

City Agency Review: Convention Center

CITY AGENCY: Convention Center

HEARING DATE: Thursday - May 9, 2013

Overview

The Convention Center opened in November 1989 and an expansion, which doubled the size of the original building, opened in September 2001. A proposed Phase III expansion, that would increase the size of the Convention Center by 33 percent, is moving forward and tentatively planned to open in 2017.

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

The mission of SDCCC is to “generate significant economic benefits for the greater San Diego region by hosting international and national conventions and trade shows in our world class facility.”

At a meeting of the Rules & Economic Development Committee on April 24, 2013, the SDCCC President & CEO reported on the projected economic benefits for the Convention Center in FY 2013 including:

- Economic Impact: \$1.3 billion
- Direct Attendee Spending: \$572.7 million
- Tax Revenues: \$19.5 million
- Hotel Room Nights: 704,000
- Jobs: 12,500
- Number of Events: 115 (74 conventions)

FY 2014 Budget

On March 13, 2013, the SDCCC Board reviewed and approved a budget for FY 2014. This budget and related detail is presented in Volume I of the FY 2014 Proposed Budget (pages 218-221).

The total FY 2014 Proposed Budget for the Convention Center is approximately \$33.2 million, an increase of approximately \$50,000 over the FY 2013 Budget.

Personnel

The FY 2014 Proposed Budget includes 328.52 FTE positions, a net increase of 1.12 FTE positions from the FY 2013 Budget. Of the 328.52 positions, 216.00 are full-time staff and 112.52 are part-time employees. A significant majority of all part-time employees are represented. SDCCC staff indicates that 114.00 of the 216.00 budgeted full-time staff are represented workers and the remaining 102.00 are unrepresented.

Volume I of the FY 2014 Proposed Budget (pages 220-221) shows a 5.12 FTE increase comprised of 1.00 salaried Non-Supervisor position, 3.95 FTE hourly Non-Supervisor positions and .17 FTE Supervisor. This 5.12 FTE position increase is offset by a 4.00 FTE position reduction that includes 1.00 Manager and 3.00 hourly full-time Non-Supervisors for a net increase of 1.12 FTE positions.

Personnel Expense

Personnel expense has been budgeted at \$19.6 million, an increase of approximately \$357,000 or 1.9% over the FY 2013 Budget.

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This increase results from a \$408,000 increase in Salaries & Wages and a \$17,000 increase Overtime offset by a net reduction in Fringe Benefits of approximately \$67,000. Convention Center staff indicates the increase in Salary & Wages and Overtime is attributable to 1) adding part-time hourly positions to support anticipated events in FY 2014 and 2) step increases for full-time represented staff and a budgeted discretionary 3% merit increase for non-represented staff. The discretionary 3% merit increases have been in effect since mid-year FY 2012.

Non-Personnel Expense

Excluding the Depreciation and Deferred Capital & Maintenance line items of the expenditure budget (on page 219 of Volume I of the FY 2014 Proposed Budget), net Non-Personnel Expense increased by approximately \$161,000 or 1.8%, from \$9.2 million in FY 2013 to \$9.3 million in FY 2014. The most significant line item changes include:

General Services: Reduced by approximately \$387,000 or 33% in FY 2014. This is primarily explained by the elimination of the ground lease payment for the Convention Center Phase III expansion site.

Repairs & Maintenance: Increased by approximately \$145,000 or 8% in FY 2014 primarily to perform work on building infrastructure and HVAC systems.

Utilities: Projected increase of \$378,000 or 15% in FY 2014 attributable to expected usage and rates.

Revenue

Budgeted revenue for the Convention Center in FY 2014 increases by approximately \$50,000 or .2% over the FY 2013 Budget.

The most significant revenue line item changes include:

Building Rent: Net decrease of approximately \$93,000 or 1%, primarily due to an increase in rent credits used to book convention or trade show events.

Food & Beverage: Increase of approximately \$702,000 attributable to an expected increase in commissions from catered food & beverage services for convention and trade show events.

Ancillary Services: This line item is the sum of Event, Utility, Telecommunications, and Audio & Visual services projected to be provided in the support of events at the facility. There is a net reduction of approximately \$379,000 in FY 2014 due primarily to a decrease in parking revenues from the temporary parking lot at the Phase III Expansion site.

Interest & Other: A decrease of approximately \$179,000 in FY 2014 to remove the one-time occurrence of a rebate for a energy efficient project in the FY 2013 Budget.

Deferred Capital & Maintenance

Deferred Capital & Maintenance expense is projected to be approximately \$2.3 million in the FY 2014 Proposed Budget (page 219 of Volume I). However, this line item more accurately represents the extent to which total projected revenues exceed total project operating expenses. If realized as projected, all or a portion of this line item could be used for deferred capital & maintenance projects or alternatively be used for other SDCCC purposes.

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Depreciation

Under full accrual accounting, capital assets are depreciated and a pro-rata share of depreciation expense is included in the annual income statement. Volume I of the FY 2014 Proposed Budget shows this expense on page 219; however, it is important to note that this is a non-cash expense which ultimately contributes to net resources available to address other SDCCC needs.

Issues to Consider

Operating Reserves

Historically, SDCCC maintained operating reserves in accordance with industry best practices. SDCCC's reserve fund peaked in FY 2008 at just over \$8 million. The previous administration requested SDCCC staff expend most of their operating reserve to fund preliminary and essential Phase III Convention Center Expansion activities.

SDCCC staff has informed the IBA that a few examples of these activities included: rights to purchase the expansion site (\$1 million), expansion feasibility analysis (\$1.4 million), entitlement and design consultants (\$1.1 million) and other significant expenses to preliminarily assess and advance the proposed Convention Center Expansion project.

Financial security provided by maintaining an operating reserve better enabled SDCCC to manage unanticipated financial fluctuations. Additionally, the reserve provided adequate funds to maintain and replace necessary furniture, fixtures and equipment as the building aged. Unfortunately, SDCCC has not had an operating reserve fund since FY 2011.

The IBA recommends the City Council direct the SDCCC Board and President & CEO to develop a plan to begin reestablishing an operating reserve. We understand that resources to reestablish a reserve will necessarily compete with the need to address deferred capital maintenance and equipment needs (discussed below); however, we believe it is critical that there be a balanced incremental approach toward achieving both of these important objectives.

Deferred Capital Maintenance & Equipment Needs

Convention Center staff has provided the IBA with a list of deferred capital maintenance and equipment needs totaling approximately \$31.1 million. The list is comprised of the following three categories of need:

- Phase III Expansion Consistency Upgrades to the Existing Building (\$6.1 million). These capital items are needed to ensure that the existing structure adequately conforms with the expanded facility (fire/life safety, building compliance with ADA standards, carpet replacement, etc.).
- Sails Pavilion Needs (\$15 million). Approximately \$11.3 million to replace the fabric structure throughout the Sails Pavilion.
- Other Capital Needs (\$10 million). This category represents all capital maintenance & equipment excluding Phase III Expansion Consistency Upgrades and Sails Pavilion Needs.

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In coordination with the Budget Committee of the SDCCC Board, SDCCC staff has developed and maintained a rolling 5-year budget plan for the capital maintenance and equipment backlog; however, there are insufficient budget resources to adequately address the projects in the 5-year budget plan. The amounts below have been expended on deferred capital maintenance and equipment needs in recent years; yet a significant backlog remains to be addressed.

- FY 2012: \$2.3 million (actual)
- FY 2013: \$1.7 million (estimate)
- FY 2014: \$3.0 million (planned)

SDCCC's mission statement identifies the Convention Center as a world class facility that generates significant economic benefits for the greater San Diego region by hosting international and national conventions and trade shows. It is critical that SDCCC works with the City to ensure the facility is properly maintained in order to achieve their mission.

The IBA recommends the City Council direct the SDCCC Board and 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. Deferred capital maintenance and equipment items should be carefully re-evaluated to ensure that only the most critical needs are identified and prioritized.

Sources of revenue that might be considered to begin to address the \$31.1 million backlog might include Phase III Expansion

bond proceeds, increased Convention Center service fees, other new facility revenues, or a reduction in annual operating expenses.

Annual Subsidy from the City

The City provides SDCCC with an annual subsidy of approximately \$3.4 million (shown on page 128 of Volume II of the FY 2014 Proposed Budget). The annual subsidy has been higher in previous fiscal years.

SDCCC staff indicates this payment is used to cover the long-term marking agreement with the Tourism Authority (\$1.9 million) and otherwise address deferred capital needs of the facility (\$1.5 million).

In recent years, some have suggested SDCCC work to reduce their reliance on the annual subsidy from the City. Given 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 recommends the City maintain the annual subsidy to SDCCC at its current level.