



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: April 26, 2016

ATTENTION: Budget Review Committee
Agenda of May 4, 2016

SUBJECT: Financial Management Technical Review of San Diego Convention Center Corporation's FY 2017 Proposed Budget

REFERENCE: Fiscal Year 2017 Proposed Budget

REQUESTED ACTION:

This is an information item. No action is required.

SUMMARY:

This is the Financial Management Department's technical review of the San Diego Convention Center Corporation's Fiscal Year 2017 Proposed Budget. This report is submitted to the Budget Review Committee in order to show changes in year-to-year Agency budgeting and spending.

OVERVIEW AND BACKGROUND

The City of San Diego publishes a City Agencies section within Volume I of the Proposed and Adopted Budgets. This section consists of website links to the respective Agency Budgets published for the public's information; among the Agencies included in this section is the San Diego Convention Center Corporation (SDCCC).

Although SDCCC's budget process is separate from the City's formal budget development process and City Council does not approve SDCCC's budget, Financial Management routinely interacts with SDCCC staff to collaborate on budget discussions and major capital improvements. 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 2015 (either audited or unaudited), budgeted and projected expenditures and revenues for Fiscal Year 2016, and the proposed budget for Fiscal Year 2017.

SDCCC was formed under the California Non-Profit Corporation Law to market, manage, and operate public assembly facilities. The San Diego Convention Center is managed by the SDCCC under the current agreement (City Council Resolution R-300480).

Over 125 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 2016 Forecast estimates that from the 108 scheduled events in calendar year 2016, approximately 856,035 contracted block hotel room nights and over \$708.1 million in direct spending will be generated. 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.

On a Fiscal Year basis, the number of events are anticipated to decline from Fiscal Year 2015 to Fiscal Year 2017, but attendance is projected to steadily increase. Details regarding Events and Attendance for Fiscal Years 2015 through 2017 are displayed in Table 1 below.

TABLE 1: CONVENTION CENTER CORPORATION EVENTS AND ATTENDANCE

Event Type	FY 2015 Actual		FY 2016 Budget		FY 2017 Budget	
	Total Events	Total Attendance	Total Events	Total Attendance	Total Events	Total Attendance
Convention & Trade Shows	61	501,125	67	557,141	55	645,509
Corporate Events	7	44,003	9	16,452	8	21,125
National Trade Shows	2	4,190	1	4,000	1	4,000
Secondary/Local	102	259,085	80	255,268	69	228,200
TOTAL	172	808,403	157	832,861	133	898,834

The Fiscal Year 2017 Proposed Budget discussed in this report is based on the budget as approved by the San Diego Convention Center Corporation Board on March 16, 2016.

BUDGET SUMMARY

SDCCC is proposing an expenditure budget of \$35.8 million for Fiscal Year 2017. This is an increase of \$1.9 million, or 5.7 percent, from the Fiscal Year 2016 Budget. Significant variances for personnel, non-personnel, and other non-operating expenses, as well as revenue are discussed in the following sections. A high-level table regarding Fiscal Year 2015 Actual Expenditures, Fiscal Year 2016 Projected Expenditures, and the Fiscal Year 2017 Proposed Budget, is displayed in Table 2 below.

TABLE 2: CONVENTION CENTER CORPORATION BUDGET SUMMARY

	FY 2015 Budget	FY 2015 Actual	FY 2016 Budget	FY 2016 Projected	FY 2017 Proposed Budget	FY 2016-2017 Change (\$ and %)	
Positions (FTE)	324.23	N/A	326.70	N/A	315.52	(11.18)	-3.4%
Personnel Expense	19,976,800	20,291,040	20,929,421	20,929,579	21,307,658	\$ 378,237	1.8%
Non-Personnel Expense	11,972,803	18,718,586	12,891,240	12,968,762	14,454,399	\$ 1,563,159	12.1%
TOTAL	\$ 31,949,603	\$ 39,009,626	\$ 33,820,661	\$ 33,898,341	\$ 35,762,057	\$ 1,941,396	5.7%

Personnel Expenditures

Personnel expenditures are budgeted at \$21.3 million, an increase of \$0.4 million, or 1.8 percent, over the Fiscal Year 2016 Budget. Total salaries and wages have increased due to step increases for represented staff and merit increases for non-represented staff. Employee benefits are higher primarily due to increases in health insurance and contributions for retirement benefits. This increase is offset by the reduction of 11.18 full-time equivalents (FTEs) as a result of eliminating registration services provided by hourly in-house staff and a net decrease of one full-time position. Discussion on the analysis of FTE variances is provided further in this report.

Non-Personnel Expenditures

The SDCCC's Fiscal Year 2017 budget for non-personnel expenses is \$14.5 million, which is an increase of \$1.6 million, or 12.1 percent, over the Fiscal Year 2016 Budget. The primary factors for the increase are:

- \$0.5 million for repair and maintenance to perform scheduled maintenance of the building and the kitchen
- \$0.3 million for higher electricity costs
- \$0.2 million for increased supplies associated with the commencement of a multi-year landscaping effort
- \$0.2 million primarily for a one-year as-needed consulting contract that will conclude at the end of calendar year 2016.

Increased non-personnel budget for these categories is offset by a \$0.4 million decrease in general expenses associated with the elimination of a ground lease payment. The Fifth Avenue Landing (FAL) Lot ground lease payment ended in May 2015, but was not able to be incorporated into the Convention Center's budget for Fiscal Year 2016 due to timing.

Additionally, non-operating expenses are increasing by of \$0.7 million or 42.6 percent due to a proposed new iBank loan to finance \$25.3 million for four capital projects. A significant portion of this funding will be utilized to support the Convention Center Sails Pavilion fabric structure replacement project. The loan with the State's Infrastructure Bank is anticipated to be approved in June 2016.

Details regarding Fiscal Year 2015 Actual Expenditures, Fiscal Year 2016 Projected Expenditures, and the Fiscal Year 2017 Proposed Budget, are displayed in Table 3 below.

TABLE 3: CONVENTION CENTER CORPORATION EXPENDITURES

	FY 2015 Actual	FY 2016 Budget	FY 2016 Projected	FY 2017 Proposed Budget	FY 2016-2017 Change (\$ and %)	
PERSONNEL						
Salaries & Wages	\$ 15,682,973	\$ 15,873,043	\$ 15,848,042	\$ 16,114,038	\$ 240,995	1.5%
Overtime	169,495	184,156	147,977	114,144	(70,012)	-38.0%
Fringe Benefits (health)(1)	1,902,112	2,046,521	2,011,179	2,144,500	97,979	4.8%
Fringe Benefits (pension)(2)	1,926,540	2,208,279	2,193,910	2,272,281	64,002	2.9%
Fringe Benefits (other)(3)	609,920	617,422	728,471	662,695	45,273	7.3%
SUBTOTAL PERSONNEL	\$ 20,291,040	\$ 20,929,421	\$ 20,929,579	\$ 21,307,658	\$ 378,237	1.8%
NON-PERSONNEL						
General Expenses	\$ 1,239,512	\$ 1,486,060	\$ 1,091,335	\$ 1,081,933	\$ (404,127)	-27.2%
Repair & Maintenance	2,861,391	2,279,677	2,406,058	2,814,353	534,676	23.5%
Utilities	3,891,629	3,929,748	4,115,116	4,253,475	323,727	8.2%
Contracted Services	467,780	463,466	728,232	658,807	195,341	42.1%
Travel & Transportation	69,879	80,844	83,172	112,167	31,323	38.7%
Insurance	371,897	445,940	349,325	369,543	(76,397)	-17.1%
Telecommunications	58,127	58,995	54,233	59,395	400	0.7%
Sales & Marketing	2,040,845	2,049,522	2,039,621	2,053,572	4,050	0.2%
Supplies	419,251	427,601	485,904	670,030	242,429	56.7%
SUBTOTAL NON-PERSONNEL	\$ 11,420,311	\$ 11,221,853	\$ 11,352,996	\$ 12,073,275	\$ 851,422	7.6%
TOTAL OPERATING EXPENSE	\$ 31,711,351	\$ 32,151,274	\$ 32,282,575	\$ 33,380,933	\$ 1,229,659	3.8%
NON-OPERATING EXPENSE						
Depreciation	\$ 1,936,173	\$ 1,669,387	\$ 1,615,766	\$ 1,818,824	\$ 149,437	9.0%
Interest Expense	-	-	-	518,900	518,900	-
Loan Admin Fee	-	-	-	43,400	43,400	-
Loss on Disposal - Phase III Exp	5,362,102	-	-	-	-	-
SUBTOTAL NON-OPERATING	\$ 7,298,275	\$ 1,669,387	\$ 1,615,766	\$ 2,381,124	\$ 711,737	42.6%
TOTAL EXPENSES	\$ 39,009,626	\$ 33,820,661	\$ 33,898,341	\$ 35,762,057	\$ 1,941,396	5.7%
(1) Medicare portion of Social Security costs is included under health benefits						
(2) Social Security costs included under pension benefits						
(3) Other Fringe Benefits include Unemployment Insurance, Workers' Compensation Insurance & Claims, Life Insurance, L-T Disability Insurance						

Significant Budget Adjustments display the major budgetary changes from Fiscal Year 2016 to Fiscal Year 2017. Details regarding Fiscal Year 2017 Significant Budget Adjustments are displayed in Table 4 below.

TABLE 4: CONVENTION CENTER CORPORATION SIGNIFICANT BUDGET ADJUSTMENTS

Significant Budget Adjustments	Position	Revenue	Expense
Salaries and Benefits Adjustments			
Budget reflects additional part time hours for increased cleaning, building, and security services required to service events; salary adjustments associated with collective bargaining step increases, merit and other increases for non-represented staff, and increases in employee benefit costs.	7.93		\$ 1,142,627
Elimination of Convention Staffing Services Division			
As of December 2015, the Convention Center ceased providing in-house registration services for large convention trade shows resulting in the reduction 2.00 full-time positions and 17.11 full-time equivalents for hourly support.	(19.11)	\$ (641,761)	\$ (764,390)
Elimination of Fifth Avenue Landing (FAL) Lot Operations			
Elimination of Fifth Avenue Landing (FAL) lot operations to reflect reconveyance that occurred in May 2015.		\$ (607,320)	\$ (501,285)
Non-Personnel Expenditure Adjustments			
Increase in budgeted non-personnel expenditures for repair & maintenance, higher electricity costs, and additional supplies and contracted services.			\$ 1,352,707
Non-Operating Expenses			
Increases for depreciation, interest and loan administration fees.			\$ 711,737
Revenue Adjustments			
Revenue adjustments for anticipated increases in Food & Beverage, Building Rent, and ancillary services.		\$ 2,777,642	
TOTAL ADJUSTMENTS	(11.18)	\$ 1,528,561	\$ 1,941,396

The Fiscal Year 2017 Proposed Budget includes 315.52 FTE positions, which is a net decrease of 11.18 FTE positions from the Fiscal Year 2016 budget. The decrease in FTEs consists of a net reduction of 21,174 hours for part-time staff (equating to 10.18 FTEs) due to the elimination of registration services and 1.00 full-time position. In-house registration services were provided for convention & trade shows and corporate events on a competitive basis (bidding against outside vendors); but due to cost increases and the unprofitable nature of the service, the decision was made to eliminate this service as of December 2015. The elimination of this service was partially offset by costs for additional part-time hours in cleaning, building, and security services.

The full budgeted salary schedules for Fiscal Year 2016 and Fiscal Year 2017 are available in Table 5 below.

TABLE 5: CONVENTION CENTER SALARY SCHEDULE

Position Title	FY 2016 Budget					FY 2017 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	\$ 9,277	\$ 318,507	\$ 65,322	1.00	\$ 250,000	\$ 10,000	\$ 260,000	\$ 53,249
Vice President	4.00	769,459	21,122	790,581	198,635	4.00	810,467	22,250	832,717	207,834
Director	12.00	1,306,094	47,919	1,354,013	371,572	13.00	1,508,564	55,199	1,563,763	424,392
Manager	5.00	408,442	9,746	418,188	150,954	4.00	349,492	9,239	358,731	128,236
Supervisor	21.00	1,194,102	29,714	1,223,816	433,121	21.00	1,283,383	33,016	1,316,399	463,466
Non-Supervisor - Salaried	36.00	2,423,658	81,760	2,505,418	855,796	35.00	2,517,463	91,652	2,609,115	859,992
Non-Supervisor - Hourly Full	134.00	5,542,685	119,152	5,661,837	2,222,656	134.00	5,708,194	128,947	5,837,142	2,313,327
Non-Supervisor - Hourly Part	113.70	3,553,545	103,735	3,657,280	466,416	103.52	3,327,658	99,790	3,427,448	477,663
Other Personnel Costs (1)	0.00	-	-	127,559	107,750	0.00	-	-	22,867	151,317
TOTAL	326.70	\$ 15,507,215	\$ 422,425	\$ 16,057,199	\$4,872,222	315.52	\$ 15,755,221	\$ 450,093	\$ 16,228,182	\$ 5,079,476

(1): Other Personnel Costs include Vacation Expense, F/T Overtime, Workers' Comp Claim Expense and estimated F/T position vacancy expense credits

Revenue

The SDCCC’s Fiscal Year 2017 revenue budget is \$36.0 million, an increase of \$1.5 million, or 4.4 percent, over the Fiscal Year 2016 Budget. This net increase in revenues is primarily due to an increase of \$1.4 million in Food & Beverage revenue, resulting from anticipated event catering activity across several event types and an increase in booth catering activity for convention and trade show events. Additionally, Building Rent revenue, net of rental credits negotiated for individual events, is anticipated to increase by \$0.4 million from Fiscal Year 2016 to Fiscal Year 2017.

The increases in anticipated revenue are partially offset by a net decrease of \$0.4 million in Ancillary Services revenue. This decrease is primarily due to the loss of parking revenue as a result of the conveyance of the FAL lot. Partially offsetting the decreases is an increase in utility (exhibit booth electrical hook-up) revenues across several event types as well as increases in booth cleaning and cleaning services revenues for convention and trade show events.

As in previous years, the Fiscal Year 2017 Proposed Budget includes a City of San Diego contribution of \$3.4 million to SDCCC. The contribution for Fiscal Year 2017 increased by \$31,000. Per the current Management Agreement, this funding may be used for marketing, promotion, and/or capital projects. The Fiscal Year 2016 budget included \$1.9 million in funding towards the marketing contract payment with the San Diego Tourism Authority, which had increased by \$31,000; however, the request to increase the allocation from the City did not occur until Fiscal Year 2017. The balance of the contribution from the City is then used to pay for capital equipment and capital projects.

Details regarding Fiscal Year 2015 Actual Revenues, Fiscal Year 2016 Budget and Projected Revenues, and the Fiscal Year 2017 Proposed Budget, are displayed in Table 6.

TABLE 6: CONVENTION CENTER CORPORATION REVENUES

Revenue Source	FY 2015 Actual	FY 2016 Budget	FY 2016 Projected	FY 2017 Proposed Budget	FY 2016-2017 Change (\$ and %)	
Building Rent(1)	\$ 8,885,645	\$ 8,788,170	\$ 8,760,698	\$ 9,219,119	\$ 430,949	4.9%
Food & Beverage	10,857,038	8,952,233	10,050,056	10,399,604	1,447,371	16.2%
Ancillary Services(2)	13,504,845	13,240,614	12,950,180	12,857,735	(382,879)	-2.9%
Interest & Other	141,364	100,380	111,334	102,500	2,120	2.1%
City of San Diego	3,405,000	3,405,000	3,405,000	3,436,000	31,000	0.9%
TOTAL	\$ 36,793,892	\$34,486,397	\$ 35,277,268	\$ 36,014,958	\$ 1,528,561	4.4%

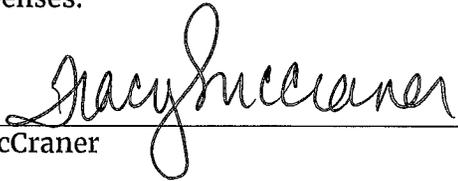
(1) Includes event rental credits of \$5.2 million, \$5.6 million, \$5.6 million and \$5.4 million for FY 2015 Actual, FY 2016 Budget, FY 2016 Projected and FY 2017 Proposed Budget, respectively

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

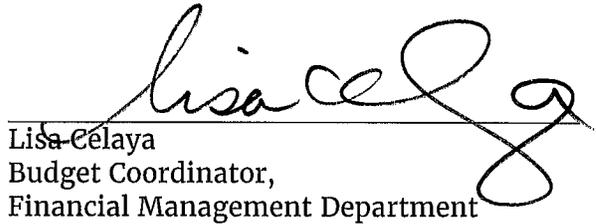
CONCLUSION

The San Diego Convention Center Corporation’s Fiscal Year 2017 Proposed Budget for expenditures, including operating and non-operating costs, totals \$35.8 million, which is a net increase of \$1.9 million or 5.7 percent from the Fiscal Year 2016 Budget. The Proposed Budget for Fiscal Year 2017 reflects salaries and benefits adjustments, elimination of two cost centers, increases for repair and maintenance and utility costs and debt service associated with the new iBank loan. The Fiscal Year 2017 Proposed Budget includes 315.52 FTE positions, which is a net decrease of 11.18 FTE positions. Included within the personnel expense budget

is an increase in salaries and wages of 4.1 percent for full-time staff while salaries and wages for part time staff decreased 6.3 percent due to the elimination of the registration services function, partially offset by an increase in part-time hours in other functional areas required to service events. The revenue budget for Fiscal Year 2017 is \$36.0 million, an increase of \$1.5 million from the Fiscal Year 2016 Budget, primarily due to increases in revenue from food and beverage and building rent. The Fiscal Year 2017 Proposed Budget includes a \$3.4 million City contribution to SDCCC, an increase of \$31,000, which will be used to pay for the marketing contract with the San Diego Tourism Authority, capital equipment, and capital projects. On a net basis, the Fiscal Year 2017 Proposed Budget reflects an excess of \$0.2 million in revenues over expenses.



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