



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT


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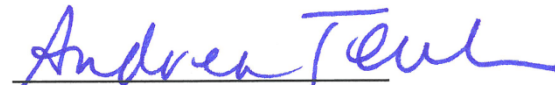
Budget Review Committee Docket Date: May 11, 2021

Review of City Agencies FY 2022 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 11th, 2021. Our review is attached.



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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 and projected data for FY 2019 through FY 2022. SDCCC had record-setting performance in FY 2019, the last full year of activity before the COVID-19 pandemic.

Actual data for FY 2020 is presented through March 11, 2020 when State restrictions on large gatherings went into effect. There is no reportable data for FY 2021 because the Convention Center was prohibited from normal

operations. Based on the expectation that convention and event activity will gradually begin to resume, SDCCC staff projected operating and economic performance measures for FY 2022 on March 23, 2021 as shown in the rightmost column of the table.

Adverse Impacts of the Pandemic

The closure of the Convention Center for normal operations which began in March of 2021 will continue for the remainder of FY 2021. SDCCC reports the following adverse impacts due to the pandemic between March 2020 and June 2021:

- More than 150 events lost
- \$48 million in lost event revenues
- \$2.1 billion estimated regional impact lost
- \$46 million in City tax revenue lost
- Furloughs and layoffs among the SDCCC team and business partners

Emergency Facility Uses in FY 2021

Operation Shelter to Home: In an effort to protect the City’s homeless citizens (those in City shelters and elsewhere who were unable to maintain adequate social distancing) from COVID-19, the City asked SDCCC if they could convert the Convention Center into a safe homeless shelter for up to 1,500 individuals.

Actual and Forecasted Benefits from Operations ¹	FY 2019 Actual Results	FY 2020 Actual Results through 3-11-20	FY 2021 Facility Closed due to COVID-19	FY 2022 SDCCC Forecast 03-23-21
• Regional Economic Impact	\$1.3 billion	\$977.4 million	N/A	\$528.8 million
• Direct Attendee Spending	\$755.3 million	\$575.1 million	N/A	\$311.1 million
• Hotel & Sales Tax Revenue	\$29.0 million	\$21.3 million	N/A	\$11.6 million
• Hotel Room Nights (contracted only)	823,000	513,000	N/A	281,000
• Exhibit Hall Occupancy	83.2%	71.3%	N/A	51.7%
• Number of Conventions and Events	143	115	N/A	77
• Attendance - Primary Business Attendees	606,000	408,000	N/A	206,000

¹⁾ FY 2019 and FY 2020 show actual data. No event activity in FY 2021 due to COVID-19 closure. SDCCC conservatively forecasted data for FY 2022.

City Agencies: Convention Center

In a remarkable effort, SDCCC staff collaborated with the City and its partner agencies to convert the Convention Center into a temporary homeless shelter for homeless citizens effective April 1, 2020. The shelter closed almost a year later in March of 2021. More than 4,000 of the San Diego's most vulnerable citizens were served by this homeless shelter.

Emergency Intake Site: Immediately following the closure of the temporary homeless shelter, the federal government and local officials asked SDCCC if the facility could be used as an Emergency Intake Site (EIS) for unaccompanied children seeking asylum. SDCCC agreed and the EIS opened on March 26, 2021. Since then, the facility has provided a safe and nurturing environment for up to 1,450 children while they wait to be reunited with family or sponsors in the United States.

The EIS is scheduled to close on July 15, 2021. This will enable SDCCC to begin cleaning, repairing, and readying the facility for a return to more normalized operations in FY 2022. Convention and event activity will slowly begin to resume this summer although significant State restrictions remain in effect.

SDCCC is being reimbursed for certain operating costs by the Office of Refugee Resettlement (ORR). The reimbursement revenue is enabling SDCCC to rehire needed employees who were displaced (by layoff or furlough) due to the pandemic. In addition to their work supporting the facility and operations, these employees are helping to provide certain services for the EIS as is required by the ORR.

Key Assumptions for FY 2022 Budget

In order to develop a budget for FY 2022, SDCCC staff had to make assumptions about when conventions/events would resume at the facility and associated attendance. In early March, staff conservatively estimated event activity would not resume until October 2021 and those events would have significantly reduced attendance. More specifically, it was

assumed that event attendance would be 25% from October through December, increase to 40% for January events, and then grow by 5% per month through June 2021 when assumed attendance levels would have grown to 65%. SDCCC further assumed the facility would not be hosting any medical conferences until January 2022.

Overview of the Board Approved FY 2022 Proposed Budget

On March 22, 2021, the SDCCC Board reviewed and approved a budget for FY 2022. A comparison of this budget to SDCCC's FY 2021 operating budget is provided in the Summary of Operating Budget Changes table on the following page.

The FY 2022 expenditure budget for the Convention Center is approximately \$30.0 million, an increase of \$3.9 million 222,000 or 15.1% over the FY 2021 Budget. It is important to note that SDCCC will need to fully deplete their operating reserve to cover the projected Operating Revenue shortfall in the Board approved budget for FY 2022.

Personnel Expense

The FY 2022 budget includes total personnel expenses of \$17.8 million, an increase of approximately \$2.5 million or 16.0% from the FY 2021 budget. This is the net result of a \$3.5 million increase in salaries and wages and a \$1.0 reduction in fringe benefit expense.

Staffing Levels

There are 214.89 FTE positions in the FY 2022 budget, an increase of 76.37 FTE positions as compared to the FY 2021 budget. Approximately 94% of the 76.37 FTE positions are hourly positions. This increase is explained by the need to add back displaced (layoff and furlough) employees to be ready to resume convention related business beginning in the 4th quarter of 2021. Additionally, more employees have been needed to support the effort to house 1,450 unaccompanied migrant children through July 15, 2021.

City Agencies: Convention Center

SUMMARY OF CONVENTION CENTER OPERATING BUDGET CHANGES						
	FY 2020 Actual	FY 2021 Budget	FY 2021 Projected	FY 2022 Budget	Increase/ (Decrease)*	Percent Change*
OPERATING REVENUES						
Building Rent (net of rent credits)	\$6,816,666	\$588,310	\$403,530	\$6,220,630	\$5,632,320	957.4%
Food and Beverage	9,735,975	763,510	281,250	3,914,420	\$3,150,910	412.7%
Event Services	3,182,992	469,150	311,240	1,420,250	\$951,100	202.7%
Utilities	3,836,062	347,190	40,370	1,983,740	\$1,636,550	471.4%
Telecommunications	3,702,250	578,090	460,940	1,977,670	\$1,399,580	242.1%
Audio & Visual Services	809,296	57,550	-	410,810	\$353,260	613.8%
Business Development	249,979	181,450	160,000	433,490	\$252,040	138.9%
Interest/Investment Income	228,199	19,230	8,000	9,600	(\$9,630)	-50.1%
Other Revenues	151,961	34,410	43,060	22,260	(\$12,150)	-35.3%
Operating Inflow from City - Marketing Support	2,133,025	-	-	-	\$0	
Operating Inflow from City - Shelter to Home	508,212	13,798,200	20,801,180	-	(\$13,798,200)	-100.0%
Operating Inflow from City - Subsidy Funding	-	-	-	10,196,440	\$10,196,440	
Operating Inflow from SDTMD - Grant	-	-	-	90,000	\$90,000	
TOTAL OPERATING REVENUES & INFLOW	\$31,354,617	\$16,837,090	\$22,509,570	\$26,679,310	\$9,842,220	58.5%

OPERATING EXPENSES						
Salaries and Wages - Full Time Staff	\$13,773,201	\$9,022,880	\$8,535,870	\$10,888,620	\$1,865,740	20.7%
Salaries and Wages - Part Time Staff	3,920,980	599,370	1,194,680	2,202,960	\$1,603,590	267.5%
Fringe Benefits (Health-Pension-Other)	4,772,451	5,760,110	5,006,530	4,745,760	(\$1,014,350)	-17.6%
Subtotal Personnel Expenses:	\$22,466,632	\$15,382,360	\$14,737,080	\$17,837,340	\$2,454,980	16.0%
General Expenses	\$2,831,889	\$1,654,600	\$1,231,260	\$1,402,390	(\$252,210)	-15.2%
Repair and Maintenance	2,633,537	2,411,110	2,072,340	3,232,870	\$821,760	34.1%
Utilities	3,808,531	2,995,490	2,846,200	3,425,250	\$429,760	14.3%
Contracted Services	661,557	1,001,270	545,100	691,580	(\$309,690)	-30.9%
Travel & Transportation	107,859	12,940	6,760	58,240	\$45,300	350.1%
Insurance	495,616	621,890	527,570	717,790	\$95,900	15.4%
Telecommunications	57,927	51,420	38,420	52,300	\$880	1.7%
Sales & Marketing	2,224,205	1,515,230	1,502,100	1,966,500	\$451,270	29.8%
Supplies	560,588	380,750	359,150	566,930	\$186,180	48.9%
Subtotal Non-Personnel Expenses:	\$13,381,709	\$10,644,700	\$9,128,900	\$12,113,850	\$1,469,150	13.8%
TOTAL OPERATING EXPENSES	\$35,848,341	\$26,027,060	\$23,865,980	\$29,951,190	\$3,924,130	15.1%

NET OPERATING REVENUES/(EXPENSES)	(\$4,493,724)	(\$9,189,970)	(\$1,356,410)	(\$3,271,880)	\$5,918,090	-64.4%
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DEBT SERVICE OBLIGATIONS	FY 2020	FY 2021	FY 21 Proj	FY 2022	\$ Change	% Change
Interest Expense	\$891,362	\$864,220	\$864,220	\$836,100	(\$28,120)	-3.3%
Loan Administration Fee	74,487	72,220	74,300	72,030	(\$190)	-0.3%
Principle: Warehouse Lease	2,197	2,200	2,200	2,200	\$0	0.0%
Principle: I-Bank Loan	731,973	783,200	758,250	783,200	\$0	0.0%
TOTAL DEBT SERVICE OBLIGATION	\$1,700,019	\$1,721,840	\$1,698,970	\$1,693,530	(\$28,310)	-1.6%

* Increase/(Decrease) and Percent Change figures are calculated using budgeted numbers for FY 2021 and FY 2022.

City Agencies: Convention Center

Staffing Levels (*continued*)

Of the 214.89 FTE positions in the FY 2022 budget, 59.48 (27.7%) are full-time staff and 155.41 (72.3%) are hourly part-time staff.

Non-Personnel Expenses

Non-Personnel Expenses (NPE) increased by approximately \$1.5 million or 13.8%, from \$10.6 million in FY 2021 to \$12.1 million in FY 2022. The NPE line items with the most significant year-over-year change are briefly described below:

General Expenses: Decreases by approximately \$252,000 or 15.2% from \$1.7 million in FY 2021 to \$1.4 million in FY 2022. The decrease is attributable to reduced revenues due to the pandemic forcing a deferral of planned expenditures for furniture, fixtures and equipment.

Repair and Maintenance: This line item is budgeted to increase by \$822,000 or 34.1%. Most of this increase (\$500,000) is for the replacement of smoke detectors in the east building to provide continuity of fire life safety continuity in the Convention Center.

Utilities: This expense category decreases by \$430,000 or 14.3% due to the expectation for increased events and activity in the building.

Contracted Services: The budget for this line item is decreasing by \$310,000 or 30.9% and relates to the deferral of planned expenditures for furniture, fixtures and equipment.

Sales & Marketing: This expense line item increases by \$451,000 or 29.8% for the marketing contract with the San Diego Tourism Authority (SDTA). This amount covers SDCCC's share of SDTA rebuilding their Citywide Sales Team to meet the need as tourism begins to rebound from the pandemic in FY 2022.

Supplies: Expenses expected to grow by \$186,000 or 48.9% for increased personal protective equipment and housekeeping supplies.

Revenue

Budgeted revenue for the Convention Center increases by approximately \$9.8 million or 58.5% from \$16.8 million in FY 2021 to \$26.7 million in FY 2022. This net year-over-year decrease largely results from changes in the following revenue line items:

Net Building Rent: Revenue is expected to increase by \$5.6 million from \$588,000 in FY 2021 to \$6.2 million in FY 2022. SDCCC expects the facility to reopen in October and host 76 events. The increased building rent is expected from Conventions & Trade Shows (\$4.5 million), Consumer Shows (\$484,000), and Meetings & Seminars (\$219,000).

Note: For the projected revenue line items discussed below, SDCCC assumed the following: 1) no events until October 2021; 2) events from October through December will have 25% attendance; 3) January attendance increases to 40%; 4) attendance thereafter grows by 5% per month through the end of June 2022 - so 65% attendance is projected for events in June 2022; and 5) the Convention Center will not be hosting any medical shows until January 2022.

Food & Beverage: Revenue is budgeted to decrease by \$3.2 million from \$764,000 in FY 2021 to \$3.9 million in FY 2022 due to increased building activity and, more specifically, higher catering and concession commissions from Convention & Trade Shows and Corporate Events.

Event Services: Revenue from event services is budgeted to increase by \$951,000 from \$469,000 in FY 2021 to \$1.4 million in FY 2022 due to the expected resumption of events and activity in the building in FY 2022.

Utilities: SDCCC provide utility services (e.g., exhibit booth electrical hook-up) to users of the facility and receives a commission for these services. Based on the activity planned for the facility in FY 2022, budgeted revenue from utility-related services has been

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increased by \$1.6 million from \$347,000 in FY 2021 to \$2.0 million in FY 2022.

Telecommunications: Budgeted revenue from telecommunications-related commissions increases by \$1.4 million from \$578,000 in FY 2021 to \$2.0 million in FY 2022 due to the expected resumption of activity in the building.

Audio & Visual Services: Budgeted revenue from audio and visual services increases by \$353,000 from \$58,000 in FY 2021 to \$411,000 in FY 2022 also due to the expected resumption of activity in the building.

Business Development: This line item used to be called Naming Rights and Sponsorship. Revenue is budgeted to increase by \$252,000 from \$181,000 in FY 2021 to \$433,000 in FY 2022 due primarily to a projected increase in revenue from Digital Signage (\$197,000) and Sponsorship (\$60,000).

Other Revenue: Is expected to decrease by \$130,000 or 54.2% due primarily to a reduction in recycle rebates.

City of San Diego: The City did not budget a \$2.1 million support payment for SDCCC's long-term marketing agreement with the San Diego Tourism Authority (SDTA) in FY 2021 and none is proposed for FY 2022. City payments in support of Operation Shelter to Home have also been discontinued in Mayor's FY 2022 Proposed Budget as the temporary shelter closed in March 2021.

City \$10.2M Operating Subsidy for FY 2022: To help SDCCC remain solvent in light of the adverse economic impact of the COVID-19 pandemic on Convention Center operations, the FY 2022 Proposed Budget includes a \$10.2 million operating subsidy for SDCCC. Assuming SDCCC exhausts their operating reserve, it is expected that the \$10.2 million City subsidy will just enable SDCCC to cover minimum necessary operating expenses in FY 2022.

Other Annual City Payments Supporting the Convention Center — \$13.3M

In addition to the proposed \$10.2 million operating subsidy to SDCCC in FY 2022, the City is responsible for making annual debt service and dewatering payments in support of the Convention Center facility as described in the next paragraph. These payments total \$13.3 million in FY 2022 and are funded with Transient Occupancy Tax (TOT) revenue. These expenses are included as line items in the Special Promotional Programs budget (on pages 658 and 659 of Volume II of the FY 2022 Proposed Budget) and are also shown in the budget for the Convention Center Expansion Administration Fund (on page 122 of Volume II of the FY 2022 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 2022. 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 2022) - dewatering removes unwanted groundwater from the Convention Center facility.

The total payment in support of the Convention Center facility (\$13.2M) and SDCCC operations (one-time subsidy of \$10.2M) is \$23.5 million. This total amount is shown in budget for the Convention Center Expansion Administration Fund (on page 122 of Volume II of the FY 2022 Proposed Budget).

While this total payment is a significant portion of the City's General Fund budget, it is important to remember that Convention Center operations historically return significantly more tax revenue to the General Fund than the

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OPERATING RESERVE ACTIVITY	FY 2020 ACTUAL	FY 2021 FORECAST	FY 2022 BUDGET
Beginning Operating reserve	\$13,674,080	\$3,464,820	\$4,179,660
+ Net Operating Revenues	(4,493,720)	(1,356,410)	(3,271,880)
+ PPP Loan Forgiveness	0	4,387,000	2,000,000
-Debt Service payments	(1,700,020)	(1,698,970)	(1,693,530)
-Capital Outlay:			
-for Capital Infrastructure Projects	(2,396,840)	(100,000)	(3,500,000)
+ for Operating Capital Needs	(1,618,680)	(516,780)	(464,250)
+ Debt Finance Capital:	0	0	2,750,000
Ending Reserve Balance	\$3,464,820	\$4,179,660	\$0
Ending Balance Expressed as Reserve Percentage	9.23%	10.30%	0.00%
Minimum Reserve Balance -8% per policy	\$3,003,974	\$3,246,579	\$2,989,105
Over / (Under) Minimum Reserve Balance	\$460,846	\$933,081	(\$2,989,105)

support costs. Additionally, Convention Center activity creates thousands of jobs, supports City businesses, and has a positive economic ripple effect throughout the local economy.

Issues to Consider

SDCCC's Reserve Policy

The Reserve Policy adopted by the SDCCC Board in 2016 calls for a minimum reserve of at least 8%, 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."

As shown in the table above, the Ending Reserve Balance shows projected funds remaining after accounting for net operating revenues, debt payment obligations, loan proceeds received, and money spent for capital needs at the facility. **The projected Ending Reserve Balance in FY 2022 is projected to be exhausted which makes SDCCC vulnerable to unanticipated expenses and/or downturns in event activity and revenue. Additionally, the lack of an adequate reserve makes it more likely that SDCCC might require additional operating subsidies in future years.**

It should also be noted that SDCCC uses their reserves to finance critical capital projects at the facility. Prior to the pandemic, SDCCC was just able to manage the challenge of balancing the need to spend for critical capital projects with the competing goal of achieving their reserve policy goals. The dramatic downturn in normal business activity due to the pandemic has caused SDCCC to defer needed capital investment and exhaust their reserves. Going forward, the need to maintain adequate reserves will compete with the need to address identified CIP and Operating Capital needs.

Additionally, the CFO shared that another area of concern is having insufficient operating budget to address other important operating expenses (i.e., regular replacement of tables and chairs).

Updating the 10-Year CIP and Operating Capital Needs Assessment

SDCCC must continue to maintain and improve the Convention Center facility to remain attractive/competitive and ensure the safety of its visitors. **The facility is currently undergoing a comprehensive facility condition assessment to address replacement and modernization of expiring assets. SDCCC staff anticipates the final assessment will identify hundreds of millions of future CIP needs to rehabilitate the Convention Center.**

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In the near term, SDCCC is focused on three much needed improvement projects:

- Design and construction of a new roof for the West Building. This project will occur in FY 2022 and FY 2023 at a cost of approximately \$6.8 million.
- Replace and modernize carpet in the facility's meeting rooms. This project will be completed in FY 2022 at a cost of about \$750,000.
- Replacing the following: critical equipment in the kitchen (\$156,000); injector pumps in the parking garage (\$150,000); and a damper control for the building HVAC system (\$58,000). These projects are planned for completion in FY 2022.

It will be critically important for SDCCC staff to work with their Board and the City to develop a long-term financing plan to begin to address the most important capital needs identified in the pending condition assessment.

Recent Changes Since SDCCC's Budget was Adopted on March 22nd

There have been several important developments since assumptions were made to develop SDCCC's adopted budget for FY 2022.

- The contract with the United States Office of Refugee Resettlement (ORR) for the operation of the EIS for unaccompanied children became effective on March 27th, less than a week after Board adoption of the budget for FY 22. The EIS will remain in operation for 15 weeks and resulting reimbursements for services will likely improve SDCCC's finishing budget condition for FY 2021 and also help a little in FY 2022.
- Timing and attendance assumptions about the resumption of activity in the

building in FY 2022 strengthened. Event activity is now expected to return in August and attendance levels are estimated to be slightly higher than the assumptions used to develop the FY 2022 budget. This means there will likely be more revenue and expense than budgeted.

- More laid-off staff have recently been recalled to support the EIS and help ensure continuity of operations given the current expectation of event activity beginning in August 2021.

SDCCC's CFO intends to modify the adopted budget for presentation to the Board later this year. The Board may subsequently approve a revised FY 2022 budget to better reflect the budgetary implications of these recent developments. It is possible that added revenue could more than offset added expenses by some unknown amount. If so, this could enable SDCCC to begin to restore their depleted reserves and/or address other critical operational or capital needs.

The CFOs from the City and SDCCC have agreed to review Convention Center revenues and expenses monthly in FY 2022 to determine if adjustments to the \$10.2 million operating subsidy are needed. Given uncertainty about how Convention Center activity will resume and possible changes to the adopted budget for FY 2022, the City Council may wish to request SDCCC staff provide them with a budget update sometime before the end of calendar 2022.

Voter Approval of Measure C

On March 3, 2020, Measure C (a citizens' initiative bond measure) received support from 65.24% of the voters – strong majority support but just under the two-thirds threshold. Measure C proposed increasing the hotel visitor tax (TOT) and using the resulting proceeds to fund Convention Center expansion and mod-

City Agencies: Convention Center

ernization and other Convention Center purposes, homelessness services and programs, and street repairs.

There has been some debate as to the sufficiency of the public vote for Measure C. Some argue it requires a two-thirds vote because it is a special tax which traditionally has required a two-thirds vote in California. Others point to three recent appellate court decisions concluding that a special tax proposed by a citizens' initiative requires only a simple majority vote of approval.

In reliance on the three appellate court decisions, the City Council approved a resolution on April 6, 2021 declaring that Measure C was approved by the voters. The Council also approved two separate resolutions authorizing the issuance of bonds (supported by Measure C proceeds) for Modernization Improvements at the Convention Center and for Homelessness Programs throughout the City. Additionally, the City is now asking a trial court to confirm that Measure C was in fact approved by the voters.

If the trial court were to affirm that Measure C was approved by the voters in March 2020 and if this decision is not successfully appealed, then SDCCC could have a viable resource to fund Convention Center Modernization Improvements to include many of the current critical capital needs at the Convention Center facility. The City will not move forward with the tax increase or the financing until receiving a court determination that Measure C was approved by the voters. It could take a year or longer for the City to receive this court determination.