



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: May 7, 2015 REPORT NO:
ATTENTION: Budget Review Committee
SUBJECT: Technical Review of San Diego Convention Center Corporation Budget
REFERENCE: Fiscal Year 2016 Proposed Budget

REQUESTED ACTION: This is an information item. No action is required.

SUMMARY:

This report is the Financial Management Department's technical review of the San Diego Convention Center Corporation's Fiscal Year 2016 Proposed Budget. This report is submitted to the Budget Review Committee in order to show changes in year-to-year Agency budgeting and spending. These technical reviews of the Agency budgets include details on budgeted expenditures, salary information, and funding sources. Agencies were asked to provide actual expenditures and revenues for Fiscal Year 2014 (either audited or unaudited), budgeted and projected expenditures and revenues for Fiscal Year 2015, and the proposed budget for Fiscal Year 2016.

OVERVIEW AND BACKGROUND

The City of San Diego publishes a City Agencies chapter within Volume I of the Proposed and Adopted Budgets. This chapter consists of website links to the respective Agency Budgets published for the public's information; among the Agencies included in this chapter is the San Diego Convention Center Corporation (SDCCC). The City does not play a role in either constructing or monitoring the Agency budgets.

SDCCC was formed under the California Non-Profit Corporation Law to market, manage and operate public assembly facilities. The San Diego Convention Center is operated by the SDCCC under the current agreement (Resolution R-300480). Under the agreement, SDCCC is allowed independent contractor status and as such is not an agent of the City.

Over 150 events ranging from national conventions to trade shows and corporate events are held at the San Diego Convention Center, attracting hundreds of thousands of visitors each year. The San Diego Convention Center 2015 Forecast estimates events in calendar year 2015 will generate approximately 685,907 contracted block hotel room nights and over \$600 million in direct spending. The events scheduled at the San Diego Convention Center fall within one of the four event type categories; Convention & Trade Shows, Corporate Events, National Trade Shows, and Secondary/Local. The SDCCC provides an online 18-month calendar of projected events and

conventions, attendance, and estimated contracted block hotel room nights, among others, generated in the City of San Diego by the convention center. The overall trend for attendance has increased from Fiscal Year 2014 to Fiscal Year 2016. Details regarding Fiscal Year 2014 Events and Attendance, Fiscal Year 2015 Events and Attendance, and the Fiscal Year 2016 Proposed Events and Attendance, are displayed in the table below.

**CONVENTION CENTER CORPORATION EVENTS AND ATTENDANCE
FISCAL YEARS 2014 – 2016**

San Diego Convention Center Corporation Events and Attendance						
Event Type	FY 2014 Actual Total Events	FY 2014 Actual Total Attendance	FY 2015 Budget Total Events	FY 2015 Budget Total Attendance	FY 2016 Budget Total Events	FY 2016 Budget Total Attendance
Convention & Trade Shows	66	500,936	63	526,234	67	557,141
Corporate Events	9	14,810	10	16,394	9	16,452
National Trade Shows	1	4,100	1	4,000	1	4,000
Secondary/Local	77	262,868	83	254,780	80	255,268
TOTAL	153	782,714	157	801,408	157	832,861

The Fiscal Year 2016 Proposed Budget discussed in this report is based on the budget presented to and approved by the full Board of Directors on March 18, 2015.

BUDGET REVIEW

The San Diego Convention Center Corporation’s (SDCCC) Fiscal Year 2016 total expense budget is \$33.8 million, which is an increase of 5.9 percent over the Fiscal Year 2015 Budget. Personnel expenditures are budgeted at \$20.9 million, an increase of \$952,621 or 4.8 percent over the Fiscal Year 2015 Budget. The increase in personnel expenses is primarily the result of a \$509,636 increase in salaries and wages and a \$442,985 increase in fringe benefits. Employee benefits are higher primarily due to a \$116,671 increase in health insurance and a \$221,029 increase in retirement plans. Full-time salaries and wages have increased 1.9 percent due to step increases for represented staff and merit increases for non-represented staff. Similar salary increases were included in the Fiscal Year 2015 Budget. Salaries and wages for part time staff increased by 8.1 percent due to an increase in budgeted hours and step increases for staff. Although the SDCCC does not project vacant full-time equivalent (FTE) positions, the cost of personnel is projected throughout the year and is captured in the Personnel Expense category. As a result, the FY 2014 Actual and FY 2015 Projected positions reflect an “N/A”. A high level table regarding Fiscal Year 2014 Actual Expenditures, Fiscal Year 2015 Projected Expenditures, and the Fiscal Year 2016 Proposed Budget, is displayed in **Table A** below.

**TABLE A: CONVENTION CENTER CORPORATION BUDGET SUMMARY
FISCAL YEARS 2014 – 2016**

Table A - San Diego Convention Center Corporation Budget Summary							
	FY 2014 Budget	FY 2014 Actual	FY 2015 Budget	FY 2015 Projected	FY 2016 Proposed Budget	FY 2015-2016 Change	FY 2015-2016 % Change
Positions	328.52	N/A	324.23	N/A	326.70	2.47	0.8%
Personnel Expense	19,596,519	19,844,875	19,976,800	20,222,109	20,929,421	\$ 952,621	4.8%
Non-Personnel Expense	13,622,101	11,986,413	11,972,803	13,301,557	12,891,240	\$ 918,437	7.7%
TOTAL EXPENSE	\$ 33,218,620	\$ 31,831,288	\$ 31,949,603	\$ 33,523,666	\$ 33,820,661	\$ 1,871,058	5.9%

The SDCCC's Fiscal Year 2016 operating budget is \$32.2 million, which is a net increase of \$1.8 million or 6.0 percent over the Fiscal Year 2015 Budget. Supplies and services are budgeted at \$11.2 million for Fiscal Year 2015, which is an increase of \$0.9 million or 8.4 percent above the Fiscal Year 2015 Budget. The increase is primarily due to a \$446,332 increase in utilities associated with higher electric rates. Additionally, the budget includes an increase of \$397,775 in general expenses, primarily due to ongoing ground lease payments associated with the temporary parking lot at the Phase III Expansion site that were partially budgeted in Fiscal Year 2015. Details regarding Fiscal Year 2014 Actual Expenditures, Fiscal Year 2015 Projected Expenditures, and the Fiscal Year 2016 Proposed Budget, are displayed in **Table B** below.

**TABLE B: CONVENTION CENTER CORPORATION EXPENDITURES
FISCAL YEARS 2014 – 2016**

Table B - San Diego Convention Center Corporation Expenditures						
	FY 2014 Budget	FY 2014 Actual	FY 2015 Budget	FY 2015 Projected	FY 2016 Proposed Budget	FY 2015-2016 Change
PERSONNEL EXPENSE						
Salaries & Wages	\$ 15,108,200	\$ 15,225,257	\$ 15,417,658	\$ 15,562,823	\$ 15,873,043	\$ 455,385
Overtime	\$ 156,072	\$ 159,285	\$ 129,905	\$ 157,924	\$ 184,156	\$ 54,251
Fringe Benefits (health)	\$ 1,512,510	\$ 1,570,405	\$ 1,697,398	\$ 1,716,719	\$ 1,814,069	\$ 116,671
Fringe Benefits (pension)(1)	\$ 2,272,575	\$ 2,254,459	\$ 2,184,804	\$ 2,199,411	\$ 2,440,731	\$ 255,927
Fringe Benefits (other)(2)	\$ 547,162	\$ 635,469	\$ 547,035	\$ 585,232	\$ 617,422	\$ 70,387
Subtotal Personnel	\$ 19,596,519	\$ 19,844,875	\$ 19,976,800	\$ 20,222,109	\$ 20,929,421	\$ 952,621
NON-PERSONNEL EXPENSE						
General Expenses	\$ 787,939	\$ 1,278,457	\$ 1,088,285	\$ 1,228,958	\$ 1,486,060	\$ 397,775
Repair & Maintenance	\$ 1,867,796	\$ 2,035,025	\$ 2,425,364	\$ 2,885,043	\$ 2,279,677	\$ (145,687)
Utilities	\$ 2,967,829	\$ 3,414,056	\$ 3,483,416	\$ 3,864,691	\$ 3,929,748	\$ 446,332
Contracted Services	\$ 519,332	\$ 405,801	\$ 448,925	\$ 424,401	\$ 463,466	\$ 14,541
Travel & Transportation	\$ 81,653	\$ 81,692	\$ 38,116	\$ 80,163	\$ 80,844	\$ 42,728
Insurance	\$ 607,838	\$ 432,927	\$ 464,082	\$ 417,114	\$ 445,940	\$ (18,142)
Telecommunications	\$ 51,915	\$ 48,394	\$ 64,888	\$ 57,492	\$ 58,995	\$ (5,893)
Sales & Marketing	\$ 2,004,200	\$ 1,995,936	\$ 2,014,189	\$ 2,027,254	\$ 2,049,522	\$ 35,333
Supplies	\$ 453,924	\$ 358,476	\$ 328,395	\$ 368,286	\$ 427,601	\$ 99,206
Subtotal Non-Personnel	\$ 9,342,426	\$ 10,050,764	\$ 10,355,660	\$ 11,353,402	\$ 11,221,853	\$ 866,193
TOTAL OPERATING EXPENSE	\$ 28,938,945	\$ 29,895,639	\$ 30,332,460	\$ 31,575,511	\$ 32,151,274	\$ 1,818,814
NON-OPERATING EXPENSE						
Depreciation	\$ 1,951,910	\$ 1,935,649	\$ 1,617,143	\$ 1,948,155	\$ 1,669,387	\$ 52,244
Deferred Capital & Maintenance	\$ 2,327,765	\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal Non-Operating	\$ 4,279,675	\$ 1,935,649	\$ 1,617,143	\$ 1,948,155	\$ 1,669,387	\$ 52,244
TOTAL EXPENSE	\$ 33,218,620	\$ 31,831,288	\$ 31,949,603	\$ 33,523,666	\$ 33,820,661	\$ 1,871,058

(1) Social Security costs included under pension benefits

(2) Other Fringe Benefits include Unemployment Insurance, Workers' Compensation Insurance & Claims, Life Insurance, L-T Disability Insurance, Public Transportation Reimbursement

Fiscal Year 2015 operating expenditures are projected to be \$1.2 million or 4.1 percent over the Fiscal Year 2015 budget of \$30.3 million, which is offset with \$1.4 million in revenues. The primary driver of this overage is an increase of \$459,679 in Repair and Maintenance expenditures

due unexpected repairs throughout the convention center leading to additional work brought on by an aging facility. The Fiscal Year 2015 utilities expenditure budget is projected to be over budget by \$381,275 in electricity due to extreme weather experienced during large conventions where air conditioning units were in operation during critical peak pricing periods, particularly in the Summer of 2014.

Significant Budget Adjustments display the major budgetary changes from Fiscal Year 2015 to Fiscal Year 2016. Details regarding Fiscal Year 2016 Significant Budget Adjustments are displayed in **Table C** below.

**TABLE C: CONVENTION CENTER CORPORATION SIGNIFICANT BUDGET ADJUSTMENTS
FISCAL YEAR 2016**

Table C - San Diego Convention Center Corporation Significant Budget Adjustments			
Significant Budget Adjustments	Positions	Revenue	Expenses
Salaries and Benefits Adjustments			
Budget reflects a net increase of 2.47 positions due entirely to an increase in part time hours. The increase in expenses is due primarily to collective bargaining step increases, merit increases for non-represented staff, increase in part time hours, and increases in employee benefit costs.	2.47	\$ -	\$ 952,621
Non-Personnel Expenditure Adjustments			
Increase in budgeted non-personnel expenditures of \$918,437 is due primarily to increases in anticipated electricity rates and an increase in ground lease rental associated with the proposed Phase III Expansion site that is budgeted for twelve months of parking lot operations in FY 2016 versus seven months budgeted in FY 2015. The parking lot operation is revenue positive overall.	0.00	\$ -	\$ 918,437
TOTAL EXPENSE ADJUSTMENTS	2.47	\$ -	\$ 1,871,058
Revenue Adjustments			
Building Rent - increase of \$11,609 is due to increases in gross rent across most event types, and particularly convention & trade shows for projected and already booked events, offset almost exactly by increases in rental credits.	0.00	\$ 11,609	\$ -
Food & Beverage - increase of \$133,789 is due to an increase in amortization of food & beverage contract extension incentive payments and an increase in anticipated event booth catering activity for convention & trade show events. Partially offsetting the increases is a decrease in anticipated event catering activity across several event types.	0.00	\$ 133,789	\$ -
Ancillary Services (1) - increase of \$1,368,889 is due primarily to higher telecommunication services commission revenues based on a new telecommunication services contract providing a substantial increase in commission rates over expiring contract and an increase in utility (exhibit booth electrical hook-up) revenues across several event types. Partially offsetting the increases is a decrease in event services revenues expected among several specific services provided to convention and trade show events.	0.00	\$ 1,368,889	\$ -
Interest & Other - increase of \$6,180 is primarily due to miscellaneous income related to recycle rebates.	0.00	\$ 6,180	\$ -
City of San Diego	0.00	\$ -	\$ -
TOTAL REVENUE ADJUSTMENTS	0.00	\$ 1,520,467	\$ -

(1) Includes revenues from Event, Utilities, Telecommunications and Audio Visual services.

The Fiscal Year 2016 Proposed Budget includes 326.70 FTE positions, which is a net increase of 2.47 FTE positions from the Fiscal Year 2015 budget. The increase in FTE consists of 2.47 non-supervisor hourly part time positions and 1.0 FTE Director position, offset by a decrease of 1.0 FTE Non-Supervisor-Salaried position. The associated increase in personnel expense is \$952,621 primarily due to collective bargaining step increases, merit increases for non-represented staff, increase in part-time hours, and increases in employee benefit costs. The full budgeted salary schedules for Fiscal Year 2015 and Fiscal Year 2016 are available in **Table D** below.

**TABLE D: CONVENTION CENTER SALARY SCHEDULE
FISCAL YEARS 2015 – 2016**

Table D - San Diego Convention Center Corporation Salary Schedule										
Position Title	FY 2015 Budget					FY 2016 Proposed Budget				
	FTE	Base Salary Subtotal	Salary Increases	Salary Total	Fringe Benefits	FTE	Base Salary Subtotal	Salary Increases	Salary Total	Fringe Benefits
President & CEO	1.00	\$ 309,230	\$ -	\$ 309,230	\$ 62,630	1.00	\$ 309,230	\$ 9,277	\$ 318,507	\$ 65,322
Vice President	4.00	\$ 764,592	\$ -	\$ 764,592	\$ 192,555	4.00	\$ 769,459	\$ 21,122	\$ 790,581	\$ 198,635
Director	11.00	\$ 1,213,344	\$ 43,978	\$ 1,257,322	\$ 330,916	12.00	\$ 1,306,094	\$ 47,919	\$ 1,354,013	\$ 371,572
Manager	5.00	\$ 403,354	\$ 11,072	\$ 414,426	\$ 158,439	5.00	\$ 408,442	\$ 9,746	\$ 418,188	\$ 150,954
Supervisor	21.00	\$ 1,202,025	\$ 29,975	\$ 1,232,000	\$ 446,178	21.00	\$ 1,194,102	\$ 29,714	\$ 1,223,816	\$ 433,121
Non-Supervisor - Salaried	37.00	\$ 2,405,935	\$ 79,532	\$ 2,485,467	\$ 773,120	36.00	\$ 2,423,658	\$ 81,760	\$ 2,505,418	\$ 855,796
Non-Supervisor - Hourly Full Time	134.00	\$ 5,360,331	\$ 168,011	\$ 5,528,342	\$ 2,079,786	134.00	\$ 5,542,685	\$ 119,152	\$ 5,661,837	\$ 2,222,656
Non-Supervisor - Hourly Part Time	111.23	\$ 3,369,348	\$ 13,199	\$ 3,382,547	\$ 399,223	113.70	\$ 3,553,545	\$ 103,735	\$ 3,657,280	\$ 466,416
Other Personnel Costs (1)	0.00	\$ -	\$ -	\$ 173,637	\$ (13,610)	0.00	\$ -	\$ -	\$ 127,559	\$ 107,750
TOTAL	324.23	\$ 15,028,159	\$ 345,767	\$ 15,547,563	\$ 4,429,237	326.70	\$ 15,507,215	\$ 422,425	\$ 16,057,199	\$ 4,872,222

Note (1): Other Personnel Costs include Vacation Expense, FT Overtime, Workers' Comp Claim Expense and estimated FT/PT position vacancy expense credits

The SDCCC's Fiscal Year 2016 revenue budget is \$34.5 million, an increase of \$1.5 million or 4.6 percent over the Fiscal Year 2015 Budget. This net increase in revenues is primarily due to an increase of \$1.4 million in Ancillary Services, specifically \$1.2 million in telecommunications resulting from a more lucrative telecomm contract with a higher commission percentage beginning in Fiscal Year 2016. Additionally, \$101,108 of the increase in Fiscal Year 2016 in telecommunications is expected to be generated from cell site revenue. Also contributing to the increase is \$302,721 in commission-based revenue for electrical hook-ups as the Convention Center is anticipating higher demand for exhibit booth electric services at conventions, trade shows, and corporate events.

Net building rent revenue is anticipated to remain mostly flat from Fiscal Year 2015 to Fiscal Year 2016. Net building rent is calculated as gross building rent less the amount of rental credits negotiated for individual events. Gross building rent increased by \$527,359 in Fiscal Year 2016 due to increased gross corporate event rentals, partially offset by a decrease in gross building rent for conventions and trade shows, as well as meeting/seminar rentals for both projected and previously booked events. However, rental credits are expected to increase in Fiscal Year 2015 by \$515,750 across most event types, thereby increasing the total net building rent for Fiscal Year 2015 by only \$11,609.

The larger increases in anticipated revenue for overall Ancillary Services are partially offset by a net decrease in Event Services in the amount of \$217,440. These decreases in budget are due to the reduction of three revenue enhancement initiatives which were eliminated due to the significant pushback from the convention center client base. The revenue enhancement initiatives were presented to the Budget and Government Efficiency Committee and include; commission based exclusive event security services, exclusive in-house event staffing and registration services, and a facility improvement fee for event exhibit booths. Offsetting the decrease, an increase of \$257,260 within the Event Services category includes revenue from the temporary parking lot at the Phase III Expansion site which was previously budgeted for seven months in Fiscal Year 2015 to a full twelve months in Fiscal Year 2016. The budgetary assumption in Fiscal Year 2015 suggested the Fifth Avenue Landing parking lot was going to be operational for seven months until transferred to the Phase III Expansion Project.

The Fiscal Year 2015 Food & Beverage revenue budget was \$8.8 million and is projected to be \$9.8 million by year-end. The revenue surplus of \$1.0 million will offset expenditures in excess of budget in Fiscal Year 2015. The increase in Fiscal Year 2015 is due to increased event catering for large events, along with booth catering. The Fiscal Year 2016 increase of \$133,789 is due to a couple of factors; an increase in the amortized food and beverage contract extension incentive payments, and an increase in anticipated event booth catering activity for convention and trade show events. Partially offsetting the increases is a decrease in anticipated event catering activity across several event types. The Food & Beverage category increased by \$133,789 for Fiscal Year 2016 to a total of \$8.9 million.

As in previous years, the Fiscal Year 2016 Proposed Budget includes a City of San Diego contribution of \$3.4 million to SDCCC. Per the current Management Agreement, this funding may be used for marketing, promotion, and/or capital projects. In Fiscal Years 2014, the Convention Center applied the first \$1.9 million in funding towards the marketing contract payment with the San Diego Tourism Authority. The balance of the contribution from the City was then used to pay for capital equipment and capital projects. The Convention Center projects to expend the City contribution in the same manner in Fiscal Years 2015 and 2016.

Details regarding Fiscal Year 2014 Actual Revenues, Fiscal Year 2015 Budget and Projected Revenues, and the Fiscal Year 2016 Proposed Budget, are displayed in **Table E**.

**TABLE E: CONVENTION CENTER CORPORATION REVENUES
FISCAL YEARS 2014 – 2016**

Table E - San Diego Convention Center Corporation Revenues						
Revenue Source	FY 2014 Budget	FY 2014 Actual	FY 2015 Budget	FY 2015 Projected	FY 2016 Proposed Budget	FY 2015-2016 Change
Building Rent(1)	\$ 9,028,226	\$ 8,989,949	\$ 8,776,561	\$ 8,892,504	\$ 8,788,170	\$ 11,609
Food & Beverage	\$ 9,430,976	\$ 8,767,825	\$ 8,818,444	\$ 9,815,152	\$ 8,952,233	\$ 133,789
Ancillary Services(2)	\$ 11,254,237	\$ 11,747,692	\$ 11,871,725	\$ 12,076,838	\$ 13,240,614	\$ 1,368,889
Interest & Other	\$ 100,181	\$ 85,942	\$ 94,200	\$ 128,302	\$ 100,380	\$ 6,180
City of San Diego	\$ 3,405,000	\$ 3,405,000	\$ 3,405,000	\$ 3,405,000	\$ 3,405,000	\$ -
TOTAL	\$ 33,218,620	\$ 32,996,408	\$ 32,965,930	\$ 34,317,796	\$ 34,486,397	\$ 1,520,467

(1) Includes event rental credits of \$4,917,735, \$4,994,310, \$5,064,921, \$5,079,622 and \$5,580,671 for FY 2014 Budget, FY 2014 Actual, FY 2015 Budget, FY 2015 projected and FY 2016 Budget, respectively

(2) Includes revenues from Event, Utilities, Telecommunications and Audio Visual services

In the non-operating budget, depreciation expenses are expected to increase by \$52,244 or 3.2 percent from Fiscal Year 2015 to a total of \$1.7 million in Fiscal Year 2016. The \$2.3 million in deferred capital and maintenance expenditures that was budgeted as a placeholder in Fiscal Year 2014 has been removed for Fiscal Year 2015 and Fiscal Year 2016. SDCCC uses full accrual accounting and expenditures on capital are not expensed on their income statement; instead they are included on the balance sheet and depreciated over the useful life. It should be noted that SDCCC maintains a separate Five-Year Capital and Operations & Maintenance Projection to track deferred maintenance and capital expenses, which is not included in this analysis. The Sails Pavilion roof structure replacement project is included in the Five-Year Capital Projection with an estimated cost of \$11.4 million in future fiscal years. When factoring in both operating expenses

and depreciation, the Fiscal Year Proposed 2016 Budget reflects a surplus of \$665,736 in revenues over expenses.

CONCLUSION

The San Diego Convention Center Corporation's total operating expenditures budget for Fiscal Year 2016 is \$32.2 million, a net increase of \$1.8 million or 6.0 percent from the Fiscal Year 2015 Budget, primarily due to increases in personnel, general expenses and utilities costs, partially offset by decreases in repairs and maintenance costs. The Fiscal Year 2016 Proposed Budget includes 326.70 FTE positions, which is a net increase of 2.47 FTE positions. Included within the personnel expense budget are step increases of 1.9 percent for full-time staff while salaries and wages for part time staff increased 8.1 percent due to budgeted hours and step increases. The revenue budget for Fiscal Year 2016 is \$34.5 million, an increase of \$1.5 million from the Fiscal Year 2015 Budget, primarily due to increases in revenue from telecommunications and utilities' commissions in ancillary services. As in previous years, the Fiscal Year 2016 Proposed Budget includes a \$3.4 million City contribution to SDCCC, which will be used to pay for the marketing contract with the San Diego Tourism Authority, capital equipment, and capital projects. When factoring in non-operating depreciation expenses, the Fiscal Year 2015 Proposed Budget reflects a surplus of \$665,736 in revenues over expenses.


Tracy McCraner
Financial Management Director


Matthew Vespi
Budget Coordinator