



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 4, 2023

IBA Report Number: 23-11

Budget Review Committee Date: May 9, 2023

Item: TBD

Review of City Agencies FY 2024 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 9th, 2023. Our review is attached.

Handwritten signature of Nicky Bennett in blue ink.

Nicky Bennett
Associate Fiscal and Policy Analyst

Handwritten signature of Charles Modica in blue ink.

APPROVED: Charles Modica
Independent Budget Analyst

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. The table below shows actual data for FY 2019, FY 2020, FY 2022, and projected data for FY 2023 and FY 2024. There is no reportable data for FY 2021 given that the Convention Center was prohibited from normal operations during the COVID-19 pandemic.

The Convention Center continues its return to pre-pandemic norms as attendance continues

to increase and is projected to surpass pre-pandemic levels of visitors in FY 2024. In FY2023, SDCCC surpassed the record-setting regional economic impact of FY 2019, the last full year of activity before the COVID-19 pandemic.

Since the Convention Center reopened for events in August 2021 (FY 2022), SDCCC economic performance has continued to improve, and staff indicates that demand to hold events is strong and new bookings remain very active. Even though actual attendance has not exceeded pre-pandemic levels, economic impacts have exceeded pre-pandemic levels, largely due to increased customer spending compared to pre-pandemic years and significantly higher hotel room rates.

For FY 2024, improvement in attendance is anticipated to continue and fully recover from pandemic impacts. Even though pre-pandemic levels of activity and operations are projected, the Conventions Center faces increased expenses due to wage increases, price levels, and capital expenditures.

Overview of the Board Approved FY 2024 Proposed Budget

On March 29, 2023, the SDCCC Board reviewed and approved its budget for FY 2024. A comparison of this budget to SDCCC’s FY

Actual and Forecasted Benefits from Operations ¹	FY 2019 Actual Results	FY 2020 Actual Results through 3-11-20	FY 2022 Actual Results	FY 2023 Year-End Estimate	FY 2024 Projected
Regional Economic Impact	\$1.3 billion	\$977.4 million	\$863 million	\$1.4 billion	\$1.7 billion
Direct Attendee Spending	\$755.3 million	\$575.1 million	\$507.8 million	\$859.3 million	\$1.1 billion
Hotel & Sales Tax Revenue	\$29.0 million	\$21.3 million	\$24.1 million	\$32 million	\$39 million
Hotel Room Nights (contracted only)	823,000	513,000	634,781	784,000	961,000
Number of Conventions and Events	143	115	91	129	107
Attendance (Primary Business)	606,000	408,000	300,000	740,000	747,000

¹⁾ No event activity in FY 2021 due to COVID-19 closure.

Source: SDCCC

City Agencies: Convention Center

2023 operating budget is provided in the Summary of Operating Budget Changes table on the following page.

The SDCCC FY 2024 budget includes an overall budget deficit of \$13.7 million. Of this amount, \$6.4 million is the SDCCC's operating loss. The expenditures contributing to the budget deficit include operating expenses, debt service obligations, and capital infrastructure needs, as shown in the table on the next page. The resources utilized to offset these expenditures include operating revenues, city support payments, and reserve balance. The SDCCC Board approved utilizing \$13.7 million in reserve balance to close the overall funding gap for FY 2024.

The FY 2024 expenditure budget for the Convention Center is approximately \$50.1 million, an increase of \$7.6 million or 17.9% over the FY 2023 Budget.

Personnel Expense

The FY 2024 budget includes total personnel expenses of \$30.3 million, an increase of approximately \$4.9 million or 19.1% from the FY 2023 budget, primarily due to wage adjustments for represented staff. Additionally, nearly \$1.3 million of this increase is attributed to the creation of a new department for the coordination of capital improvements and maintenance projects.

There are 342.50 FTE positions in the SDCCC FY 2024 Budget, an increase of 29.50 FTE positions compared to the FY 2023 budget. This increase is driven by the need for pre-pandemic levels of staff. Approximately 59.3% of the 29.50 FTE positions are hourly positions.

Non-Personnel Expenses

Non-Personnel Expenses (NPE) increased by approximately \$2.7 million or 16.1%, from \$17.0 million budgeted in FY 2023 to \$19.8 million in FY 2024. The NPE line items with the most significant year-over-year change are briefly described below:

Utilities: This expense category is increasing by \$1.4 million or 29.6% due to the increased cost of utilities from rate increases.

Repair and Maintenance: This line item is budgeted to increase by \$1.3 million or 26.9%. This increase is primarily related to general building and fire system maintenance costs.

Contracted Services: The budget for this line item is decreasing by \$814,000 or 53.1%. For the previous year (FY2023), there was a contracted facility condition inspection that has now been completed.

Revenue

Budgeted revenue for the Convention Center increases by approximately \$6.5 million or 17.4%, from \$37.2 million in FY 2023 to \$43.6 million in FY 2024. This net year-over-year increase largely results from changes in the following revenue line items:

Food & Beverage: Revenue is budgeted to increase by \$3.2 million or 26.9%, from \$11.8 million in FY 2023 to \$15.0 million in FY 2024. 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 increase by \$658,000 from \$9.0 million in FY 2023 to \$9.6 million in FY 2024. FY 2024 is budgeted to host 107 events, including 62 primary events.

Telecommunications: Budgeted revenue from telecommunications-related commissions increases by \$1.5 million from \$3.9 million in FY 2023 to \$5.5 million in FY 2024. This large increase is related to a shift in marketing strategy resulting in more gaming events with higher demand for technology services.

City Agencies: Convention Center

SUMMARY OF CONVENTION CENTER OPERATING BUDGET CHANGES					
	FY 2023 Budget	FY 2023 Projected	FY 2024 Budget	Increase/ (Decrease)*	Percent Change*
OPERATING REVENUES					
Building Rent (net of rent credits)	\$8,966,390	\$9,395,833	\$9,624,410	\$658,020	7.3%
Food and Beverage	11,790,680	13,093,188	14,959,860	3,169,180	26.9%
Event Services	3,764,740	3,674,432	4,321,960	\$557,220	14.8%
Utilities	6,558,200	6,213,466	6,599,980	\$41,780	0.6%
Telecommunications	3,947,770	5,599,397	5,454,420	\$1,506,650	38.2%
Audio & Visual Services	1,100,220	1,929,667	1,440,340	\$340,120	30.9%
Business Development	876,100	770,062	1,043,400	\$167,300	19.1%
Interest/Investment Income	100,000	20,000	100,000	-	0.0%
Other Revenues	80,260	93,600	94,600	\$14,340	17.9%
TOTAL OPERATING REVENUES	\$37,184,360	\$40,789,645	\$43,638,970	\$6,454,610	17.4%

OPERATING EXPENSES	FY 2023	FY 23 Projected	FY 2024	\$ Change	% Change
Salaries and Wages - Full Time Staff	\$15,289,590	\$15,219,926	\$18,197,199	\$2,907,609	19.0%
Salaries and Wages - Part Time Staff	4,668,190	4,677,903	5,570,308	\$902,118	19.3%
Fringe Benefits (Health-Pension-Other)	5,501,180	5,633,612	6,558,413	\$1,057,233	19.2%
Subtotal Personnel Expenses:	\$25,458,960	\$25,531,441	\$30,325,920	\$4,866,960	19.1%
General Expenses	\$1,978,740	\$1,965,830	\$2,556,983	\$578,243	29.2%
Repair and Maintenance	4,795,260	5,274,277	6,084,883	\$1,289,623	26.9%
Utilities	4,594,560	5,460,000	5,955,000	1,360,440	29.6%
Contracted Services	1,532,520	1,348,634	718,840	(\$813,680)	-53.1%
Travel & Transportation	67,180	80,115	110,735	\$43,555	64.8%
Insurance	683,230	672,798	763,000	\$79,770	11.7%
Telecommunications	59,650	53,372	92,100	\$32,450	54.4%
Sales & Marketing	2,702,310	2,696,227	2,784,440	82,130	3.0%
Supplies	603,400	589,103	689,350	\$85,950	14.2%
Subtotal Non-Personnel Expenses:	\$17,016,850	\$ 18,140,356	\$19,755,331	\$2,738,481	16.1%
TOTAL OPERATING EXPENSES	\$42,475,810	\$43,671,797	\$50,081,251	\$7,605,441	17.9%

NET OPERATING LOSS	(\$5,291,450)	(\$2,882,152)	(\$6,442,281)	(\$1,150,831)	21.7%
---------------------------	----------------------	----------------------	----------------------	----------------------	--------------

DEBT SERVICE OBLIGATIONS	FY 2023	FY 23 Projected	FY 2024	\$ Change	% Change
Interest Expense	\$806,980	\$806,969	\$776,809	(\$30,171)	-3.7%
Loan Administration Fee	67,440	\$67,436	\$64,915	(\$2,525)	-3.7%
Principle: Warehouse Lease	1,650	\$1,650	\$0	(\$1,650)	-100.0%
Principle: I-Bank Loan	813,670	813,670	\$842,880	\$29,210	3.6%
TOTAL DEBT SERVICE OBLIGATION	\$1,689,740	\$1,689,725	\$1,684,604	(\$5,136)	-0.3%

CAPITAL INVESTMENT	FY 2023	FY 23 Projected	FY 2024	\$ Change	% Change
Capital Outlay (CIP)	\$6,910,000	\$1,375,000	\$11,960,000	\$5,050,000	73.1%
Debt Finance Offset (Ibank/Roof)	(\$5,160,000)	-	-	\$5,160,000	-100.0%
Capital Outlay (O&M)	1,306,700	\$1,104,692	\$1,310,978	\$4,278	0.3%
TOTAL INFRASTRUCTURE NEED	\$3,056,700	\$2,479,692	\$13,270,978	\$10,791,286	353%

CITY OPERATING SUPPORT PAYMENTS**	FY 2023	FY 23 Projected	FY 2024	\$ Change	% Change
City of San Diego - Marketing	2,655,000	2,655,000	2,734,650	79,650	3%
City of San Diego - Funding	-	-	5,000,000	5,000,000	100%
TOTAL OPERATING INFLOWS	2,655,000	2,655,000	7,734,650	5,079,650	191.3%

RESERVE BALANCE IMPACT	(\$7,382,890)	(\$4,396,569)	(\$13,663,213)	(\$6,280,323)	85.1%
-------------------------------	----------------------	----------------------	-----------------------	----------------------	--------------

* Increase/(Decrease) and Percent Change figures are calculated using budgeted numbers for FY 2023 and FY 2024.

**Additional payment of \$13.3 million from the City is made to support debt obligation and dewatering costs

City Agencies: Convention Center

PAYMENTS FROM THE CITY OF SAN DIEGO	FY 2023	FY 23 Projected	FY 2024	\$ Change	% Change
Marketing Agreement	2,655,000	2,655,000	2,734,650	79,650	3%
One-time Funding	-	-	5,000,000	5,000,000	100%
Annual Debt Payment	12,094,581	12,094,581	12,092,175	(2,406)	>1%
Annual Dewatering Fees	1,249,395	1,249,395	1,249,395	-	0%
TOTAL CITY PAYMENTS	15,998,976	15,998,976	21,076,220	5,077,244	31.7%

Annual City Payments Supporting the Convention Center

City of San Diego Support Payment: SDCCC’s FY 2024 Budget assumes \$7.7 million in support payments from the City. Of this amount, \$2.7 million, an increase of \$80,000 from FY 2023, is used to cover SDCCC’s cost under a long-term marketing agreement with the San Diego Tourism Authority (SDTA). In SDCCC’s FY 2024 Budget, \$5.0 million is assumed to support SDCC’s operating loss.

Beyond the \$7.7 million allocated as support payments from the City, there is an additional \$13.3 million in the Mayor’s FY 2024 Proposed Budget that is discussed below.

The Mayor’s FY 2024 Proposed Budget

The total funding in the Mayor’s FY 2024 Proposed Budget to support the Convention Center is \$21.1 million. In addition to the \$7.7 million allocated to support operating costs, the Proposed Budget includes \$13.3 million to cover costs related to debt payments and dewatering.

The City is responsible for making annual debt service and dewatering payments in support of the Convention Center facility. These payments total \$13.3 million in FY 2024 and are funded with Transient Occupancy Tax (TOT) revenue. These expenses are included in the budget for the Convention Center Expansion Administration Fund (on page 136 of Volume II of the FY 2024 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 2024. Annual debt service payments will continue at about this level until the bonds mature in FY 2028.

Additionally, the city pays for annual dewatering costs (approximately \$1.2 million in FY 2024) - dewatering removes unwanted groundwater from the Convention Center facility.

While the overall City allocation of \$21.1 million is significant, it is important to remember that Convention Center operations historically return significantly more tax revenue to the General Fund than these support costs. Additionally, Convention Center activity creates thousands of jobs, supports City businesses, and has a positive economic ripple effect throughout the local economy.

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.”

The current year-end projection for SDCCC’s

City Agencies: Convention Center

OPERATING RESERVE ACTIVITY	FY 2022 ACTUAL	FY 2023 FORECAST	FY 2024 BUDGET
Beginning Operating reserve	\$19,871,670	\$29,335,544	\$24,938,975
+ Net Operating Revenues (including inflows)	5,415,583	(227,152)	1,292,369
+ City Support Payment	6,387,000	0	0
- Debt Service payments	(1,693,638)	(1,689,725)	(1,684,604)
- Capital Outlay (net of debt)	(645,071)	(2,479,692)	(13,270,978)
Ending Reserve Balance	\$29,335,544	\$24,938,975	\$11,275,762
Ending Balance Expressed as Reserve Percentage	72.29%	66.75%	28.80%
Minimum Reserve Balance - 8% per policy	\$2,989,105	\$3,132,124	\$2,992,512
Over / (Under) Minimum Reserve Balance	\$26,346,439	\$21,806,851	\$8,283,250

FY 2023 Budget includes an Ending Reserve Balance of \$24.9 million, which is \$21.8 million above the 8% reserve minimum balance of \$3.1 million.

For FY 2024, the Board has approved utilizing \$13.7 million of the reserve balance for planned capital expenditures and paying the remainder of the debt service. With this use of reserve balance, FY 2024 is projected to have an Ending Reserve Balance of \$11.3 million which is \$8.3 million above the reserve target.

Issues to Consider

20-Year CIP Needs Assessment

SDCCC conducted a comprehensive facility condition assessment in FY 2023 to address the replacement and modernization of expiring assets. While this assessment was initially intended to provide a 10-year estimate of the facility CIP needs, SDCCC has expanded the scope to 20-years in order to serve as a longer-term planning guide.

Cost projections in the full 20-Year CIP Needs Assessment total \$404.4 million. The 20-Year CIP Needs Assessment is split into quarters, with the first 5-Year section totaling \$166.0 million in infrastructure needs.

On March 27, 2023, SDCCC's Board received and reviewed preliminary near-term projections for CIP and operating capital equipment needs over the next three years (FY 2024-

2026) totaling \$47.8 million (in 2023 dollars).

The table below presents the projected annual CIP and Operating Capital Equipment figures, and total annual costs over the next three fiscal years.

Fiscal Year	Projected Cost (in 2023 Dollars)
FY 2024	\$ 13,270,978
FY 2025	\$ 4,140,300
FY 2026	\$ 30,344,088
3- Year CIP Total	\$ 47,755,366

For FY 2024, \$13.3 million of expenditures have been identified, and the SDCCC Board has approved utilizing reserve balance to fund those projects. For FY 2025 and FY 2026, funding needs are assumed to be addressed through a combination of SDCCC operating reserves and requests for additional City funding. SDCCC staff currently expects to request between \$7 million and \$10 million for FY 2026 capital expenditure.

Notable projects for FY 2024 include:

West Kitchen Improvement – \$4.7 million

This project is required to bring the original kitchen equipment and structural infrastructure to code as well as to function as a secondary full-service kitchen. It will also include renovation of roof top office space. The West kitchen will serve as the primary kitchen while the East kitchen is decommissioned for construction. Having a secondary full-service

City Agencies: Convention Center

kitchen serves as a selling point for clients with the ability to produce larger quantities of food and faster service.

Air Wall Replacement – \$4.0 million

The West building exhibit hall air wall needs to be replaced as the original equipment is failing and is beyond useful life. The project will include the air wall's operable partition-trolley system, as well as sound-resistant barriers and fabric.

Roof Replacement Planning- \$1.4 million

The West building roof needs to be replaced and still requires further design and development. This project was originally planned to commence in FY 2023 following foundational engineering analysis and conceptual plans designs. Further analysis using a design-build contracting firm specializing in Energy Saving Contract financing delayed the project as the scope was expanded to include a solar review. Staff anticipates construction to commence in the summer of 2025 and complete in FY2026.

In FY 2023 SDCCC staff began exploring roof financing options to include an Energy Savings Performance Contract and Power Purchase Agreement. These may be viable options for financing the roofing capital needs and could provide approximately \$14 million to fund the roofing projects, though SDCCC staff is still gathering information about the viability of these ideas.

Long-term Funding Plan is Needed

Staff have been exploring financing options to meet the large capital needs over the next 20 years.

Considering the overall and increasing 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 only a temporary solution.

Measure C, if ultimately affirmed legally, could be a viable resource for SDCCC to fund Convention Center Modernization Improvements. However, 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.**