Convention Center

Overview

The Convention Center opened as a 1.7 million square foot facility in November 1989. In 2001, the facility was expanded to 2.6 million total gross square feet. A proposed Phase III expansion, that would increase the size of the Convention Center by approximately 33 percent, is tentatively planned to open late in calendar year 2018 or early in calendar year 2019.

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."

In January SDCCC issued their 2014 Forecast for the calendar year, which projects economic benefits resulting from Convention Center operations. The projected benefits included:

- Economic Impact: $1.4 billion
- Direct Attendee Spending: $606.7 million
- Tax Revenues: $20.6 million
- Hotel Room Nights: 690,000
- Jobs: 12,500
- Number of Events: 111 (70 conventions)

FY 2015 Proposed Budget

On March 26, 2014, the SDCCC Board reviewed and approved a budget for FY 2015. A link to this budget is provided on page 209 in Volume 1 of the City's FY 2015 Proposed Budget. A comparison of this budget to SDCCC's adopted FY 2014 budget is provided in Summary of Budget Changes table on the following page.

The total FY 2015 Proposed Budget for the Convention Center is approximately $31.9 million, a decrease of approximately $1.3 million from the FY 2014 Budget.

Personnel Staffing

The Proposed Budget for FY 2015 includes 324.23 FTE positions, a net decrease of 4.29 FTE positions from the FY 2014 Budget. The net decrease of 4.29 positions reflects the addition of 1.00 Vice President and a reduction of 5.29 FTE positions (1.00 Director, 3.00 Supervisors and 1.29 non-supervisor hourly part-time positions).

Of the 324.23 positions in the proposed budget, 213.00 are full-time staff and 111.23 are part-time employees. SDCCC staff indicates that 114.00 of the 213.00 budgeted full-time staff are represented workers and the remaining 99.00 are unrepresented. Most of the part-time employees are represented.

Personnel Expense

Despite a net decrease of 4.29 FTE positions, SDCCC's budgeted personnel expense increased from $19.6 million in FY 2014 to $20.0 million in FY 2015. This is an increase of approximately $380,000, or 1.9% over the FY 2014 Budget. The increase is primarily explained by the following three factors:

1) Negotiated step increases for represented staff.
2) Discretionary 3.0% salary increases for most unrepresented staff. Discretionary 3.0% merit increases have been in effect since FY 2012 and given to most unrepresented employees since then; however, increases will not be given to senior SDCCC management in FY 2015.
3) Increases in health insurance costs.

SUMMARY OF CONVENTION CENTER BUDGET CHANGES

	FY 2014 Budget	FY 2015 Proposed	Increase/ (Decrease)	Percent Change
REVENUES				
Building Rent (net of rent credits)	$9,028,226	$8,776,561	($251,665)	-2.8%
Food and Beverage	$9,430,976	$8,818,444	($612,532)	-6.5%
Ancillary Services	$11,254,237	$11,871,725	$617,488	5.5%
Interest & Other	$100,181	$94,200	($5,981)	-6.0%
City of San Diego	$3,405,000	$3,405,000	$0	0.0%
TOTAL REVENUES	**$33,218,620**	**$32,965,930**	**$252,690**	**-0.8%**
EXPENDITURES				
Salaries and Wages	$15,264,272	$15,547,563	$283,291	1.9%
Fringe Benefits (Pension, Health & Other)	4,332,247	4,429,237	96,990	2.2%
Subtotal Personnel Expenses	$19,596,519	$19,976,800	$380,281	1.9%
General Expenses	787,939	1,088,285	300,346	38.1%
Repair and Maintenance	1,867,796	2,425,364	557,568	29.9%
Utilities	2,967,829	3,483,416	515,587	17.4%
Contracted Services	519,332	448,925	(70,407)	-13.6%
Travel & Transportation	81,653	38,116	(43,537)	-53.3%
Insurance	607,838	464,082	(143,756)	-23.7%
Telecommunications	51,915	64,888	12,973	25.0%
Sales & Marketing	104,200	83,189	(21,011)	-20.2%
Supplies	453,924	328,395	(125,529)	-27.7%
Marketing Contract Payment	1,900,000	1,931,000	31,000	1.6%
Depreciation Expense	1,951,910	1,617,143	(334,767)	-17.2%
Deferred Capital & Maintenance	2,327,765	0	(2,327,765)	-100.0%
Subtotal Non-Personnel Expenses:	$13,622,101	$11,972,803	(1,649,298)	-12.1%
TOTAL EXPENDITURES	**$33,218,620**	**$31,949,603**	**($1,269,017)**	**-3.8%**

Non-Personnel Expense

Excluding the Depreciation and Deferred Capital & Maintenance line items of the expenditure budget, Non-Personnel Expense increased by approximately $1.0 million or 10.8%, from $9.3 million in FY 2014 to $10.4 million in FY 2015. The most significant line item changes include:

General Expenses: Increased by approximately $300,000 or 38.1% in FY 2015. The increase is primarily explained by 1) the need to continue ground lease payments for 7 months for the Convention Center Phase III expansion site (approximately $219,000) and 2) an additional $50,000 needed to address furniture, fixtures and equipment in support of operations.

Repair & Maintenance: Increased by approximately $558,000 or 29.9% in FY 2015. This increase is largely comprised of: 1) general building items ($193,000); 2) fire system maintenance ($230,000); and 3) the cost of renting employee uniforms instead of buying them ($100,000).

Utilities: Projected increase of $516,000 or 17.4% in FY 2015 attributable to utility rate increases that went into effect early in FY 2014 after the current year budget had already been approved. The amount of energy required for operations is not expected to increase in FY 2015.

Revenue

Budgeted revenue for the Convention Center in FY 2015 decreases by approximately $253,000, a 0.8% reduction from the FY 2014 Budget. The most significant revenue line item changes include:

Net Building Rent: Net decrease of approximately $252,000 or (2.8%). In the proposed budget, net building rent ($8.8 million) is comprised of gross building rent ($13.8 million) less rent credits ($5.1 million) that are offered to attract certain convention or trade show events. The proposed budget projects slight growth in gross rents ($54,000) over FY 2014 that are more than offset by an increase in rent credits ($305,000).

Food & Beverage: A decrease of approximately $613,000 (6.5%) attributable to a projected decrease in catering provided by the convention center, including booth catering.

Ancillary Services: This line item is the sum of Event, Utility, Telecommunications, and Audio & Visual services provided in support of events at the facility. There is a projected net increase of approximately $617,000 or 5.5% in FY 2015 due to several factors: 1) higher demand for ancillary services; 2) parking revenues from the expansion site lot for seven months; 3) a policy change requiring SDCCC staff to exclusively provide event staffing and other services; and 4) a new facility improvement fee charged to event exhibit booths.

Depreciation

Under full accrual accounting, capital assets are depreciated and a pro-rata share of depreciation expense in included in the annual income statement. As shown in the Summary of Budget Changes table, approximately $1.6 million is budgeted for FY 2015.

It is important to note that depreciation is a non-cash expense which ultimately makes the *amount budgeted for depreciation available to address other SDCCC needs (i.e., deferred capital or repair and maintenance projects).*

Deferred Capital & Maintenance

Budgeted Deferred Capital & Maintenance expense has been reduced from approximately $2.3 million in FY 2014 to $0 in the FY 2015 Proposed Budget. This dramatic change reflects a decision by SDCCC to eliminate this line item and more properly characterize the operating budget's bottom line as a projected increase to the fund balance. A positive fund balance, if realized, could be used for deferred capital, O&M or other SDCCC needs.

As it has been used, the Deferred Capital & Maintenance line item more accurately represented the extent to which total projected revenues exceed total project operating expenses.

Issues to Consider

SDCCC's Budgetary Challenges

In the previous two fiscal years, the IBA has repeatedly expressed concern about SDCCC's lack of an operating reserve and their significant backlog of O&M and deferred capital project needs. In response, City Council requested informational reports be provided to three Council Committees (Economic Development & Intergovernmental Relations, Infrastructure and Budget & Government Efficiency) in FY 2014. Committee discussion has been focused on obtaining a better understanding of the nature/magnitude of the fiscal need and developing a reasonable plan to address that need over time.

On January 29, 2014, the Budget & Government Efficiency Committee requested SDCCC staff to return to Committee in April with:

1) A comprehensive five year plan to establish and restore the Corporation's operating reserves;
2) A re-organized and prioritized list of capital, operations and maintenance items; and
3) A five-year financing plan to fund Capital, Operations and Maintenance.

SDCCC staff presented their response to this request at the Budget & Government Efficiency Committee on April 16th. Although financing plans have been developed in response to Committee direction, there are still several unknowns with respect to the viability of the funding sources SDCCC has proposed for their critical capital project needs. This remains as a significant challenge going forward.

The current plans for the three identified categories of need are presented below:

Restoring the Operating Reserve

It should first be noted that SDCCC had historically maintained operating reserves in accordance with industry best practices. SDCCC's reserve fund peaked in FY 2008 at just over $8.0 million. A previous mayoral administration requested SDCCC staff expend most of their operating reserve to fund preliminary and essential Phase III Convention Center Expansion activities (rights to purchase the expansion site, expansion feasibility analysis, entitlement and design consultants, etc.).

On March 26, 2014, SDCCC's Board

adopted an amended Operating Reserve Policy requiring a minimum reserve of 14% of the most recent three year average of annual audited operating revenues. This policy mirrors the City's current reserve policy and would reestablish a healthy reserve. Based on the new policy, SDCCC needs to establish a reserve of approximately $4.4 million for FY 2015.

SDCCC proposes to establish this reserve in FY 2015 by 1) reimbursement from the City for $3.0 million of the $7.0 million SDCCC spent to advance the Phase III Expansion Project—by redirecting a line item in the Phase III Expansion budget and 2) using approximately $1.4 million of the $3.4 million operating subsidy from the City in FY 2015.

The IBA believes this may be a plausible plan but has questioned whether redirecting the use of a portion of the operating subsidy ($1.4 million) leaves other Convention Center activities unfunded. Establishing the $4.4 million target reserve in FY 2015 will also require the sale of Phase III Expansion bonds in FY 2015.

5-year Plan to Address O&M Needs

Working with the City's CFO, SDCCC staff reevaluated and recategorized an extensive list of capital, operations and maintenance items. This effort resulted in a determination of SDCCC's operations and maintenance (O&M) needs over the five year period from FY 2015 through FY 2019. O&M needs over this period are projected to be about $10.2 million.

The plan to fund the $10.2 million of identified O&M expense involves using:

- SDCCC revenue and expense adjustments over five years ($5.8 million); and
- A portion ($1.5 million) of the City's annual operating subsidy from FY 2016 through FY 2019 (totals $5.9 million).

The $5.8 million of revenue and expense adjustments is comprised of: 1) $368,000 of escalating annual expense reductions which total approximately $1.9 million over five years and 2) revenue enhancements which total approximately $3.9 million over five years.

Revenue enhancements involve establishing a few new fees (facility improvement, lobby advertising); accelerating certain rental rates; extending the contract with Centerplate for food and beverage services; requiring that some event staffing services be provided through SDCCC; and a one-time recapture of funds. As these changes are implemented, they need to be monitored to ensure that the new fees are not adversely impacting business.

5-year Plan to Address Capital Needs

SDCCC staff has identified $26.7 million of capital needs for the five year period from FY 2015 through FY 2019. SDCCC staff has presented an approach that envisions funding this need with a combination of proceeds from naming rights and City bonds. At this time, there is uncertainty as to the availability and the amount of each of these funding sources.

SDCCC has discussed naming rights with the City's Corporate Partnership Program director and is currently working with a firm to better understand naming rights opportunities at the Convention Center. There may be naming rights potential for the entire facility and/or for portions of the facility (ballroom, rooftop park, etc.). Naming right deals tied to an expanded facility will likely require completion of the expansion which could significantly delay the receipt of funds to address capital needs. SDCCC's President & COO indicated she will have developed a plan to pursue naming rights opportunities within six months, so there may be a better sense of the potential value of naming rights at that time.

Regarding the possibility of using City bond proceeds to address deferred capital needs over the next five years, SDCCC will have to compete with a tremendous backlog of City project needs. The City's backlog is estimated to be over $2.0 billion and includes core infrastructure projects (fire stations, streets, storm drains, etc.). So addressing SDCCC capital needs necessarily comes at the expense of other critical City projects.

Alternatively, the City could endeavor to issue general obligation bonds secured by property taxes to, in part, address SDCCC's capital needs; however, this would: 1) require two-thirds voter approval, 2) reduce the amount available for the City's needs, and 3) take a couple of years to facilitate the issuance thereby delaying the availability of funds.

SDCCC staff is to report back to the Committee on Budget and Government Efficiency in six months with an update of their plans to address their operating reserve, O&M and capital needs.