



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item: TBD

Review of City Agencies FY 2025 Budgets: San Diego Convention Center Corporation

The IBA has reviewed the San Diego Convention Center Corporation budget, which is scheduled to be heard Tuesday May 7th, 2024. Our review is attached.

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Baku Patel
Senior Fiscal and Policy Analyst

Handwritten signature of Charles Modica in blue ink.

APPROVED: Charles Modica
Independent Budget Analyst

City Agencies: Convention Center

Convention Center

San Diego Convention Center Corporation Overview

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

SDCCC's stated purpose is the following: "The San Diego Convention Center is the region's premier gathering place, hosting conventions, trade shows, and community events that economically benefit the City of San Diego and advance our convention and tourism industry."

Economic Performance Measures

SDCCC provides operating and economic performance measures to reflect the economic benefits resulting from Convention Center operations. Estimated and projected performance measures for fiscal years 2022 through 2025 are shown in the table below. These projections were updated on April 5, 2024.

For FY 2024, SDCCC anticipates ending the fiscal year hosting a total of 88 events which is a reduction from FY 2023 actuals and the number of events that were assumed in SDCCC's FY 2024 Budget (101 events and

107 events, respectfully). This variance is primarily due to a change in sales approach related to smaller meetings/seminars. In the past, these events had typically been scheduled to fill-in time between larger Citywide events, however, SDCCC is now intentionally declining to book certain types of fill-in events to allow time for more building maintenance. While this has had a nominal impact on SDCCC operating revenues, projected regional economic impact and TOT/Sale Tax revenue to the City is projected to increase.

For FY2025, SDCCC is projected to host 78 events with an estimated attendance of 605,425 from primary convention business. The list includes 48 Citywide events (41 Conventions and 7 Corporate Events) expected to generate an estimated \$1.7 billion in total regional impact.

Overview of the Board Approved FY 2025 Proposed Budget

On March 27, 2024, the SDCCC Board reviewed and approved its budget for FY 2025. A comparison of this budget to SDCCC's FY 2024 operating budget is provided in the Summary of Operating Budget Changes table on the following page.

The FY 2025 expenditure budget for the Convention Center is approximately \$54.6 million, an increase of \$4.5 million or 9.0% over the FY 2024 Budget.

Actual and Forecasted Benefits from Operations ¹	FY 2022 Actual Results	FY 2023 Actual Results	FY 2024 Year-End Estimate	FY 2025 Projected
Regional Economic Impact	\$863 million	\$1.4 billion	\$1.5 billion	\$1.7 billion
Direct Attendee Spending	\$507.8 million	\$804.0 million	\$872.3 million	\$989.8 million
Hotel & Sales Tax Revenue	\$24.1 million	\$29.8 million	\$36.5 million	\$40.2 million
Hotel Room Nights (contracted only)	634,781	715,056	886,244	975,170
Number of Conventions and Events	91	101	88	78
Attendance (Primary Business)	300,000	564,356	518,150	605,425

Source: SDCCC

City Agencies: Convention Center

SUMMARY OF CONVENTION CENTER OPERATING BUDGET CHANGES					
	FY 2024 Budget	FY 2024 Projected	FY 2025 Budget	Increase/ (Decrease)*	Percent Change*
REVENUES AND INFLOWS					
Building Rent (net of rent credits)	\$9,624,410	\$8,276,130	\$8,843,087	(\$781,323)	-8.1%
Food and Beverage	14,834,860	14,344,446	19,173,164	\$4,338,304	29.2%
Event Services	4,321,960	5,319,295	5,252,539	\$930,579	21.5%
Utilities	6,599,980	6,955,568	7,303,320	\$703,340	10.7%
Telecommunications	5,454,420	5,923,801	5,820,085	\$365,665	6.7%
Audio & Visual Services	1,440,340	1,448,008	1,926,343	\$486,003	33.7%
Other Ancillaries	1,043,400	632,241	713,250	(\$330,150)	-31.6%
Other Revenues	7,500	3,750	3,000	(\$4,500)	-60.0%
Non-Operating Revenues	312,100	1,754,100	5,104,100	\$4,792,000	1535.4%
City of San Diego - Marketing	2,734,650	2,734,650	2,816,690	82,040	3%
City of San Diego - Capital Support **	5,000,000	5,000,000	1,183,310	(3,816,690)	-76%
TOTAL REVENUES AND INFLOWS	\$51,373,620	\$52,391,989	\$58,138,888	\$6,765,268	13.2%
OPERATING EXPENSES					
Salaries and Wages - Full Time Staff	\$18,197,199	\$18,657,533	\$20,711,564	\$2,514,365	13.8%
Salaries and Wages - Part Time Staff	5,570,308	5,794,000	5,500,833	(\$69,475)	-1.2%
Fringe Benefits (Health-Pension-Other)	6,565,613	6,402,463	6,730,191	\$164,578	2.5%
Subtotal Personnel Expenses:	\$30,333,120	\$30,853,996	\$32,942,588	\$2,609,468	8.6%
General Expenses	\$2,556,983	\$1,498,966	\$2,394,427	(\$162,556)	-6.4%
Repair and Maintenance	6,084,882	4,679,760	6,157,301	\$72,419	1.2%
Utilities	5,955,000	6,455,000	7,155,000	\$1,200,000	20.2%
Contracted Services	718,840	950,903	1,115,560	\$396,720	55.2%
Travel & Transportation	103,535	99,188	119,430	\$15,895	15.4%
Insurance	763,000	751,646	991,286	\$228,286	29.9%
Telecommunications	92,100	74,850	83,100	(\$9,000)	-9.8%
Sales & Marketing	2,784,440	2,768,708	2,876,545	\$92,105	3.3%
Supplies	689,350	813,199	732,605	\$43,255	6.3%
Subtotal Non-Personnel Expenses:	\$19,748,130	\$18,092,220	\$21,625,254	\$1,877,124	9.5%
TOTAL OPERATING EXPENSES	\$50,081,250	\$48,946,216	\$54,567,842	\$4,486,592	9.0%
NET INCOME (before Debt and Capital Outlay)	\$1,292,370	\$3,445,773	\$3,571,046	\$2,278,676	-83.3%
DEBT SERVICE AND OTHER LEASE OBLIGATIONS					
Interest Expense	\$776,809	\$844,625	\$771,734	(\$5,075)	-0.7%
Loan Administration Fee	\$64,915	\$64,915	\$62,302	(\$2,613)	-4.0%
Principal: Other Leases	\$0	\$541,963	\$594,740	\$594,740	-
Principal: I-Bank Loan	\$842,880	\$842,880	\$873,140	\$30,260	3.6%
TOTAL OBLIGATIONS	\$1,684,604	\$2,294,383	\$2,301,916	\$617,312	-0.3%

* Increase/(Decrease) and Percent Change figures are calculated using budgeted numbers for FY 2024 and FY 2025.

** While \$1.2 million in Capital Support from the City was assumed in SDCCC's FY 2025 Budget, this funding is not included in the Mayor's FY 2025 Proposed Budget.

City Agencies: Convention Center

Personnel Expense

The FY 2025 budget includes total personnel expenses of \$32.9 million, an increase of approximately \$2.6 million or 8.6% from the FY 2024 budget, primarily due to wage adjustments for both represented and non-represented staff.

There are 348.00 FTE positions in the SDCCC FY 2025 Budget, an increase of 5.50 FTE positions compared to the FY 2024 budget. This increase is primarily related to growth in the Corporation's maintenance and capital planning activities that focuses on resource planning, rehabilitation, and replacement projects, as well as general facility maintenance.

Non-Personnel Expenses

Non-Personnel Expenses (NPE) increased by approximately \$1.9 million or 9.5%, from \$19.7 million budgeted in FY 2024 to \$21.6 million in FY 2025. The NPE line items with the most significant year-over-year change are briefly described below:

Utilities: This expense category is increasing by \$1.2 million or 20.2% due to the increased cost of utilities from rate increases.

Contracted Services: The budget for this line item is increasing by \$397,000 or 55.2% for essential building assessment studies and specialized maintenance.

Insurance: This line item is budgeted to increase by \$228,000 or 29.9% due to an increase in property insurance premiums and the reinstatement of excess liability coverage to \$50 million, which had been reduced to \$25 million over the past three years.

Revenue

Budgeted revenue for the Convention Center increases by approximately \$10.5 million or 13.2%, from \$43.6 million in FY 2024 to \$54.1 million in FY 2025. This net year-over-year increase largely results from changes in the following revenue line items:

Food & Beverage: Revenue is budgeted to increase by \$4.3 million or 29.2%, from \$14.8 million in FY 2024 to \$19.2 million in FY 2025. This large increase is related to a shift in marketing strategy resulting in more corporate business with high food and beverage sales.

Net Building Rent: Revenue is expected to decrease by \$781,000 from \$9.6 million in FY 2024 to \$8.8 million in FY 2025. This is attributed to the provision of larger rental credits to clients with substantial food and beverage commitments.

Non-Operating Revenues: This includes revenue that is generated outside of SDCCC main business activities, including bank interest, rebates from recycling initiatives, and incentives paid by in-house partners who operate within the facility. For FY 2025, non-operating revenues are anticipated to increase by \$4.8 million primarily due to a one-time incentive anticipated under a contract extension agreement that is currently being negotiated with one of the Convention Center's in-house contractors. Without this one-time revenue, SDCCC's Budget would reflect a net loss in FY 2025.

PAYMENTS FROM THE CITY OF SAN DIEGO	FY 2024	FY 2025	\$ Change	% Change
SDTA Marketing Agreement	\$ 2,734,650	\$ 2,816,690	\$ 82,040	3.1%
One-time Convention Center Operating Support	5,000,000	-	(5,000,000)	-100.0%
Annual Debt Payment	12,092,175	12,099,510	7,335	>1.0%
Annual Dewatering Fees	1,249,395	1,249,395	-	0.0%
TOTAL CITY PAYMENTS	\$ 21,076,220	\$ 16,165,595	\$ (4,910,625)	-30.7%

City Agencies: Convention Center

Annual City Payments Supporting the Convention Center

City of San Diego Support Payment:

SDCCC’s FY 2025 Budget, as approved in March 2024, assumes \$4.0 million in support payments from the City, including \$2.8 million to cover marketing costs which are past through to the San Diego Tourism Authority (SDTA) and \$1.2 million to support SDCCC’s capital improvement costs; however, the Mayor’s FY 2025 Proposed Budget includes only the \$2.8 million contribution for SDTA marketing. Given that SDCCC plans to fund its FY 2025 capital costs primarily through its operating reserves, the impact associated with this shortfall will be incurred by SDCCC’s reserves (discussed later in this report).

Beyond the \$2.8 million allocated as support payments from the City, there is an additional \$13.3 million in Convention Center related expenses included the Mayor’s FY 2025 Proposed Budget that is discussed below.

Other Convention Center Expenditures in the Mayor’s FY 2025 Proposed Budget

Total funding in the Mayor’s FY 2025 Proposed Budget to support the Convention Center is \$16.2 million. In addition to the \$2.8 million allocated to support SDTA marketing costs, the Proposed Budget includes funding to cover annual debt service for expansion bonds and dewatering payments in support of the Convention Center facility. These payments total \$13.3 million in FY 2025 and are

funded with Transient Occupancy Tax (TOT) revenue and included in the budget for the Convention Center Expansion Administration Fund (see page 142 of Volume II of the FY 2025 Proposed Budget).

The City makes annual debt service payments on the Convention Center Expansion Bonds that were issued in 1998 (these Bonds were subsequently refinanced in 2012). The proceeds of these Bonds were used to double the size of the original Convention Center which opened in 1989. The annual debt service payment for these Bonds is approximately \$12.1 million in FY 2025 and payments will continue at about this level until the bonds mature in FY 2028.

Additionally, the city pays for annual dewatering costs totaling approximately \$1.2 million to remove unwanted groundwater from the Convention Center facility.

SDCCC’s Reserves

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

OPERATING RESERVE ACTIVITY	FY 2023 ACTUALS	FY 2024 FORECAST	FY 2025 BUDGET
Beginning Operating Reserve	\$29,334,619	\$29,162,991	\$21,154,235
+ Net Income	4,078,629	3,445,773	2,387,736
- Debt Service payments	(2,193,043)	(2,294,383)	(2,301,916)
- Capital Outlay (net of debt)	(2,057,214)	(9,160,146)	(8,118,053)
Ending Reserve Balance	\$29,162,991	\$21,154,235	\$13,122,002
Ending Balance Expressed as Reserve Percentage	72%	57%	34%
Minimum Reserve Balance - 8% per policy	\$3,132,124	\$2,992,512	\$3,374,235
Over / (Under) Minimum Reserve Balance	\$26,030,867	\$18,161,723	\$9,747,767

City Agencies: Convention Center

SDCCC is projecting its FY 2024 Ending Reserve Balance to total \$21.2 million, which is \$18.2 million above the 8% reserve minimum balance and \$15.9 million above the 14% reserve target.

For FY 2025, SDCCC’s Board has approved utilizing \$8.0 million of the reserve balance for planned capital expenditures. With this use of reserve balance, and accounting for the reduced amount of support funding from the City, FY 2025 is projected to have an Ending Reserve Balance of \$13.1 million which is \$7.2 million above the 14% reserve target.

Issues to Consider

FY 2025 Capital Expenditures

SDCCC conducted a comprehensive facility condition assessment in FY 2023 which provided a 20-year estimate (FY 2023 through FY 2042) of the facilities CIP needs to address the replacement and modernization of expiring assets. Cost projections in the full 20-Year CIP Needs Assessment total \$404.4 million.

Fiscal Year	Projected Cost
FY 2025	\$ 8,118,053
FY 2026	31,175,642
FY 2027	2,755,000
3-Year CIP Total	\$ 42,048,695

The table above presents SDCCC’s projected annual CIP and Operating Capital Equipment costs over the next three fiscal years. Given current funding limitations, the table reflects SDCCC’s plan to only address critical CIP needs in the near term.

For FY 2025, \$8.1 million of capital expenditures have been identified, and the SDCCC Board has approved utilizing reserve balance to fund those projects which are primarily focused on the following areas:

- \$4.7 million for various electrical improvement projects to maintain existing infrastructure that is original to the building;
- \$1.5 million for various building reconditioning projects for marshal yard land development, office reconfigurations and customer-facing lobby concession renovations;
- \$0.7 million to continue central plant design for a planned replacement expected exceed \$10.0 million in FY 2026.
- \$0.5 million to continue design and development of West building roof replacement. Construction is anticipated to begin in the summer of 2025 with expected completion in FY2026; and
- \$0.7 million for operating and maintenance capital needs (i.e., equipment and technology enhancements).

For FY 2026, \$31.2 million in capital expenditures are anticipated primarily related to replacement of the West Building roof with a solar project (\$18.1 million) and central plant (\$10.0 million). SDCCC staff anticipate seeking various means of financing for these projects that could cover up to \$23.3 million of the overall total. Remaining funding needs for FY 2026 are assumed to be addressed through a combination of SDCCC operating reserves and requests for additional City funding. SDCCC staff currently expects to request \$10 million for FY 2026 for both operating and capital expenditures.

For FY 2027, SDCCC anticipates that its reserves will be able to support \$2.8 million before its Operating Reserve reaches its 8% minimum reserve balance threshold. Absent additional CIP funding support from the City, improvements would be limited primarily to necessary electrical upgrades.

City Agencies: Convention Center

Long-term Funding Plan is Needed

As noted above, SDCCC has revised its capital expenditure plan over the next three years to address critical needs only. All other projects that were identified for this time period in SDCCC's 20-Year CIP Needs Assessment are being deferred to FY 2028 and FY 2029. SDCCC's current estimate for the CIP needs for these two years totals over \$100 million. Considering this and the overall magnitude of needs that are detailed in the 20-Year CIP Needs Assessment, it is clear that the piecemeal funding approach for the facility's near-term capital needs is not sustainable. Furthermore, as projects and necessary maintenance gets deferred, the facility will fall further in disrepair which will likely lead to higher costs for emergency projects when assets fail.

Measure C, if ultimately resolved in the City's favor, could be a viable resource for SDCCC to fund Convention Center Modernization Improvements, however, it is likely to take an additional two to three years before a final judgement is received. Given the uncertainty of when, *or if*, that legal validation will occur, **it is critically important that SDCCC staff work with their Board and the City to develop a long-term funding plan, irrespective of Measure C's outcome, to begin to address the most important capital needs identified in the condition assessment.**

A potential option that the City could consider beginning in FY 2029 is to redirect all, or a portion of, the funding that the City is currently paying towards debt service for the Convention Center Bonds after they are fully repaid. As noted above, the debt service cost to the City amounts to approximately \$12.1 million annually through the date when the bonds mature in FY 2028.

Additionally, the Port of San Diego should also be engaged, as a stakeholder which benefits from the success of the San Diego Convention Center, to see how they can partner

with the City and SDCCC. The Port currently receives lease revenues from the bayfront hotels located adjacent to the Convention Center that is calculated as a percentage of hotel revenue, in addition to all parking revenues generated from the facility's parking garage. As a stakeholder which benefits from the success of the San Diego Convention Center, the Port has a meaningful financial interest in the overall health and condition of the facility.