

2/27/18

item 2.A

City of Santa Clara

Santa Clara Convention Center Study Session

February 27, 2018

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City of
Santa Clara
The Center of What's Possible



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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

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POST MEETING MATERIAL



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**

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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

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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

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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

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Recent History

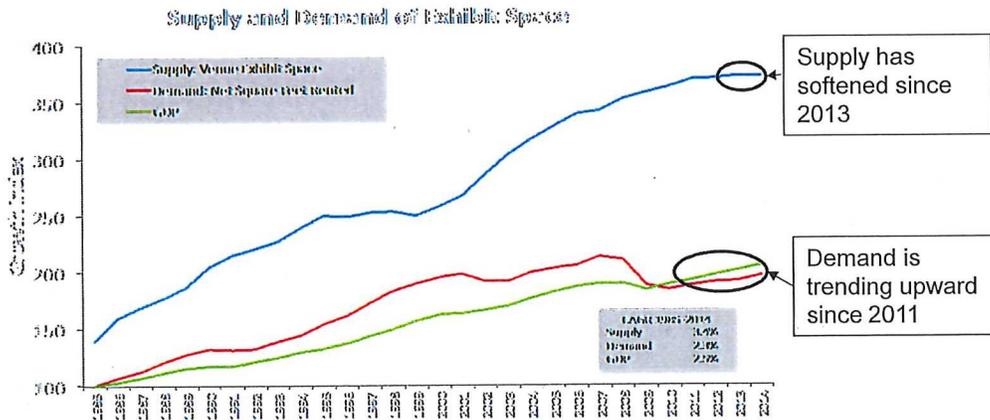
- During the years following Dot-Com Bust and Great Recession (2002-2010) Convention Center operated at a loss
- In general, minimal capital expenditures have been made on maintenance and upkeep of building during this time other than construction of Mission City Ballroom (2009)
- Redevelopment Dissolution 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

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Industry Trends

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

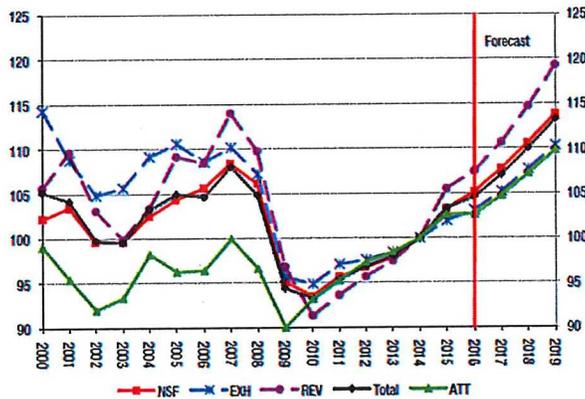


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Industry Trends

Index for the Overall Exhibition Industry

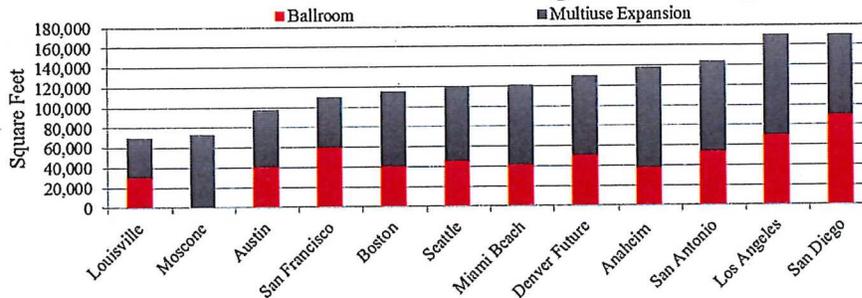


- While there is significant supply, as a whole, the convention industry activity, in terms of number of meetings and attendee participation is trending upward
- Many sectors are projecting growth and increasing activity
- Industry activity tends to follow the economy



Convention Industry is Evolving

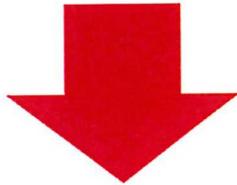
Centers Investing in Flexible Space



- 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

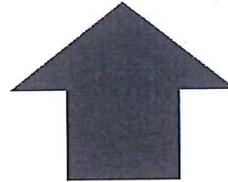


Destination Strengths

- Geographic location
- Proximity to high value growth industries
- Strong market demand projected

Destination Opportunities

- Building condition/design
- Meeting attendee expectations
- Destination appeal



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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

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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**

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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**

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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

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Sample Renovation Projects

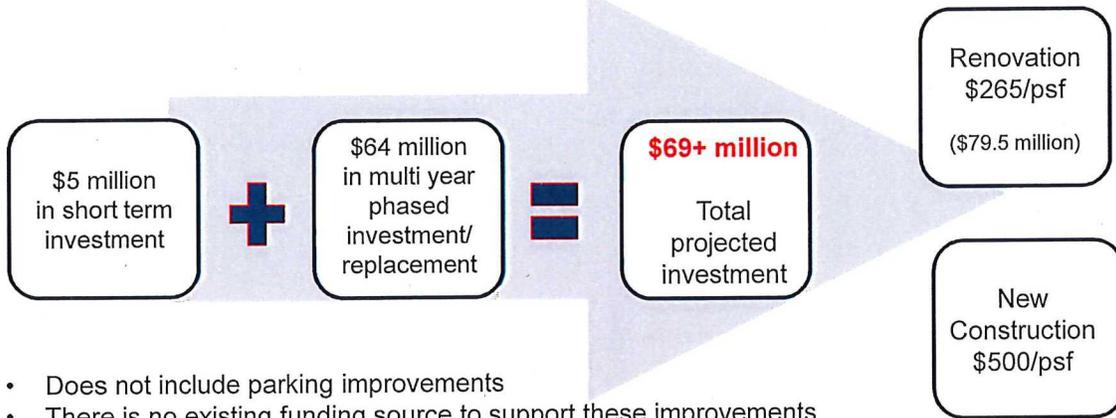
Significant investment to achieve enhanced client experience.

- 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

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Order of Magnitude Costs*



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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

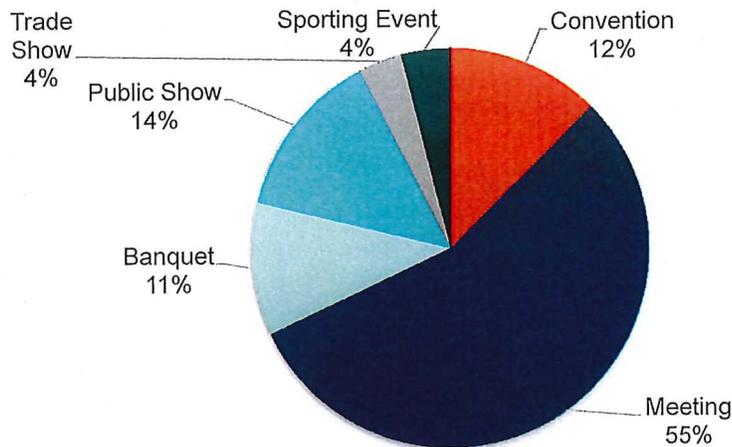
Sample Calendar Mix

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>

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SCCC Utilization – Average Mix of Events by Type



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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

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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

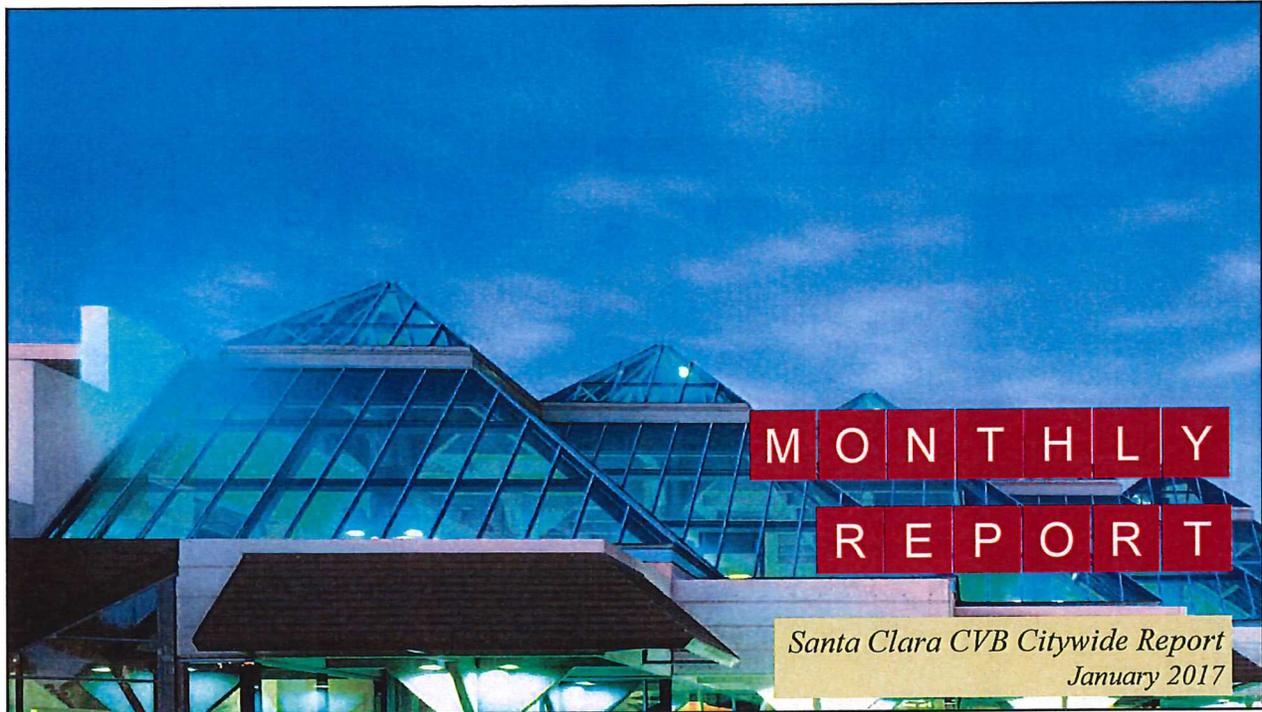
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Sales Activity Plan

- 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

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Monthly Report - Citywide Event Goals

Prospects

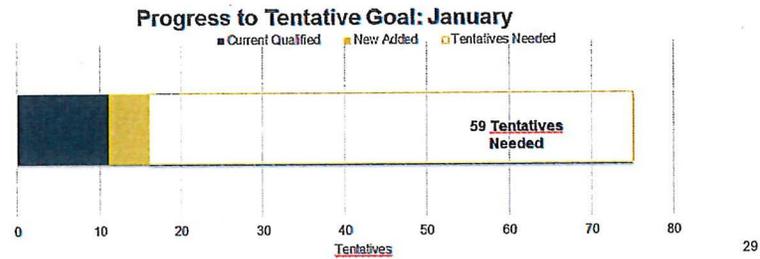
This requires an ongoing 500 prospects being “worked” by the sales team. For purposes of this report the threshold includes all events with 600 peak room nights or greater.



Monthly Report - Citywide Event Goals

Tentative Lead

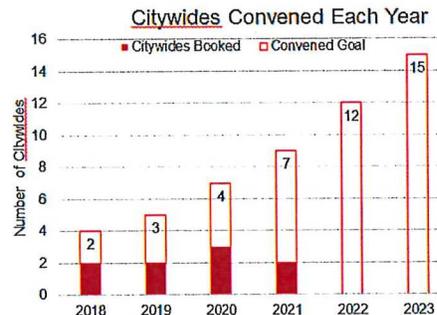
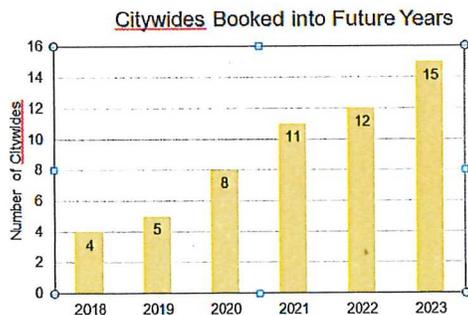
- The activity goal: 75 tentatives in play on an ongoing basis.
- 2 tentative leads added in Jan. Equates to 21% of the one-year goal.
- At this pace, on track to add 25 new tentatives by the end of the fiscal year or 55% of the goal.



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

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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

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