

SAN DIEGO CONVENTION CENTER CORPORATION

MEMORANDUM

TO: Board of Directors

FROM: Gil Cabrera, Budget Committee Chair

DATE: For the Agenda of March 21, 2018

RE: Review of Fiscal Year 2019 Proposed Budget

DISCUSSION

The San Diego Convention Center Corporation's FY2019 Proposed Budget shows Net Expenses of \$852,958 compared to Net Expenses of \$1,907,745 in the FY2018 Budget. Backing out Non-Operating expenses (primarily Depreciation and Debt service expenses), FY2019 Net Revenue against Expense is a positive \$3,063,152 compared to a positive \$1,038,354 in the FY2018 Budget.

Significant variances within main financial categories between the FY2019 Proposed Budget and FY2018 Budget, as well as the FY2018 Forecast and FY2018 Budget are as follows:

BUILDING RENT

FY2019 Budget	\$9,510,829
FY2018 Budget	\$8,726,398
Variance	\$784,431 (9% increase)
FY2018 Forecast	\$9,459,329

Net Building Rent revenue is budgeted to increase by \$784,431 to \$9,510,829 in FY2019. This favorable position is due to an increase in net rental amounts generated primarily by Corporate Events (\$430,653), Community Events (\$211,425), and Convention & Trade Shows (\$177,138). Across all event types, gross Building Rent increased by \$2,159,657 compared to the prior year while rental credits/discounts also increased by \$1,375,226.

FY2018 Forecast Net Building Rent revenue of \$9,459,329 is \$732,931 above the FY2018 Budget due primarily to increased net rentals from Community Events (\$608,197) and cancellation deposits (\$574,100). Less than expected sales from Convention & Trade (\$325,983) and Consumer Shows (\$117,770) partially offset this favorable position.

CO-PROMOTED EVENTS

FY2019 Budget	\$300,000
FY2018 Budget	\$400,000
Variance	(\$100,000) (25.0% decrease)
FY2018 Forecast	\$0

For FY2019, we plan to co-promote two events, which will generate \$300,000 in event license fees. The 25% decrease in budget resulted from a more in-depth proforma review analysis compared to prior year.

FY2018 Forecast revenues are \$0 since no Co-Promoted events are anticipated.

FOOD & BEVERAGE

FY2019 Budget	\$11,793,253
FY2018 Budget	\$9,828,167
Variance	\$1,965,086 (20% increase)
FY2018 Forecast	\$9,881,220

Food & Beverage revenue is budgeted to increase by \$1,965,086 to \$11,793,253 in FY2019 due primarily to an increase in event catering activity during the year, particularly related to Corporate Events.

FY2018 forecasted revenue of \$9,881,220 is \$53,053 higher than the FY2018 Budget due mainly to increased commissions from Booth Catering (\$246,367). Partially offsetting this favorable position is less than budgeted commissions from Corporate Events (\$203,483).

EVENT SERVICES

FY2019 Budget	\$4,911,228
FY2018 Budget	\$4,003,715
Variance	\$907,513 (22.7% increase)
FY2018 Forecast	\$4,063,442

Event Services revenue is budgeted to increase by \$907,513 to \$4,911,228 in FY2019 due to Booth Cleaning revenues (which will be taken in-house) along with increased event demand for several specific billable event support services including cleaning services and public safety.

FY2018 Forecast revenue of \$4,063,442 is \$59,727 above the FY2018 Budget.

UTILITIES

FY2019 Budget	\$6,418,337
FY2018 Budget	\$4,926,921
Variance	\$1,491,416 (30.3% increase)
FY2018 Forecast	\$5,720,908

Utility revenue (primarily commissions received from event exhibit booth electrical hookup services) is budgeted to increase by \$1,491,416 to \$6,418,337 in FY2019 due to several booked Convention & Trade Show events and a large Corporate Event that anticipate a very high level of booth electrical hookup service requirements.

FY2018 revenue is forecast to come in at \$5,720,908, which is \$793,987 higher than budget. This favorable position is due primarily to better than expected revenue from Convention & Trade shows (\$747,652), resulting from several large medical shows.

TELECOMMUNICATIONS

FY2019 Budget	\$4,636,945
FY2018 Budget	\$3,457,934
Variance	\$1,179,011 (34.1% increase)
FY2018 Forecast	\$4,142,857

Telecommunications revenue is budgeted to increase by \$1,179,011 to \$4,636,945 in FY2019. This FY2019 favorable position is due to increased commissions from Convention & Trade Shows (\$693,326) and Corporate Events (\$479,587).

FY2018 revenue is forecast to come in at \$4,142,857, \$684,923 higher than budget. This year's favorable results came from increased commissions from Convention & Trade Show (\$409,608) and Cell Site Revenue (\$533,762). Partially offsetting this year's favorable position were lower commissions from DAS (\$159,250) and Digital Marketing (\$104,682).

AUDIO/VISUAL

FY2019 Budget	\$1,287,350
FY2018 Budget	\$1,432,170
Variance	(\$144,820) (10.1% decrease)
FY2018 Forecast	\$1,218,937

Audio/Visual revenue is budgeted to decrease by \$144,820 to \$1,287,350 in FY2019 due primarily to shortfalls in Convention & Trade Shows (\$189,319) and Meetings & Seminars

(\$121,622). Better than expected commissions from Consumer Shows (\$61,916) and rigging (\$55,100) partially offset this unfavorable position.

FY2018 Forecast revenue of \$1,218,937 is \$213,233 less than FY2018 Budget due mainly to cancellation of Intel ISMC 2018 event (\$244,600), which was partially offset by better than expected rigging commissions (\$52,750).

INTEREST & OTHER

FY2019 Budget	\$347,646
FY2018 Budget	\$260,866
Variance	\$86,780 (33.3% increase)
FY2018 Forecast	\$233,380

Interest & Other revenue is budgeted to increase by \$86,780 to \$347,646 due primarily to higher interest income (\$82,700) from managed funds.

FY2018 forecasted revenue of \$233,380 is \$27,486 under budget due mainly to business developments that did not materialized (\$45,000) and lower than expected recycle rebates (\$56,114). Partially offsetting this shortfall is higher interest income (\$64,700).

CITY OF SAN DIEGO

City of San Diego funding revenue of \$2,133,025 is \$1,302,975 lower than prior year’s budget.

TOTAL REVENUE

Based on variances noted above, total revenue is budgeted to increase by \$4,876,442 to \$41,498,613 in FY2019 while FY2018 forecasted total revenue of \$38,336,073 is \$1,713,902 higher than FY2018 Budget.

PERSONNEL EXPENSES

FY2019 Budget	\$24,189,682
FY2018 Budget	\$21,867,571
Variance	(\$2,322,111) (10.6 % increase)
FY2018 Forecast	\$22,108,402

Total Personnel expense is budgeted to increase by \$2,322,111 to \$24,189,882 in FY2019 related to overall salaries & wages (and related benefits) primarily to support increased event activity and operation and maintenance demands of the facility with offsetting increased revenues exceeding the costs. Full-time personnel costs increased by \$1,137,493 primarily due to employer related benefit costs of \$513,820 for health insurance premium costs and employer taxes related to wage increases, a net increase of \$318,053 for 6.4 full-time added positions and

\$300,021 due to collective bargaining agreement step increases & budgeted (3%) merit increases. Part-time personnel costs increased by \$1,164,693, mostly the result of new state recycling mandates for commercial sites resulting in increased labor hours to operate the recyclable conveyor separation system and bottle & can baler system for \$431,518 as well as additional labor to support event activities of \$388,612, collective bargaining agreement step increases and merit increases for non-represented staff of \$142,961 and increased fringe benefit costs resulting in \$95,546.

Additionally, part-time labor to support FY2018 forecasted expense of \$22,108,402 is \$240,831 higher than the FY2018 Budget due primarily to an increase in part-time hours to support event activities, coverage for full-time absences, and additional staffing needs required in support of the Sail Area project. Partially offsetting this favorable variance is savings in full-time salaries & wages and related benefits (due to various open/unfilled positions).

GENERAL EXPENSES

FY2019 Budget	\$2,473,482
FY2018 Budget	\$2,822,575
Variance	\$349,093 (12.4% decrease)
FY2018 Forecast	\$2,381,325

General expense is budgeted to decrease by \$349,093 to \$2,473,482 in FY2019 due mainly to reduced furniture, fixture & equipment (“FF&E”) purchases compared to prior year, particularly related to stacking chairs that were budgeted in FY2018.

FY2018 forecasted expense of \$2,381,325 is \$441,250 less than FY2018 Budget due mainly to discounted savings in purchases of stacking chairs.

REPAIR & MAINTENANCE

FY2019 Budget	\$2,741,523
FY2018 Budget	\$2,970,124
Variance	\$228,601 (7.7% decrease)
FY2018 Forecast	\$2,931,139

Repair & Maintenance expense is budgeted to decrease by \$228,601 to \$2,741,523 due mainly to reduced requirements in General Building (\$416,804), offset partially by increased spending in Software & Application Maintenance Services (\$110,657) and HVAC Equipment R&M (\$86,925).

FY2018 Forecast expense of \$2,931,139 is in-line with budget, with a savings of \$38,985.

CONTRACTED SERVICES

FY2019 Budget	\$1,255,038
FY2018 Budget	\$759,644
Variance	(\$495,394) (65.2% increase)
FY2018 Forecast	\$1,061,904

Contracted Services expense is budgeted to increase by \$495,394 to \$1,255,038 in FY2019 due primarily to an increase in Other Professional Services (\$388,253) in support of various operational and organizational analysis (\$125,000), facility/capital projects consulting (\$122,600), and business analysis consulting services (\$85,200). Increases in Legal Services (\$76,000) and Contracted Labor (\$25,000) also contributed to the overage.

FY2018 forecasted expense of \$1,061,904 is \$302,260 higher than FY2018 Budget due mainly to increased Contracted Labor (\$195,341 to support open/unfilled positions) and Other Professional Services (\$88,346) for a building modernization assessment consultant.

OTHER NON-PERSONNEL EXPENSES

For FY2019 Budget, total Other Non-Personnel Expenses came in at \$3,737,410, \$487,379 higher than prior year’s budget. The majority of this increase is due to higher Marketing Contract Payment (\$202,025) and Landscape Supplies (\$166,400).

Additionally, FY2018 forecasted expense in all five areas came in at \$3,194,912, \$55,119 less than budget.

TOTAL OPERATING EXPENSE

Based on the variances noted above, total operating expense is budgeted to increase by \$2,851,644 to \$38,435,461 in FY2019. This variance is due to higher personnel expenses (\$2,322,111) and non-personnel expenses (\$529,533).

FY2018 Forecast total operating expense of \$35,604,609 is in-line with budget.

NET REVENUES/OPERATING EXPENSES

Net revenues against operating expenses are budgeted to increase \$2,024,798 to \$3,063,152 in FY2019. This favorable position is due to a significant increase in operating revenues (\$4,876,442) which more than offset an increase in operating expenses (\$2,851,644).

FY2018 forecasted net is at \$2,731,464, \$1,693,110 favorable to budget.

NON-OPERATING EXPENSES

FY2019 Budget	\$3,916,110
FY2018 Budget	\$2,946,099
Variance	(\$970,011) (32.9% increase)

FY2018 Forecast	\$2,752,817
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Non-Operating expense is budgeted to increase by \$970,011 to \$3,916,110 in FY2019 due to an increase in Depreciation expense (\$483,364), Interest expense (\$389,012), and Loss on Disposal of Fixed Assets (\$97,635).

FY2018 Forecast expense of \$2,752,817 is \$193,282 lower than FY2018 Budget due mainly to a decrease in the Depreciation expense (\$170,929).

OVERALL RECAP

The FY2019 Proposed Budget reflects Net Expense totaling \$852,958 compared to Net Expense of \$1,907,745 in the FY2018 Budget. Backing out Non-Operating Expenses, primarily Depreciation expense, provides Net Revenue against Expense totaling a positive \$3,063,152 in FY2019 compared to a positive \$1,038,354 in the FY2018 Budget.

STAFF RECOMMENDATION

Budget Committee recommends to the Board approval of the FY2019 Proposed Budget.

Gil Cabrera
Budget Committee Chair