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May 15, 2015

Council President Sherri Lightner
202 "C" Street, 10th floor
San Diego, CA 92101

RE: San Diego Convention Center Corporation FY16 Budget Review Questions

Thank you for the opportunity to present at the Budget Committee last week. On behalf of the San Diego Convention Center Corporation we wanted to provide you with additional information on six questions raised by Council members during the May 7, 2015 Budget Review Committee. Additional information was requested on the following items:

1. Infrastructure Bank
2. Fifth Avenue Landing (FAL) Lease Default
3. Expansion Market Study
4. Merit Increases
5. Performance Audits
6. Room Nights

Infrastructure Bank: The Corporation's Board voted on May 13, 2015 to direct staff to begin the application process to the California Infrastructure and Economic Development Bank (I-Bank) for funding of the convention center's infrastructure capital needs. In moving forward with the application, the Board is concerned that the Corporation's operating budget is not sufficient to cover the estimated \$1.1 million in debt service for a \$20 million I Bank loan for a 30 year borrowing term. Prior to finalizing any such loan, the Corporation's staff and Board will need to discuss the potential ramifications of such a debt service with the City Council and Mayor's office. The application is expected to be completed by June 17, 2015.

Fifth Avenue Landing Lease Default: Over the last year, the Corporation has provided detailed information on the FAL lease purchase to staff in the Office of Financial Management and Office of the Mayor. At the October 29, 2014 Budget and Government Efficiency meeting, Corporation staff answered numerous questions regarding the FAL lease following the court ruling invalidating the financing plan for the Phase III Expansion. In March, Corporation Board Chair Stephen Cushman was provided detailed legal and financial summaries regarding the FAL lease purchase which included specific information regarding the May 6, 2015 deadline. Between March and the end of May, Mr. Cushman worked with representatives of the Mayor's office and representatives of FAL to negotiate an extension of the FAL lease. Those efforts were unsuccessful and on April 30, 2015, the Corporation notified Mayor Faulconer and members of the City Council that the Corporation was not in a position to make the final lump sum payment due on May 6, 2015 and would therefore default. On May 5, 2015 the Corporation notified FAL of our intent to default and included copies of the correspondence to both Mayor Faulconer and the City Council. The FAL lease purchase transaction was specifically structured to allow for such a default by the Corporation without any further recourse to the Corporation or the City in the event the Phase III Expansion process was not at a place to warrant the expenditure of public funds for the FAL lease.

Expansion Market Study: The San Diego Convention Center Corporation, in partnership with the City of San Diego and JMI Realty, retained Convention Sports and Leisure International in March to provide current market estimates on the financial and economic value of building additional exhibit and meeting space. The study will provide research on two options, one a

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contiguous expansion plan that is scaled down from the initial plan approved by the California Coastal Commission and a second option for a non-contiguous facility on the Tailgate Park site located east of Petco Park and along Park Boulevard. The program elements for the two sites being studied are:

- the addition of 210,000 square feet of exhibit space contiguous to the existing convention center with an additional 59,000 in meeting space; and
- approximately 225,000 square feet of exhibit space, 80,000 square foot ballroom plus added meeting space in a new structure located approximately 2-3 blocks from the current convention center.

The results of the study are expected in August and will be shared with Mayor Faulconer and Council members at that time.

Merit Increases for FY15 budgeted full time, non-represented staff: The Corporation had 99 full time, non-represented staff in FY15. The breakdown of merit increases were:

14 employees received no merit increase. This included all four Vice-Presidents and the President and CEO

12 employees received merit greater than 0% but less than 3%

73 employees received merit = 3%

Merit increases to non-represented staff are based on performance reviews of staff conducted pursuant to the Corporation's human resource policies.

Performance Audits of the Corporation: Beginning in 2007, the Corporation has contracted with several outside firms as well as the City of San Diego to provide a range of audits reviewing nearly every division of the Corporation, including governance, policies and procedures. The following is a list of audits, their focus, and the cost of each to the Corporation. The Corporation has spent more than \$600,000 in a continuous effort to ensure the most efficient operation of the facility.

- Following the election of Mayor Sanders in 2005, the City of San Diego began a systematic "Business Process Review" to find ways to improve processes and procedures to identify efficiencies in how the various divisions of the City operate. The Corporation's Board undertook a similar effort beginning in 2007 that continued through 2008. The process evaluated the sales, convention services, finance, human resources, and operations divisions. The cost to the Corporation was \$452,459 and resulted in significant changes to improve their efficiency and work flows.
- In 2009, the Corporation, at the direction of the City of San Diego, undertook an audit to evaluate the Corporation's procedures as they related to the "Standards of Excellence: An Ethics and Accountability Code for the non-profit sector". The cost of the audit was \$75,850.
- In 2011, the Corporation hired Intellibridge Partners to provide a risk assessment in preparation and creation of an internal audit plan. The cost of the audit was \$35,000.
- In 2012, the Corporation, contracted with the City of San Diego Office of City Auditor, to conduct an audit focused on the IT Division. Cost of the audit was \$17,125.

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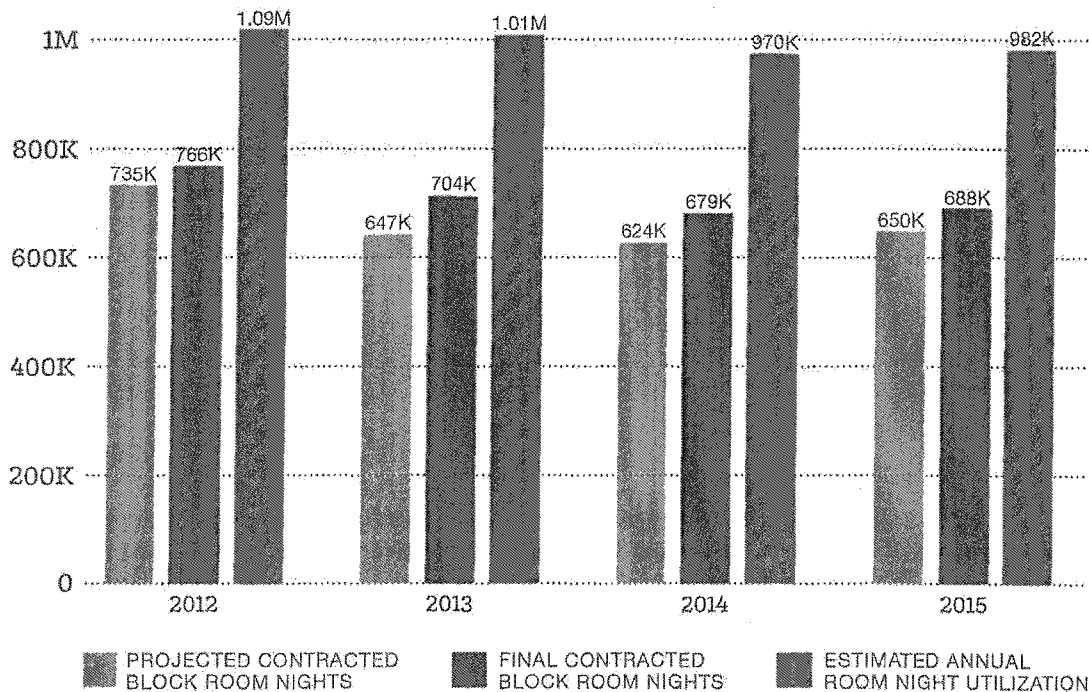
- In 2012, the Corporation hired Public Financial Management, Inc. to conduct a fiscal and organizational analysis audit to identify budget savings that could be implemented without adversely or significantly affecting client services. During the same period, the long-term sales and marketing responsibility was transferred from the Corporation to the San Diego Tourism Authority. Approximately 14 positions tied directly to sales and marketing were eliminated. An additional 16 positions were eliminated in areas across the organization. The elimination of positions resulted in an immediate savings of more than \$1.5 million. The cost of the audit was \$57,000.
- In 2014, the Corporation contracted with the City of San Diego, Office of the Auditor to conduct a performance audit of the Corporation's Financial Systems. The audit was the second of four recommended audits. The audit made five recommendations in June 2014 and the Corporation has implemented all five recommendations. The cost of the audit was approximately \$17,000.
- In 2014, the Corporation contracted with the City of San Diego, Office of the Auditor to conduct an audit of HR Contracted Information Systems. The audit was the third of four recommended audits identified through the Auditor's high-level risk assessment. The cost of the audit was \$17,165.

Booked versus Actual Room Nights: Below is a chart comparing projected block contracted room nights and final contracted block room nights for CY12-15 based on data provided to the Corporation by the San Diego Tourism Authority and clients of the convention center.

- **Projected Contracted Block Room Nights (Booked Room Nights):** This number represents estimated room nights contracted in future years by the meeting planner when an event is booked. This usually occurs 5-10 years into the future from the year the event is booked by the long-term sales team. The annual future room night goal is 900,000 room nights.
- **Final Contracted Block Room Nights (Actual Room Nights):** This figure represents the final contracted room nights booked by the meeting planner for the event attendees. This figure is reported to the Corporation by the event meeting organizer. Over the last four years, the average annual room night utilization in the contracted block is 709,250. This figure does not include rooms utilized by attendees outside of the contracted room block.
- **Out-of-Block Room Night Utilization:** Over the last decade an increasing share of event attendees stay in hotel rooms that are not part of a contracted room block arranged by the event planner. This dynamic is industry-wide and commonly referred to as "out-of-block" room utilization. Studies commissioned by the Corporation and the San Diego Tourism Authority indicate that 30-40 percent of event attendees are staying in rooms not contracted for the event attendee. For example, Comic Con has a contracted room block of approximately 60,000 hotel room nights. A 2008 study of Comic Con showed that attendees to the annual event consume 126,000 room nights. The Corporation, however, only reports the final contracted room block.

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When the estimated out-of-block room utilization is included in the final contracted room night figure (estimated at 30 percent in the chart below), the estimated annual room night utilization from all events at the convention center is above the annual booking goal of 900,000.



Thank you for the opportunity to provide you with additional information. If you have further questions our CEO Carol Wallace will be happy to schedule a meeting with you to go over this information or any other concerns you may have. She can be reached at (619) 525-5101. We remain ready to provide any additional information as requested.

Sincerely,

Rabbi Laurie Coskey

Gil Cabrera

Cc: Mayor Kevin Faulconer
Honorable Members of the San Diego City Council
Jaymie Bradford, Deputy Chief of Staff/Chief of Policy
Andrea Tevlin, IBA
SDCCC Board of Directors