

DATE ISSUED: March 30, 2005

REPORT NO. 05-081

ATTENTION: Rules Committee
Agenda of April 6, 2005

SUBJECT: Convention Center Management Agreement Update

REFERENCE: SDCCC Presentation to Rules Committee February 16, 2005

SUMMARY

Issues – Should the Rules Committee recommend approval of the amendment to the Convention Center Management Agreement upon terms discussed in this report?

Manager's Recommendation – The City Manager's staff recommends amendment to the Convention Center Management Agreement upon terms provided in this report and based upon a budget request from SDCCC for Fiscal Year 2006 limited to \$4.3 million.

Fiscal Impact – The recommended amendment will have the following financial impacts:

1. The SDCCC will no longer request an operational subsidy from the City. Instead, on a yearly basis, the SDCCC will prepare its own budget and request City funding for specific capital needs and promotional programs only. Whereas the City had been basing its funding on an analysis conducted by consulting firm Public Financial Management (PFM), instead the SDCCC will now submit its capital and promotional programs needs request five years in advance so that the City can plan its funding appropriately.
2. An annual allocation of City funds, if any, will be approved by the City Council, in its sole and complete discretion, as part of the normal budget process each year.
3. The revised FY06 request from SDCCC is \$4,339,198 million as compared to \$6.8 million projected in the base case scenario of the PFM report.
4. SDCCC will have the ability to incur debt which will enable it to finance needed capital improvements over time.

BACKGROUND

San Diego Convention Center Corporation (“SDCCC”) was created by the City in 1984 to manage, operate and promote the Convention Center. SDCCC and the City are parties to a Management Agreement that defines the relationship and the respective responsibilities. The Management Agreement also incorporates pertinent provisions related to the operation of the Convention Center that appear in the agreement between the City and the San Diego Unified Port District (“Port”).

The Management Agreement was amended in 1993 when SDCCC assumed responsibility for the management and operation of the Concourse, Civic Theatre and Plaza (collectively known as the “CPAC” facilities). The agreement was further amended in 1998 upon expansion of the Convention Center.

The transfer back to the City of the responsibility for management and operation of CPAC necessitates the deletion of certain provisions in the Management Agreement. SDCCC has proposed that an Amendment to the Management Agreement incorporate other modifications. This proposal was presented to the committee by SDCCC staff on February 16, at which time the Committee referred the matter to the City Manager and City Attorney for analysis.

DISCUSSION

City staff has met with SDCCC staff to discuss acceptable terms for the Amendment. The terms proposed are listed below. Upon the Committee’s recommendation, City staff will submit the proposed Amendment for Council approval within the next few weeks.

Amendment Terms

1. CPAC – Provisions related to SDCCC’s responsibilities with respect to the CPAC facilities will be deleted [the transfer of certain responsibilities to San Diego Theatres, Inc. (“SDT”) is discussed later in this report].
2. Termination Provision - The term of the agreement will remain open-ended, but could be terminated with five years notice (previously, 90 days).
3. Marketing and Promotion – The proposed change will reflect that SDCCC now undertakes its own marketing.
4. Fiscal Management - SDCCC will be responsible for approving its own budget and handling all of its own finances, independent of the City, and without need for City approval. As sole member of the corporation, the City will continue to have the ability to audit the Corporation and inspect any documents.
5. Budget and Funding – In 2003, consulting firm PFM performed an updated financial projection analysis of SDCCC, which provided the City with a picture of the projected Convention Center financial position through 2028. Based on the assumptions of this

analysis, SDCCC may continue to require a subsidy from the City into the foreseeable future ranging from approximately \$5 million in near years to over \$12 million in outlying years.

In the amended Management Agreement, the City will no longer use the PFM report as a guide for funding each year. The PFM report recommended certain operational funding for the SDCCC. Instead, the SDCCC has proposed that City's annual discretionary funding be used solely for promotion and marketing, including discounting rent to attract high impact business to the Convention Center, and necessary capital improvements. From year to year, the SDCCC will prepare a budget to be approved by its board, inclusive of proposed City funding levels for marketing/promotional programs and capital improvements. This proposal will be considered during the normal budget process each year and an annual allocation, if any, will be approved by the City Council, in its sole and complete discretion. In this respect, the City's funding becomes an investment in a high-function institution, no longer filling a gap in operations but rather allocating its funds towards programs that will generate a high return on investment through additional TOT and sales tax for the City.

So that the City can plan its funding appropriately, no later than January 1st of each year, the SDCCC will submit a rolling five year projection of its marketing/promotional program and capital improvements needs. Instead of PFM, the City will use this projections document as its guide for funding.

6. Debt - SDCCC will have the ability to incur debt. This will enable SDCCC to finance needed capital improvements over time.
7. Bylaws – The Amendment will reflect changes proposed by SDCCC to the Bylaws for the Board of Directors.
8. Operating Reserves – The cap on operating reserves will be removed. The City will no longer be entitled to the payment of any savings.
9. Major Event Revolving Fund (“MERF”) – SDCCC has requested the use of a marketing fund to lure high-impact conventions to San Diego through rent discounts. City staff proposes that MERF be used for this purpose, by modifying the parameters and criteria for use of these funds.

The MERF is funded through an allocation of Transient Occupancy Tax (TOT) and is intended to be used to attract major events to the City of San Diego that will generate more TOT and other revenues such as sales tax for the City, in addition to a positive economic impact for the region. Historically, the MERF has been used to draw a variety of events to San Diego, including the 1996 Republican National Convention and the Super Bowl. Recently, the City has allocated \$300,000 from the MERF to secure the Health Information and Management Systems Society Conference (HIMSS) in Fiscal Year 2006.

Under this new proposal, the SDCCC would take the lead in working with a variety of parties to develop a list of potential projects for MERF funding. The SDCCC would then propose funding for required rental discounts for the MERF through the regular budget process. The proposal should additionally identify the increase in TOT revenues that will be generated by each convention/meeting identified and other performance measures, such as economic impact and return on investment.

10. Pumping System - The City will be responsible for maintaining the pumping system under the Convention Center.
11. Port-City Agreement – The City’s obligations under the Port-City Agreement will be restated in the amended Management Agreement.
12. Bonds – The City’s continuing repayment of general obligation bonds issued for expansion of convention center at \$14,000,000 per year will be restated.
13. Management and Operation of Non-City Owned Facilities – The City Manager will no longer have the ability to approve other agreements entered into by SDCCC.
14. Indemnification – Indemnification language will be updated.
15. Financial Controls – The Amendment will contain auditing provisions and controls on disbursement of allocated funds.

San Diego Theatres, Inc.

City staff has also met with SDT representatives to discuss the new agreement needed for the lease of the Civic Theatre and supervision of the central plant operation located in the Concourse basement; responsibilities SDCCC delegated to SDT on July 1, 2004. The results of the RFP for Golden Hall are needed before a full analysis of CPAC operations post July 1, including a new agreement with SDT, can be completed. City staff will return to Council with this information and proposed agreements with SDT and other Concourse users before June 30.

Recommendations

The City Manager’s staff recommends amendment to the Convention Center Management Agreement upon terms provided in this report and based upon a budget request from SDCCC for Fiscal Year 2006 limited to \$4,339,198 million.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce Herring
Deputy City Manager

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