyst to explore other methods of governance for the management of the San Diego Convention Center, such as outsourcing to a private management company, and evaluating the effectiveness of the dual booking system.*

Response: The recommendation has not yet been implemented, but will be implemented in the future.

The Office of the Independent Budget Analyst will work with the appropriate Mayoral Department to review other methods of governance for convention centers. With respect to the effectiveness of the dual booking system, see response to Finding 04.