



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of City Agencies FY 2023 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 10th, 2022. Our review is attached.

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Baku Patel
Fiscal & Policy Analyst

A handwritten signature in blue ink, appearing to read "Charles Modica".

APPROVED: Charles Modica
Independent Budget Analyst

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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 data for FY 2019 and FY 2020 and projected data for FY 2022 and FY 2023. There is no reportable data for FY 2021 given that the Convention Center was prohibited from normal operations.

SDCCC had record-setting performance in

FY 2019, the last full year of activity before the COVID-19 pandemic. State restrictions on large gatherings went into effect on March 11, 2020 (FY 2020) which fully ceased all convention activity. Shortly thereafter, SDCCC staff collaborated with the City and other partner agencies to convert the Convention Center into a temporary shelter for homeless individuals which operated between April 1, 2020 and March 23, 2021. More than 4,000 people were served by this homeless shelter, which received \$20.3 million in total funding from the City of San Diego.

Immediately following the closure of the temporary homeless shelter, the federal government 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 and operated through July 15, 2021. During this time, more than 2,400 children reunited with family members or sponsors in the United States. SDCCC was reimbursed \$22.2 million for certain operating costs by the U.S Department of Health and Human Services, Office of Refugee Resettlement. This revenue enabled SDCCC to rehire needed employees who were displaced (by layoff or furlough) due to the pandemic and significantly improve its operating reserve position.

Actual and Forecasted Benefits from Operations ¹	FY 2019 Actual Results	FY 2020 Actual Results through 3-11-20	FY 2022 Year-End Estimate	FY 2023 Projected ²
Regional Economic Impact	\$1.3 billion	\$977.4 million	\$889.2 million	\$1.2 billion
Direct Attendee Spending	\$755.3 million	\$575.1 million	\$523.3 million	\$705.8 million
Hotel & Sales Tax Revenue	\$29.0 million	\$21.3 million	\$23.5 million	\$25.2 million
Hotel Room Nights (contracted only)	823,000	513,000	583,000	710,000
Exhibit Hall Occupancy	83.2%	71.3%	51.9%	71.4%
Number of Conventions and Events	143	115	90	85
Attendance (Primary Business)	606,000	408,000	282,000	555,000

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

²) Assumes attendance in FY 2023 restored to 85-90% of pre-pandemic rates.

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Since the Convention Center reopened for events in August 2021 (FY 2022), SDCCC staff has indicated that demand to hold events is strong and new bookings remain very active. For FY 2023, continued improvement in attendance is anticipated at near pre-pandemic levels, with the possibility of full recovery some time in FY 2024.

Overview of the Board Approved FY 2023 Proposed Budget

On March 23, 2023, the SDCCC Board reviewed and approved its budget for FY 2023. A comparison of this budget to SDCCC's FY 2022 operating budget is provided in the Summary of Operating Budget Changes table on the following page.

The FY 2023 expenditure budget for the Convention Center is approximately \$42.5 million, an increase of \$7.5 million or 21.6% over the FY 2022 Budget.

Personnel Expense

The FY 2023 budget includes total personnel expenses of \$25.5 million, an increase of approximately \$4.4 million or 21.1% from the FY 2022 budget, primarily due to the recalling of staff in support of increased event activity. Additionally, part of this increase is attributed to market salary adjustments and the creation of a new department for the coordination of capital improvements and maintenance projects. FY2023 Personnel Expenses are approximately \$3.8 million and \$1.5 million higher than the pre-COVID actual results from FY 2018 and FY 2019 respectively.

There are 313.00 FTE positions in the FY 2023 Budget, an increase of 86.49 FTE positions compared to the FY 2022 budget. Approximately 82% of the 86.49 FTE positions are hourly positions.

Non-Personnel Expenses

Non-Personnel Expenses (NPE) increased by approximately \$3.1 million or 22.4%, from \$13.9 million budgeted in FY 2022 to \$17.0 million in FY 2023. The NPE line items with

the most significant year-over-year change are briefly described below:

Repair and Maintenance: This line item is budgeted to increase by \$944,000 or 24.5%. This increase is primarily related to necessary HVAC equipment replacements, water intrusion projects, cloud-based storage needs, and various electrical repairs/replacements.

Utilities: This expense category is increasing by \$677,000 or 17.3% due to the expectation for increased event activity in the building.

Contracted Services: The budget for this line item is increasing by \$847,000 or 122.5% primarily for contracted facility condition inspections related to plumbing and electrical systems.

Sales & Marketing: This expense line item increases by \$672,000 or 33.1% for the new marketing contract with the San Diego Tourism Authority (SDTA).

Revenue

Budgeted revenue for the Convention Center increases by approximately \$7.1 million or 21.2%, from \$33.7 million in FY 2022 to \$40.8 million in FY 2023. This net year-over-year increase largely results from changes in the following revenue line items:

Net Building Rent: Revenue is expected to increase by \$2.1 million from \$6.9 million in FY 2022 to \$9.0 million in FY 2023. This increase is primarily due to the diminishing impact of the COVID-19 pandemic as case numbers and regulations decline. FY 2023 is budgeted to host 91 events, including 69 primary events (matching pre-pandemic levels). A majority of the increase is attributed to Convention & Trade Shows (\$1,642,530), followed by Corporate Events (\$493,940).

Food & Beverage: Revenue is budgeted to increase by \$6.6 million, from \$5.2 million in FY 2022 to \$11.8 million in FY 2023 due to catering and concession commissions from increased Convention & Trade Show activity.

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SUMMARY OF CONVENTION CENTER OPERATING BUDGET CHANGES					
	FY 2022 Budget	FY 2022 Projected	FY 2023 Budget	Increase/ (Decrease)*	Percent Change*
OPERATING REVENUES					
Building Rent (net of rent credits)	\$6,859,910	\$8,044,900	\$8,966,390	\$2,106,480	30.7%
Food and Beverage	5,193,910	4,908,320	11,790,680	6,596,770	127.0%
Event Services	2,021,060	1,874,050	3,764,740	\$1,743,680	86.3%
Utilities	3,249,140	3,246,150	6,558,200	\$3,309,060	101.8%
Telecommunications	2,575,680	3,327,930	3,947,770	\$1,372,090	53.3%
Audio & Visual Services	577,570	693,690	1,100,220	\$522,650	90.5%
Business Development	504,500	448,000	876,100	\$371,600	73.7%
Interest/Investment Income	9,600	(100,000)	100,000	\$90,400	941.7%
Other Revenues	27,060	61,260	80,260	\$53,200	196.6%
Operating Inflow from City - Marketing Support	-	-	2,650,000	\$2,650,000	∞%
Operating Inflow from City - Capital Needs	-	-	1,000,000	1,000,000	∞%
Operating Inflow from City - Subsidy Funding	10,196,440	6,000,000	-	(10,196,440)	-100.0%
Operating Inflow from SDTMD - Grant	90,000	90,000	-	(90,000)	-100.0%
Emergency Intake Site	2,400,000	2,452,260	-	(2,400,000)	-100.0%
TOTAL OPERATING REVENUES	\$33,704,870	\$31,046,560	\$40,834,360	\$7,129,490	21.2%

OPERATING EXPENSES					
Salaries and Wages - Full Time Staff	\$12,842,240	\$13,484,970	\$15,289,590	\$2,447,350	19.1%
Salaries and Wages - Part Time Staff	2,782,310	3,413,160	4,668,190	\$1,885,880	67.8%
Fringe Benefits (Health-Pension-Other)	5,403,530	3,952,520	5,501,180	\$97,650	1.8%
Subtotal Personnel Expenses:	\$21,028,080	\$20,850,650	\$25,458,960	\$4,430,880	21.1%
General Expenses	\$1,951,300	\$1,295,690	\$1,972,740	\$21,440	1.1%
Repair and Maintenance	3,851,190	3,175,630	4,795,260	\$944,070	24.5%
Utilities	3,917,350	4,292,000	4,594,560	\$677,210	17.3%
Contracted Services	691,580	909,050	1,538,520	\$846,940	122.5%
Travel & Transportation	83,240	42,170	67,180	(\$16,060)	-19.3%
Insurance	717,790	606,610	683,230	(\$34,560)	-4.8%
Telecommunications	52,300	35,700	59,650	\$7,350	14.1%
Sales & Marketing	2,030,520	1,934,860	2,702,310	\$671,790	33.1%
Supplies	612,090	457,880	603,400	(\$8,690)	-1.4%
Subtotal Non-Personnel Expenses:	\$13,907,360	\$12,749,590	\$17,016,850	\$3,109,490	22.4%
TOTAL OPERATING EXPENSES	\$34,935,440	\$33,600,240	\$42,475,810	\$7,540,370	21.6%

NET OPERATING REVENUES/(EXPENSES)	(\$1,230,570)	(\$2,553,680)	(\$1,641,450)	(\$410,880)	33.4%
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DEBT SERVICE OBLIGATIONS	FY 2022	FY 22 Proj	FY 2023	\$ Change	% Change
Interest Expense	\$836,100	\$836,100	\$806,980	(\$29,120)	-3.5%
Loan Administration Fee	72,030	69,690	67,440	(\$4,590)	-6.4%
Principle: Warehouse Lease	2,197	2,200	1,650	(\$547)	-24.9%
Principle: I-Bank Loan	785,471	785,470	813,670	\$28,199	3.6%
TOTAL DEBT SERVICE OBLIGATION	\$1,695,798	\$1,693,460	\$1,689,740	(\$6,058)	-0.4%

* Increase/(Decrease) and Percent Change figures are calculated using budgeted numbers for FY 2022 and FY 2023.

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Event Services: Revenue from event services is budgeted to increase by \$1.7 million from \$2.0 million in FY 2022 to \$3.8 million in FY 2023 due to the expected increase of events and activity in the building in FY 2023.

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 2023, budgeted revenue from utility-related services has been increased by \$3.3 million from \$3.2 million in FY 2022 to \$6.6 million in FY 2023.

Telecommunications: Budgeted revenue from telecommunications-related commissions increases by \$1.4 million from \$2.6 million in FY 2022 to \$3.9 million in FY 2023 due to the expected increased activity in the building.

City of San Diego Support Payment: SDCCC's FY 2023 Budget assumes \$3.7 million in support payments from the City. Of this amount, \$2.7 million is to cover SDCCC's cost under a recently renegotiated long-term marketing agreement with the San Diego Tourism Authority (SDTA) and \$1.0 million was assumed for the facility's near-term capital needs.

We note that the Mayor's FY 2023 Proposed Budget includes only the \$2.7 million portion for SDTA long-term sales and marketing costs. While the City did not budget a support payment for long-term marketing in FY 2021 or FY 2022, a \$10.2 million general operating subsidy was included in the City's FY 2022 Adopted Budget to cover SDCCC's minimum necessary operating costs. As is discussed later in this report, SDCCC will utilize \$1.0 million from the \$10.2 million operating subsidy from the City in FY 2022 to fill this gap in SDCCC's FY 2023 Budget.

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

In addition to the \$2.7 million support pay-

ment to SDCCC in Mayor's FY 2023 Proposed Budget, 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 2023 and are funded with Transient Occupancy Tax (TOT) revenue. These expenses are included as line items in the Special Promotional Programs budget (on pages 633-637 of Volume II of the FY 2023 Proposed Budget) and are also shown in the budget for the Convention Center Expansion Administration Fund (on page 110 of Volume II of the FY 2023 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 2023. 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 2023) - dewatering removes unwanted groundwater from the Convention Center facility.

The total funding in the Mayor's FY 2023 Proposed Budget in support of the Convention Center facility (\$13.3 million) and SDCCC operations (\$2.7 million) is \$16.0 million.

While this overall amount 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.

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OPERATING RESERVE ACTIVITY	FY 2021 ACTUAL	FY 2022 FORECAST	FY 2023 BUDGET
Beginning Operating reserve	\$18,631,039	\$19,871,670	\$20,061,228
+ Net Operating Revenues	18,158,646	(2,553,680)	(1,641,450)
+ PPP Loan Forgiveness	0	6,387,000	0
- Debt Service payments	(1,696,885)	(1,693,460)	(1,689,740)
- Capital Outlay (net of debt)	(52,847)	(1,950,302)	(3,056,700)
Ending Reserve Balance	\$19,871,670	\$20,061,228	\$13,673,338
Ending Balance Expressed as Reserve Percentage	48.97%	53.69%	34.92%
Minimum Reserve Balance - 8% per policy	\$3,246,579	\$2,989,110	\$3,132,124
Over / (Under) Minimum Reserve Balance	\$16,625,091	\$17,072,118	\$10,541,214

Issues to Consider

SDCCC's Reserves

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."

SDCCC's FY 2022 Budget assumed that a full depletion of operating reserves would be necessary, in addition to the \$10.2 million operating subsidy from the City, to cover minimum necessary operating expenses in FY 2022.

However, primarily as a result of the \$22.2 million in revenue received from the U.S. Department of Health and Human Services for EIS operations and the full forgiveness of \$6.4 million in Paycheck Protection Program (PPP) loans, SDCCC now projects that it will end FY 2022 with approximately \$20.1 million in reserves; \$17.1 million above the minimum reserve target. FY 2023 is projected to have an Ending Reserve Balance of \$13.7 million, which is \$10.5 million above the minimum reserve target.

The influx of revenue from EIS operations and resulting improvement in operating reserves has also reduced the amount of funding that is required from the City this fiscal year (FY 2022) to subsidize SDCCC operations. Of the \$10.2 million operating subsidy from the City, \$6.0 million is projected by SDCCC to be the total amount required through the end of FY 2022. The balance (\$4.2 million) is expected to be utilized for capital and maintenance needs in FY 2023.

New 20-Year CIP Needs Assessment

SDCCC is currently undergoing a comprehensive facility condition assessment to address the replacement and modernization of expiring assets. While this assessment 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.

On March 23, 2022, SDCCC's Board received and reviewed preliminary near-term projections for CIP and operating capital equipment needs over the next five years (FY 2023-2027) totaling \$104.8 million (in 2023 dollars). This represented the first look and these detailed projections, which are based on condition assessments performed by SDCCC staff and consultants on major capital and maintenance needs, provide the latest cost estimates, show which projects need to be undertaken, and

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when they should be undertaken, in order to properly maintain the Convention Center facility. The table below presents the projected annual CIP and Operating Capital Equipment figures, and total annual costs over the next five fiscal years.

Fiscal Year	Projected Cost (in 2023 Dollars)
FY 2023	\$ 8,216,700
FY 2024	\$ 25,306,540
FY 2025	\$ 21,001,000
FY 2026	\$ 21,961,075
FY 2027	\$ 28,320,129
Total	\$ 104,805,444

SDCCC staff anticipate that the cost projections in the full 20-Year CIP Needs Assessment, which is expected to be finalized in within the next six months, will be in excess of \$250 million (in 2023 dollars; actual costs after accounting for inflation will be significantly higher).

Long-term Funding Plan is Needed

Near-term capital needs are projected to total \$33.5 million over the next two fiscal years (\$8.2 million and \$25.3 million in FY 2023 and FY 2024, respectively). Notable projects include the replacement of the West Building Roof (\$13.2 million), various HVAC system replacements/refurbishments (\$12.2 million) and a remodeling of the West Kitchen (\$3.7 million).

According to SDCCC, the replacement of the West Building Roof is a significant priority. The preliminary estimate of \$13.2 million for this project assumes as like-for-like replacement; however, SDCCC staff have indicated that they are evaluating other roofing options that would add solar generation to the project which may potentially allow for financing under an Energy Savings Performance Contract.

In addition, SDCCC staff are exploring other financing options, such infrastructure State

Revolving Fund (ISRF) loan(s) from the State of California's Infrastructure and Economic Development Bank (I-Bank) which have been utilized in the past. The remaining funding needs are assumed to be addressed through a combination of SDCCC operating reserves and requests for additional City funding.

Considering the overall magnitude of needs that are anticipated to be detailed in the full 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 occurs, **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.**