



Date: February 27, 2018

To: City Manager for Council Information

From: Assistant City Manager

Subject: STUDY SESSION: Santa Clara Convention Center Operations

The Santa Clara Convention Center, Hyatt hotel, and Techmart office building are part of a 28.57-acre Convention Center complex, located at Tasman Drive and Great America Parkway in north Santa Clara. Built in 1986 and expanded in 2009, the Santa Clara Convention Center is owned by the City of Santa Clara and houses 302,000 square feet of flexible meeting and convention space.

Following the 2011 passage of the Redevelopment Dissolution Act, redevelopment agencies across the state of California were required to sell its assets, retire all debt and dissolve. At the time of redevelopment dissolution, the former Santa Clara Redevelopment Agency owned many properties in north Santa Clara, including the fee interest (land) of the entire 28.57-acre Convention Center Complex.

In January 2016, the City of Santa Clara entered into a Settlement Agreement with the County of Santa Clara, Santa Clara Unified School District and the Santa Clara County Office of Education which among other items provided for 1) the transfer of all revenue generated by the Hyatt and Techmart leases to the Successor Agency and 2) the City's acquisition of the land under the Convention Center and the common area.

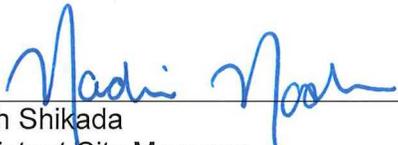
With the loss of revenue to support operations within the Convention Center complex, on April 18, 2017, Council authorized Amendment No. 1 to an Agreement with Jones Lang LaSalle to review the operation of the Santa Clara Convention Center (SCCC) and the Convention-Visitors Bureau (CVB) and provide guidance on models of operation that would maximize fiscal performance and increase business and visitors to SCCC.

Concurrently, staff has been examining several aspects of the City's overall practices, activities and obligations at the Convention Center and in the Convention Center complex for Council discussion. Topic areas generally fall within four separate categories:

1. Property: Convention Center Complex – Issues related to the ownership of land within the Convention Center complex including the common area and parking structure
2. Property: Convention Center building – Issues related to the ownership of the convention center building including building structure, building infrastructure, and improvements
3. Operation: Issues related to the management of the building and operations within the building
4. Support Operations: Issues related to operations supporting the convention center including CVB

Jones Lang LaSalle will provide the first part of a two part presentation regarding Topic Area #3, the operation of the Convention Center. The February 27, 2018 presentation will include contextual information about the convention industry, the competitive positioning of the Santa Clara Convention Center, and current convention center operation.

At a date to be scheduled, Part Two of the study session will include a Council discussion regarding the future direction and priorities of convention center operation and potential investment requirements to best position the center in the marketplace.

for 

Ruth Shikada
Assistant City Manager

APPROVED: 

Deanna J. Santana
City Manager

City of Santa Clara

Santa Clara Convention Center Study Session

February 27, 2018

Item 2.A



**City of
Santa Clara**
The Center of What's Possible



Presentation Overview

- Context
- Convention Center Today
 - Industry trends
 - Situational analysis and competitive positioning
 - State of the current building – facility needs
 - Current utilization of the SCCC including business mix
 - Current sales plan implementation
- Future Topics



Convention Center Topic Areas

- Property: Convention Center Complex (future discussion)



Convention Center Topic Areas

- Property: Convention Center Complex (future discussion)
- Property: Convention Center building



Convention Center Topic Areas

- Property: Convention Center Complex (future discussion)
- Property: Convention Center building
- **Operation: Current Management of and Operations within the building**



Convention Center Topic Areas

- Property: Convention Center Complex (future discussion)
- Property: Convention Center building
- **Operation: Current Management of and Operations within the building**
- Support Operations



Context

- March 1984 - City approved a Management Agreement with Chamber for management and operation of the Center
- Annual management fee was \$45,000, recently updated to 2%
- 1986 – Convention Center begins operation
- Convention Center building is owned by the City of Santa Clara
- Zero based accounting – all profits/losses from Center operation belong to the City



Convention Center Actuals from FY 02/03 to FY16/17 & FY 17/18 Budget - 10 Years

Fiscal Year	Revenues			Expenditures						Totals
	Convention Center	Lease Revenue	Annual Revenues Total	Convention Center	CVB	Capital Expenditures - General Funded	Chamber Management Fee	Maintenance District	Annual Expenditures Total	Total (Net)
FY 08/09	\$3,856,929	\$2,470,363	\$ 6,327,292	\$ (4,726,960)	\$ (1,446,962)	\$ (222,065)	\$ (45,000)	\$ (585,943)	\$ (7,026,930)	\$ (699,638)
FY 09/10	\$4,135,023	\$2,387,881	\$ 6,522,904	\$ (4,895,774)	\$ (1,468,526)	\$ (59,629)	\$ (45,000)	\$ (607,122)	\$ (7,076,051)	\$ (553,147)
FY 10/11	\$5,482,042	\$1,255,692	\$ 6,737,734	\$ (5,005,580)	\$ (1,456,526)	\$ (202,642)	\$ (45,000)	\$ (585,619)	\$ (7,295,367)	\$ (557,633)
FY 11/12	\$5,881,508	\$0	\$ 5,881,508	\$ (5,268,299)	\$ (1,521,526)	\$ (222,508)	\$ (45,000)	\$ (588,005)	\$ (7,645,338)	\$ (1,763,830)
FY 12/13	\$6,849,158	\$0	\$ 6,849,158	\$ (5,738,261)	\$ (1,521,526)	\$ (165,059)	\$ (45,000)	\$ (597,776)	\$ (8,067,622)	\$ (1,218,464)
FY 13/14	\$7,254,188	\$0	\$ 7,254,188	\$ (6,061,561)	\$ (1,521,526)	\$ (573,225)	\$ (45,000)	\$ (604,555)	\$ (8,805,867)	\$ (1,551,679)
FY 14/15	\$7,122,815	\$0	\$ 7,122,815	\$ (6,215,284)	\$ (1,521,526)	\$ (431,966)	\$ (45,000)	\$ (603,455)	\$ (8,817,231)	\$ (1,694,416)
FY 15/16	\$7,406,668	\$0	\$ 7,406,668	\$ (6,307,659)	\$ (1,521,526)	\$ (7,426)	\$ (50,000)	\$ (610,481)	\$ (8,497,092)	\$ (1,090,424)
FY 16/17 - Actual	\$8,093,764	\$0	\$ 8,093,764	\$ (6,586,526)	\$ (1,489,315)	\$ (464,687)	\$ (136,699)	\$ (610,481)	\$ (9,287,708)	\$ (1,193,944)
FY 17/18 - Budget	\$7,264,551	\$0	\$ 7,264,551	\$ (7,001,542)	\$ (1,461,601)	\$ (304,000)	\$ (145,292)	\$ (669,941)	\$ (9,582,376)	\$ (2,317,825)
Total	\$ 63,346,646	\$ 6,113,936	\$ 62,196,031	\$ (50,805,904)	\$ (14,930,560)	\$ (2,653,207)	\$ (646,991)	\$ (5,393,437)	\$ (72,519,206)	\$ (10,323,175)



1984 Management Agreement

Chamber duties:

- Market, advertise, promote Convention Center
- Coordinating use of the Convention Center
- Book events, theatre performances, conventions, exhibitions and meetings
- Schedule and administer the daily operation and provide services required by users of the Convention Center
- Prepare annual budget for City approval
- Subcontract, hire, purchase to operate facility subject to budget



1984 Management Agreement

City duties/responsibilities:

- Maintains financial responsibility for operation and maintenance of convention center
- Responsible for all structural or significant non-structural modifications
- Responsible for parking and landscape



Recent History

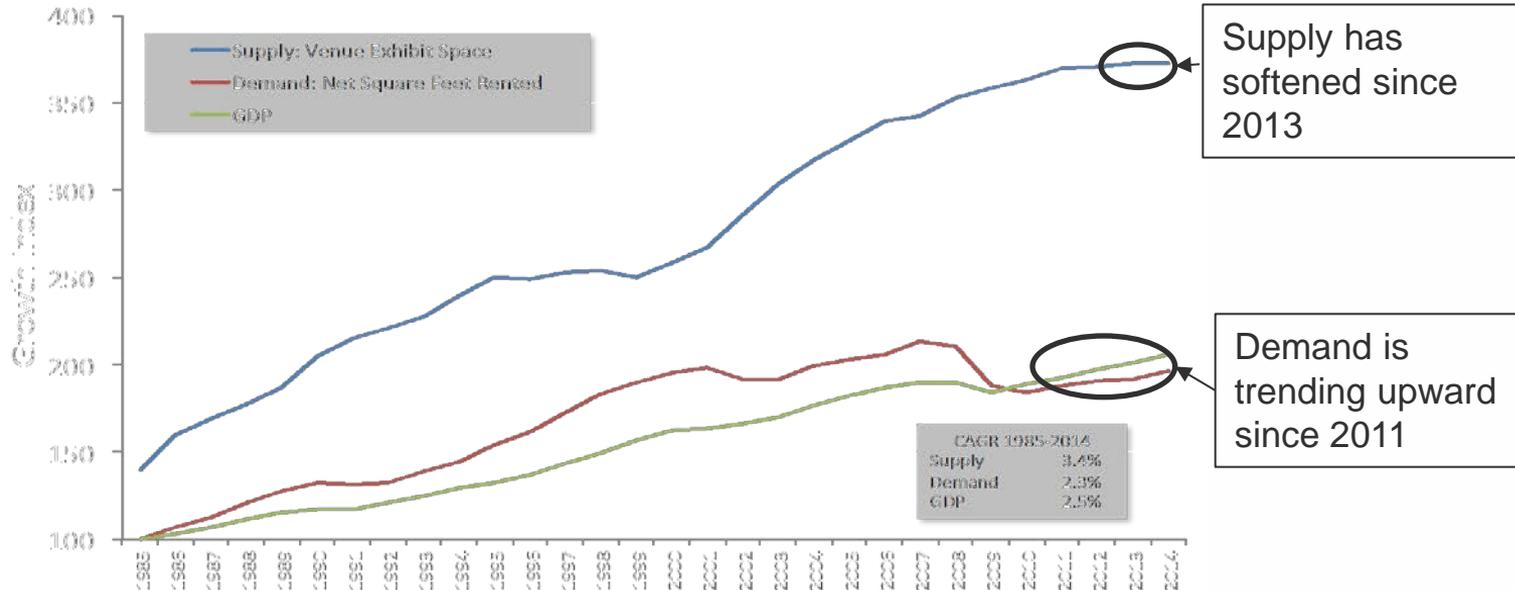
- During the years following Dot-Com Bust and Great Recession (2002-2010) Convention Center operated at a loss
- In general, minimal capital expenditures have been made on maintenance and upkeep of building during this time other than construction of Mission City Ballroom (2009)
- Redevelopment Dissolution legislation and litigation prompted a more detailed examination of convention center-related issues (2011-2016)
- Chamber and City discuss possible termination of the Management Agreement (2015-2016) and the Center's future operation



Industry Trends

- Convention Center exhibit hall supply has outpaced demand making for a more competitive market.

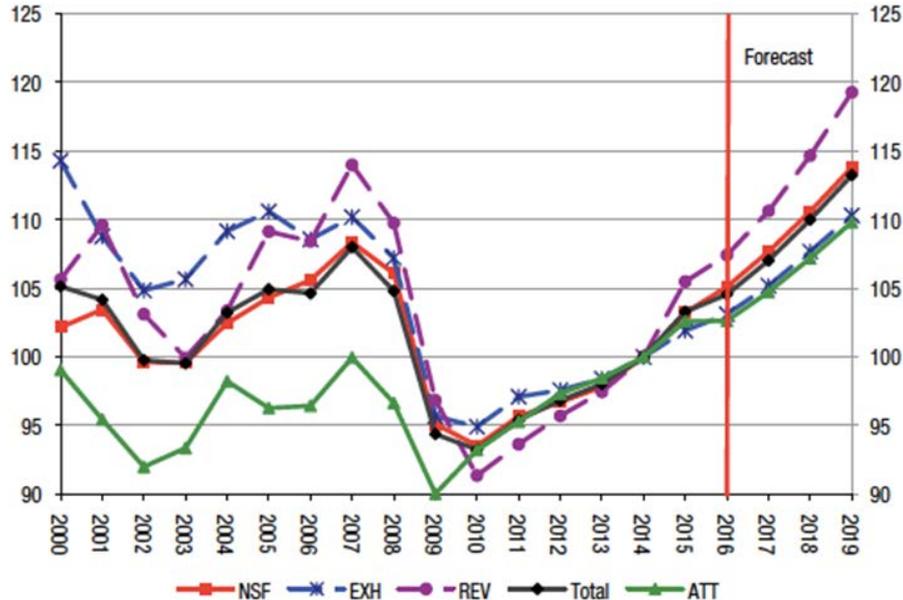
Supply and Demand of Exhibit Space





Industry Trends

Index for the Overall Exhibition Industry

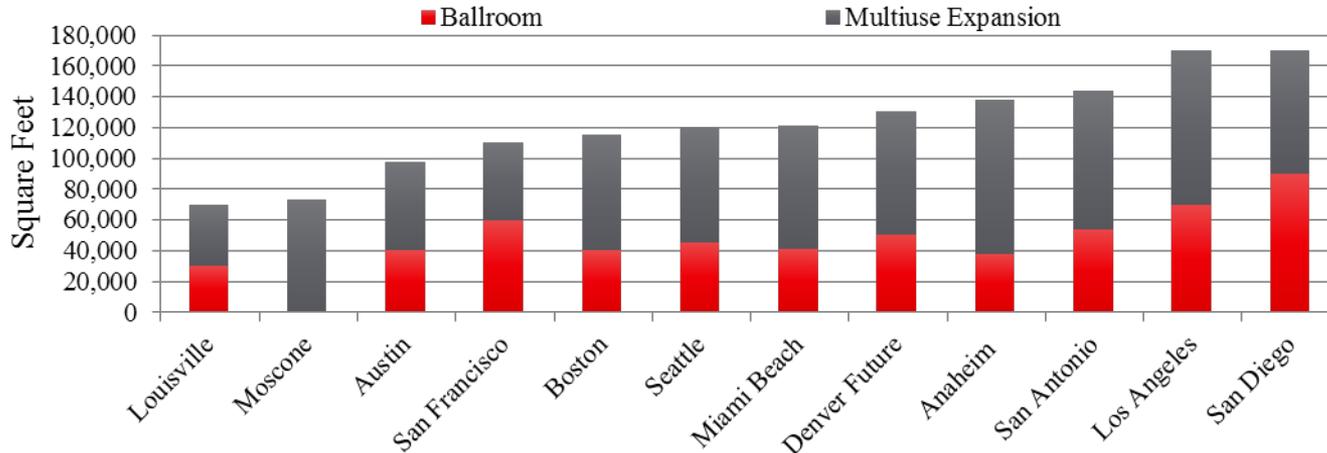


- While there is significant supply, as a whole, the convention industry activity, in terms of number of meetings and attendee participation is trending upward
- Many sectors are projecting growth and increasing activity
- Industry activity tends to follow the economy



Convention Industry is Evolving

Centers Investing in Flexible Space



- Meeting planners want “more than a box”
- 2017 was the year of “experiential”
- Increased emphasis on the overall attendee experience when choosing a destination
- National and regional competitors are investing in multipurpose space to enhance the attendee experience



Industry Trends & Santa Clara





Key Market Considerations

- Significant growth opportunities in the utilization of the existing SCCC
- Market for Santa Clara's target sector (e.g. technology) is still growing
- Developments in the works that will positively impact Santa Clara destination appeal (i.e. City Place, expansion of Great America)
- Continued investment in the hotel market – recent and planned renovations
- Availability of hotel rooms for convention center needs to remain stable and committable
- Santa Clara as a destination needs continued improvement and investment



Categories of Improvements

Short Term

- **Critical** in order for regular continued daily operation.
 - HVAC needs to be replaced (majority – original equipment)
 - Primary electrical and lighting needs
 - Primary elevators and ADA compliance
 - Exterior shell repairs
 - Primary parking needs

EMG estimates roughly **\$5 million minimum**



Categories of Improvements

Short to Midterm

- **Important** to plan for repair/replacement to maintain the building
- Building can continue to function today but improvements need to be addressed for future
 - Systems may be functional but near end of life
 - Cosmetic upgrades
 - General improvements needed to continue to maintain status quo

EMG estimates roughly **\$64 million**



Categories of Improvement

Significant Renovation/Reconstruction

- Changing interior configuration of wall or space
- Construction to update the building
- Improvements needed to remain competitive
- Potential full building renovation scenario (walls, systems, finishes), costs may be in the range of \$265/sf or more than **\$79.5 million***, excluding furniture, fixtures or equipment

* Market escalator: 4% - 6% annually



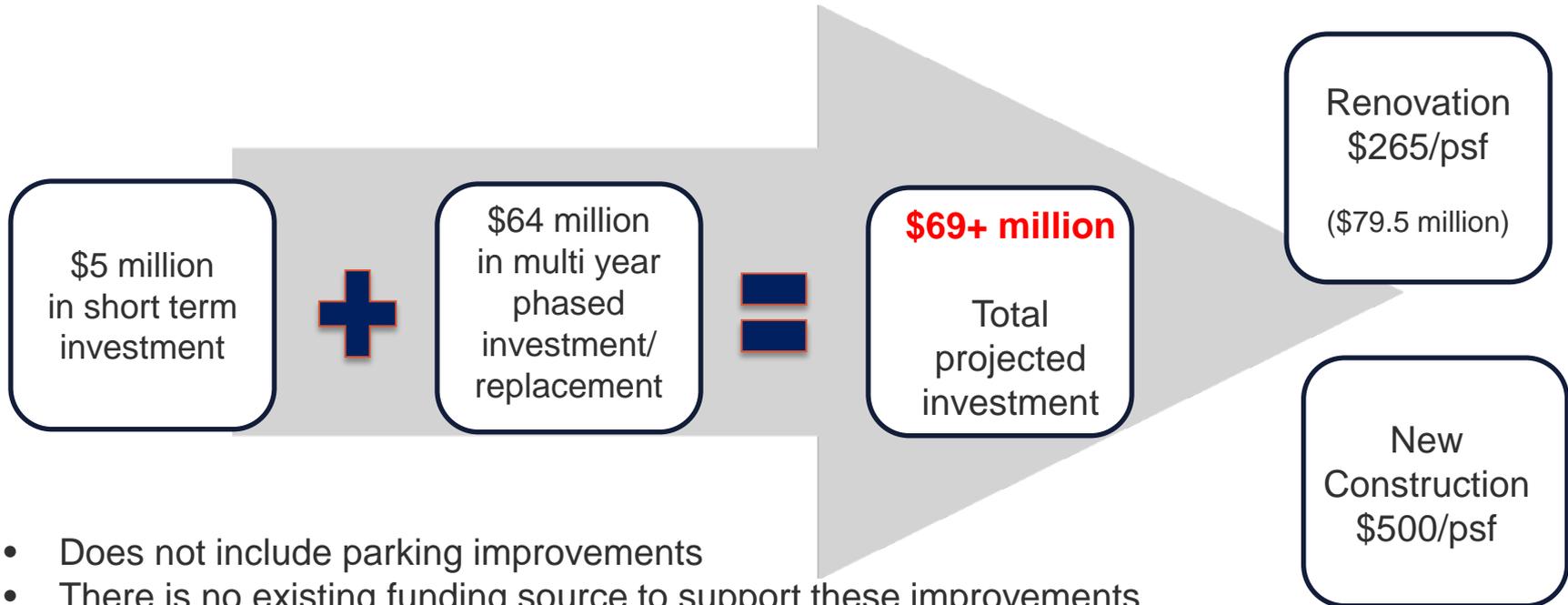
Sample Renovation Projects

Significant investment to achieve enhanced client experience.

- Improve divisibility and flexibility – increase and improve air walls
- Improve technology
- Improve lighting
- Improve public areas, pre-function space as well as ingress/egress points
- Replace carpet and wall fixtures
- Redo all bathrooms
- Replace all finishes
- Increase and enhance parking experience



Order of Magnitude Costs*



- Does not include parking improvements
- There is no existing funding source to support these improvements



SCCC Cumulative Utilization

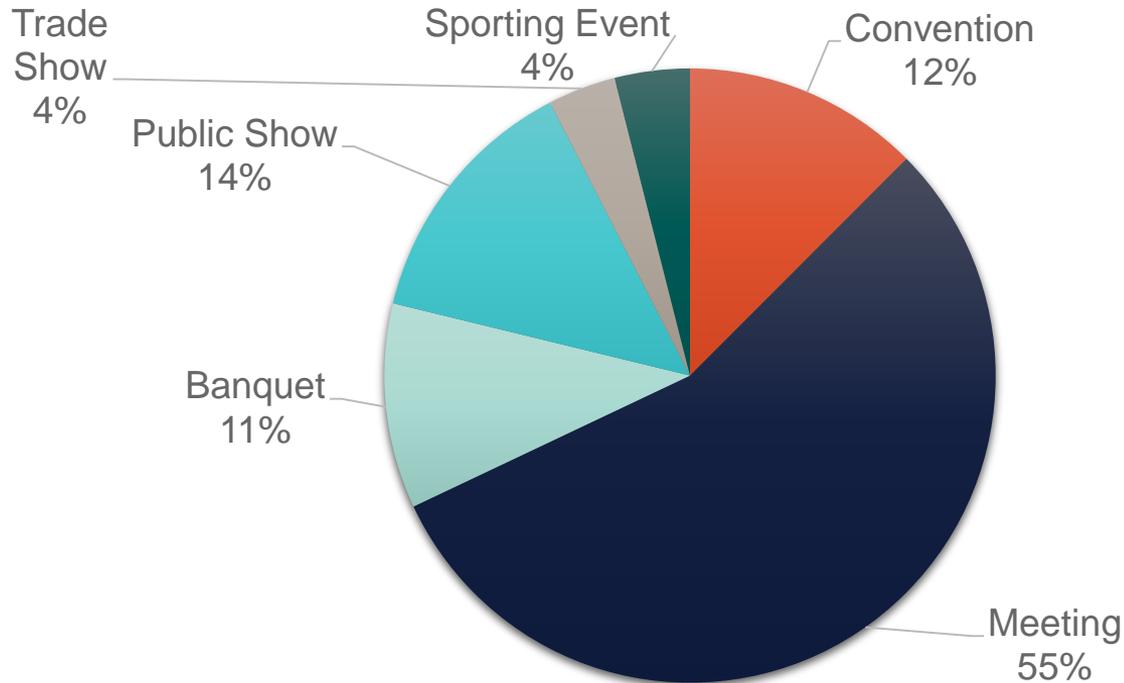
- FY 2015 – 422 total events
 - 20% of all events had room nights
 - » 85 events with room nights – 51,959
 - » **3 citywide conventions**
 - » 611 hotel rooms per room night generating event on average
- FY 2016 – 447 total events
 - 16% of all events had room nights
 - » 70 events with room nights – 41,049
 - » **3 citywide conventions**
 - » 586 hotel rooms per room night generating event on average

Sample Calendar Mix

Houston	Raleigh, NC	Philadelphia, PA
<ul style="list-style-type: none">• 189 total events• 67 room night events• 16 <u>citywides</u>	<ul style="list-style-type: none">• 275 total events• 70 room night events• 17 <u>citywides</u>	<ul style="list-style-type: none">• 269 total events• 54 room night events• 22 <u>citywides</u>



SCCC Utilization – Average Mix of Events by Type





SCCC Utilization - Summary

SCCC is busy with an average of 471 events annually

- 77 events on average have hotel rooms associated with them
- 3 events on average are citywide events, meaning they impact multiple hotels and generate economic impact
- The mix of all business including non room night generating events is dominated by corporate groups with 64% of the total calendar days
- High tech within the corporate sector are the primary clientele
- Associations and educational groups are other key clientele in the historic business mix



SCCC Utilization - Summary

- The most important shift to optimize the SCCC will be to grow the room night generating business to over 50% of the available space
 - Required goal would be to increase the number of citywides from 3 to a range of 10-20
 - The consideration for hotel inventory will impact the actual goal for future citywide events annually



Sales Activity Plan

- In order to validate the convention center citywide market, sales activity and prospecting efforts to increase convention bookings have begun. Efforts have been underway since Nov 2017
- JLL, CVB and SCCC staff meet periodically to review and evaluate the Center's sales activity
- Report activity out to TID hotels and the City staff



M O N T H L Y

R E P O R T

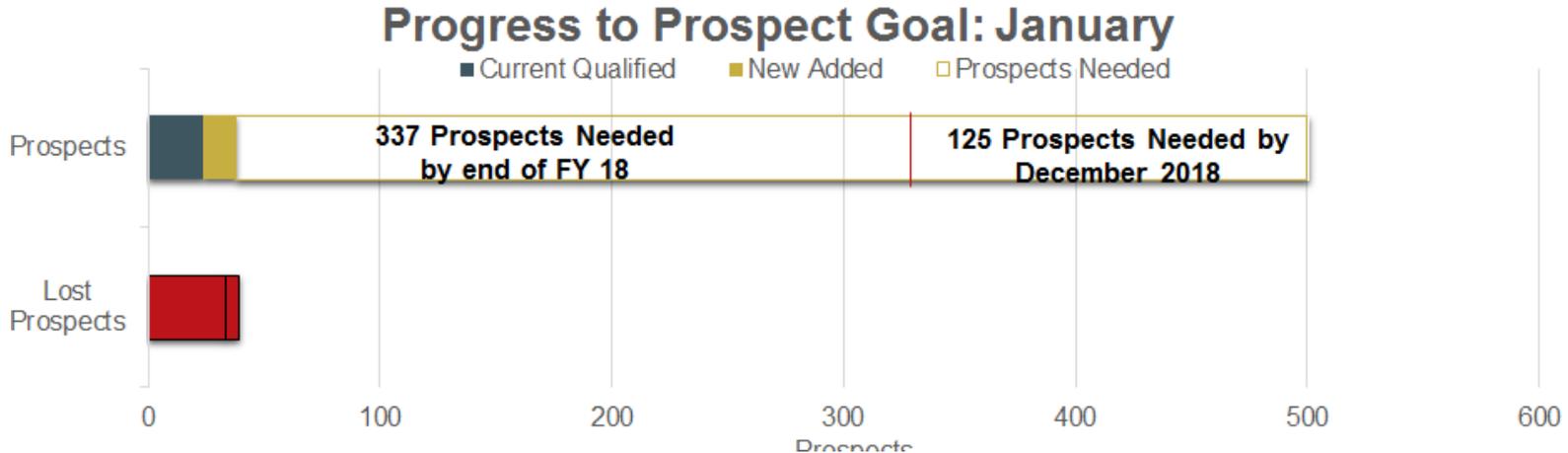
Santa Clara CVB Citywide Report
January 2017



Monthly Report - Citywide Event Goals

Prospects

This requires an ongoing 500 prospects being “worked” by the sales team. For purposes of this report the threshold includes all events with 600 peak room nights or greater.

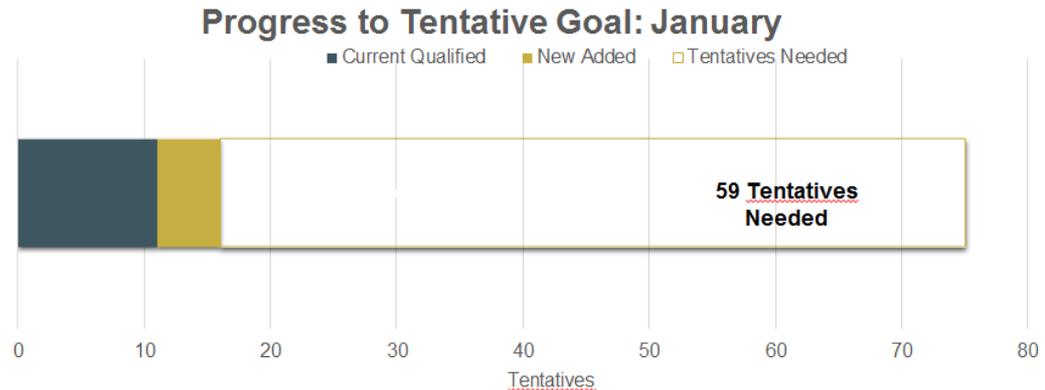




Monthly Report - Citywide Event Goals

Tentative Lead

- The activity goal: 75 tentatives in play on an ongoing basis.
- 2 tentative leads added in Jan. Equates to 21% of the one-year goal.
- At this pace, on track to add 25 new tentatives by the end of the fiscal year or 55% of the goal.

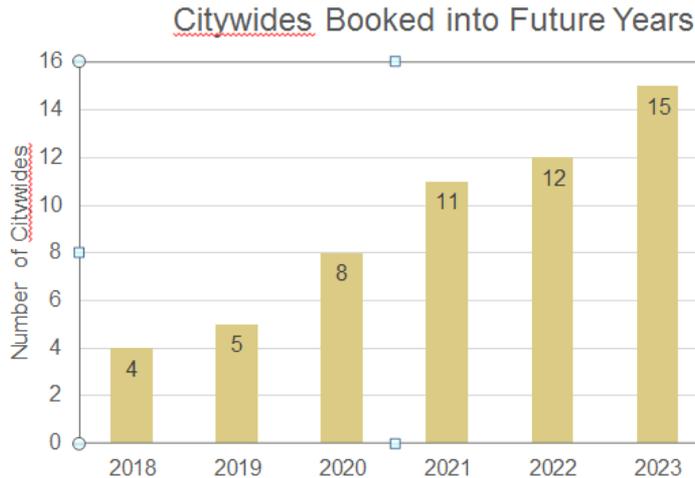




Monthly Report - Citywide Event Goals

Definites

- The goal: 15 Citywides annually on the calendar from 2023 onward.
- To meet this goal: Book 54 incremental definites over the next 5 years.





Sales Activity

- In order to increase citywide convention and new client booking goals, sales activity and prospecting efforts needs to increase and efforts have been underway since Nov 2017
- Each month JLL and the CVB and SCCC staff meet to review and assess sales activity
- Report activity out to TID hotels and the City staff



Future Council Discussion – Next Steps

- Present potential operating models for further review and assessment
- Discussing and formalizing overall priorities for the SCCC
- Continue to assess and refine level of investment desired while evaluating fiscal scenarios and assumptions of each operating model
- Assess potential economic impact and revenue implications to Santa Clara under different models



**City of
Santa Clara**
The Center of What's Possible

