

MINUTES

Tuesday, May 26, 2009
Balboa Park Club Ballroom
4-6 p.m.

Present:

Co-chairs: Stephen Cushman, Cheryl Kendrick

Task Force Members: Mark Steele, Susie Baumann, Gordon Boerner, Pete Garcia, Mike McDowell, Richard Bartell, Lorena Gonzalez, Bob Nelson, Patrick Duffy, Bill Evans, Vincent Mudd, Bill Sauls

Absent:

Task Force Members: Diane Takvorian, Fred Maas, Lani Lutar

MCTF Staff Present: Cynthia Olmstead

1. **Call to Order:** Co-chair Kendrick, 4 p.m.

2. **Opening Remarks: Co-chair Kendrick**

- Welcome to new Task Force member Bill Sauls.
- Note: There were eleven public comment letters received since May 5th meeting. All letters received between meetings are distributed at meetings and posted online the following day.

3. **Public Comment:**

- Todd Voorhees- Downtown San Diego Partnership- Support of expansion
- Jed Arrogante- Westgate Hotel- Support of expansion
- Kim Julin Guyader- J Public Relations- Support of expansion
- Don Wood- Opposed to expansion

4. **Action Item: Approval of Minutes from May 5, 2009**

- Approval by Task Force members

5. **Recent Task Force member questions addressed:**

- Question re: Task Force role and charge answered by Phil Rath, Office of Mayor Sanders. Mr. Rath stated that the role of the Task Force was specific to examining Convention Center utilization and restated the key elements as outlined in the charge (market demand, feasibility of expansion, identify and evaluate funding options, etc.).
- Comment re: Impact of out-of-block dynamics on hotel room night tracking was addressed by Task Force member Mike McDowell. Mr. McDowell reminded Task Force members that he had specifically asked Heywood Sanders' about "out of block" dynamics in tracking hotel room nights

however, Mr. Sanders did not answer. (Mr. Sanders argued in his presentation that hotel room night growth was flat). Mr. McDowell shared his experience in dealing with the impact of the Internet in how attendees book hotel rooms outside the pre-arranged block. Task Force members Bill Evans and Patrick Duffy agreed with Mr. McDowell and said in their experience a minimum of 30 percent of hotel rooms used by attendees at meetings and conventions are booked outside the hotel room block (using the internet with 3rd party travel sites like hotels.com, Expedia, Travelocity, etc.) As a result, a large group of hotel rooms used by events booked cannot be directly tracked back to the event. Mr. McDowell also referenced two different studies completed by CIC Research of two primary events at the Convention Center in 2008 which showed out-of-block rates of 22% and 45%. Additionally, Mr. Evans and Mr. McDowell explained the impact of Convention Center events on countywide hotel occupancy, how events in the Convention Center cause “compression” resulting in increased revenue and occupancy, thus increased tax revenues from rooms outside the downtown core into Mission Valley, Shelter Island and North County.

- Mr. McDowell also addressed comments made by Mr. Sanders in his presentation when he stated that events like Comic Con, Action Sports Retail and Rock-n-Roll Marathon generate large attendance but do not necessarily generate large hotel room demand. Mr. McDowell explained how the four days of Comic Con are the highest occupancy and revenue days for hotels in the County of San Diego consistently from year to year. He explained that there was no doubt that Comic Con, which draws more than 126,000 attendees, utilizes many more hotel room nights than the 20,000 hotel room nights reported as part of the room block by the Convention Center.
- Question re: Impact of Technology on meetings attendance and the growth trends for medical meetings which is a primary market targeted by the Convention Center Corporation sales team answered by Steven Johnson, SDCCC. Mr. Johnson stated that surveys and research indicate no negative impact but that technology has been used to help market events and provide better communication with attendees, exhibitors and planners. Mr. Johnson referred Task Force members to a May 2009 report titled “Heywood Sanders’ “Space Available” Report Review and Analysis. Specifically, Mr. Johnson directed Task Force members to look to page 15 for results from recent surveys of exhibit and show managers on the impact of technology. Mr. Johnson referred Task Force members to the last paragraph of page 23 of the same report which details the growth and projected rise in the medical and healthcare sector. Page 24 details the growth in attendance at medical and pharmaceutical conventions since 2006.
- Question re: SDCC Actual Performance vs. Projected Performance answered by Steven Johnson, SDCCC. Mr. Johnson presented a slide showing the pre-construction performance projections for the original Convention Center done by Gladstone Associates in 1982 against actual performance metrics to show

the original facility exceeded projections in the number of events it hosted and slightly exceeded TOT revenue but came 90,000 short in primary attendance. The second slide detailed pre-expansion projections done by PricewaterhouseCoopers against actual performance. The slide showed the Convention Center exceeded all three projections (primary attendance, TOT revenues and exhibit hall occupancy). Mr. Johnson also directed Task Force members to review the historical charts detailing Convention Center performance from FY1991-2008 covering economic impact, direct attendee spending, hotel room nights, tax revenues, primary attendance and exhibit hall occupancy.

- Question re: Status of SDCC current sales for future event bookings answered by Steven Johnson and Andy Mikschl, SDCCC. Mr. Johnson displayed a slide showing April 2009 Sales Activity Report covering the primary marketing. The slide compared FY08 by month against FY09 for number of definite events booked, attendance, room nights and direct attendee spending. With the exception of attendance, all metrics for FY09 exceeded FY08 showing strong future bookings. Mr. Mikschl explained that tentative bookings were those that were space has been reserved in the Convention Center and that the hotel community is working to compile a hotel block for the preferred dates. Definite business was defined by Mr. Mikschl as events that have signed a confirmation agreement. Mr. Mikschl said that historically about half (50%) of tentative bookings are converted into definite event bookings.

6. Remarks: Co-chair Kendrick

- Discussions of the task force are on schedule.
- At least one more meeting will be added to the task force schedule in early August.
- Planning on having a recommendation for Mayor Sanders by September.

7. Presentation: Market Feasibility & Impact Analysis for the Proposed San Diego Convention Center Expansion

Steven Spickard, Economics Research Associates (ERA)

- Mr. Spickard's firm interviewed staff, reviewed historical data, updated local market conditions since the onset of the recession, reviewed changes among San Diego's competitors, interviewed customers, and assessed underlying trends in the industry.
- He reported that "lack of available dates" remains the #1 reason for lost business, and that 89% of lost business could be accommodated within a 225,000 sq foot expansion of exhibit space.
- Based on interviews with key meeting executives, Mr. Spickard reported that the recession is having a negative impact on attendance and exhibitors, but that the long term importance of conventions and tradeshow remains

unchanged, with business expected to return with economic recovery.

- Mr. Spickard projected \$372 million per year in direct spending impacts from a 225,000 sq foot expansion of exhibit space, along with a \$698 million per year countywide economic impact with 6,885 permanent jobs created. He projected \$16.3 million per year in new Transient Occupancy Taxes and \$800,000 per year in new sales taxes to the city.
- Based on experience with other major convention centers, Mr. Spickard reported that operating revenues do not typically cover debt service and operating expenses for center expansions, nor are these expenses typically covered by incremental increases in hotel or sales taxes. According to Mr. Spickard, the challenge facing policy makers is to identify a broad mix of public financing options that capture as much as possible the more generalized economic benefits of the expansion, and to take into account the larger economic benefits to residents and businesses resulting from an expansion.
- Mr. Spickard concluded by recommending that expansion will allow SDCC to continue to grow and thrive, that convention business will add to the vitality of downtown commercial areas which will, in turn, enhance the attractiveness of downtown as a business and residential location, and that all of the above will contribute to enhanced real estate values, tax base and urban sustainability.

8. Task Force member questions to be addressed:

- Can we get in writing a list of primary event cancellations made between 2003 and 2010 to see if cancellation rates are changing?
- Can we see the impact on operational revenues and expenses of the Convention Center if the convention center is expanded? (Note: This is being compiled by the financial consultants and will be presented at an upcoming meeting.)
- Can we see how various occupancy rates in the new expanded space impact operational expenses? (Note: This is being compiled by the financial consultants and will be presented at an upcoming meeting.)

9. Closing Remarks:

- Co-chair Kendrick: Members and public are encouraged to submit questions to the board.
- Co-chair Cushman: Vancouver Convention Centre backgrounder is available. This is what an ideal expansion would look like.

10. Adjournment: Co-chair Cushman, 6:02 p.m.