

**SAN DIEGO CONVENTION CENTER CORPORATION
BUDGET COMMITTEE MEETING
OF THE BOARD OF DIRECTORS**

**Director Carol Kim, Chair
Director Elvin Lai
Director Carlos Cota
Director Jaymie Bradford**

**MONDAY, APRIL 20, 2020, 11:00 A.M.
111 W. Harbor Drive, 2nd Floor, Executive Boardroom
San Diego, California 92101**

**AGENDA
(Meeting to be held via teleconference pursuant to
State of California Executive Order N-29-20)**

**Telephone number for members of the public
to observe, listen, and address the meeting telephonically:
1(888) 251-2909 – Access code is 6724115#**

1. **Call to Order - Carol Kim, Chair**
2. **Non-Agenda Public Comment:**
This portion of the agenda provides an opportunity for members of the public to address the Board on items of interest within the jurisdiction of the Board that have not previously been before the Board. Pursuant to the Brown Act, no discussion or action shall be taken by the Board on items not posted on the agenda.
3. **Approval of Proposed Minutes of March 24, 2020 Budget Committee Meeting**
4. **Chair's Report**
5. **Action Item(s):**
 - A. **Recommendation to Authorize Approval of Revised Fiscal Year 2021 Budget**
 - B. **Recommendation to Authorize Placement of Property, General and Umbrella Liability, Workers' Compensation and Directors & Officers Insurance Through the Brokerage Services of Marsh & McLennan Agency**
 - C. **Recommendation to Authorize Amendment to Contract for Elevator/Escalator Maintenance**
6. **Staff Updates:**

- CFO
- President & CEO

7. **Urgent non-agenda items** (must meet the requirements of Government Code, Section 54954.2)

8. **Budget Committee Comment** [Govt. Code §54954.2(a)(2)]

Adjournment

This information is available in alternative formats upon request. To request an agenda in an alternative format, or to request a sign language or oral interpreter, or an Assistive Listening Device (“ALD”) for the meeting, please call Pat Evans at (619) 525-5131 at least five working days prior to the meeting to ensure availability.

In compliance with Government Code section 54957.5, non-exempt written material that is distributed to the Board prior to the meeting will be available at the meeting or it may be viewed in advance of the meeting at the corporation’s offices at 111 West Harbor Drive, San Diego, CA. Materials distributed to the board after the posting of this agenda also will be available online at visitsandiego.com. Please contact Pat Evans at (619)525-5131 or pat.evans@visitsandiego.com if you would like to pick up a copy of any material related to an item on this agenda.

Action items on this agenda may be consolidated for voting purposes into a single vote of the Board, to the extent they are routine or otherwise do not require further deliberation. A Board member may comment on an action item before it is voted upon as part of the consolidated vote; however, if a Board member wishes to discuss an action item, that item will not be included in the consolidated vote. If a member of the public wishes to comment upon an action item, they should so advise the Board chair at or before the public comment portion of the meeting, in which case that item will not be included in any consolidated vote.

Agenda Item 3

MINUTES

SAN DIEGO CONVENTION CENTER CORPORATION
BUDGET COMMITTEE OF
THE BOARD OF DIRECTORS

COMMITTEE MEETING OF MARCH 24, 2020

BOARD MEMBERS PRESENT: Chair Carol Kim and Directors Elvin Lai and Jaymie Bradford

BOARD MEMBERS ABSENT: Director Carlos Cota

STAFF PRESENT: Rip Rippetoe, Mardeen Mattix, Corey Albright, Scott Mounier, Maren Dougherty, and Pat Evans (Recorder)

ALSO PRESENT:

1. **Call to Order:** Chair Carol Kim called the meeting to order at Noon at 111 West Harbor Drive, San Diego, California. Chair Kim noted that all Committee members were present except Director Cota. Chair Kim further noted that since this meeting is being conducted via teleconference, all votes will be recorded via roll-call.

2. **Non-Agenda Public Comment:** None

3. **Approval of Minutes of February 18, 2020 Budget Committee Meeting:**

Directors Lai and Bradford moved and seconded, respectively to approve the minutes from the February 18, 2020 meeting.

Director Kim -Aye
Director Bradford – Aye
Director Lai – Aye
Director Cota –Absent

Vote: Unanimous

AYES: 3

NAYS: 0

ABSTENTIONS: 0

4. **Chair's Report:** Chair Kim thanked the SDCCC finance team for their work on the budget and she encouraged everyone to continue practicing social distancing.

5. **Action Item(s):** Chair Kim requested public comment regarding any of the agenda items. Hearing none, presentations regarding the items commenced.

A. Authorization to Recommend Approval of Fiscal Year 2021 Budget

Director Cota connected with the teleconference at 1:15 p.m.

After discussion, the Committee authorized staff to expend reserve funds, if expenditures are determined to be appropriate, even if staff is unable to maintain the minimum reserve balance required by City mandate.

The Committee's approval of the FY 2021 budget is subject to further amendment and revision and a "best and final" version of the budget will be submitted to the Committee for review in June. The budget forms submitted to the City will also contain a caveat that the reserve figure calculations are not complete and will be amended.

Directors Lai and Bradford moved and seconded, respectively to recommend Approval of the Fiscal Year 2021 Budget.

**Director Kim -Aye
Director Bradford – Aye
Director Lai – Aye
Director Cota –Aye**

Vote: Unanimous

AYES: 4 NAYS: 0 ABSTENTIONS: 0

B. Authorization to Recommend Approval of the 10-Year CIP/Infrastructure and O&M Projections – FY 2021-2030

Directors Bradford and Lai moved and seconded, respectively to recommend Approval of the 10-Year CIP/Infrastructure and O&M Projections – FY 2021-2030.

**Director Kim -Aye
Director Bradford – Aye
Director Lai – Aye
Director Cota –Aye**

Vote: Unanimous

AYES: 4 NAYS: 0 ABSTENTIONS: 0

C. Authorization to Recommend Purchase of Security Surveillance Video Servers

Directors Cota and Lai moved and seconded, respectively to recommend Purchase of Security Surveillance Video Servers.

**Director Kim -Aye
Director Bradford – Aye
Director Lai – Aye
Director Cota –Aye**

Vote: Unanimous

AYES: 4 NAYS: 0 ABSTENTIONS: 0

6. Staff Updates:

- **CFO: None**
- **President & CEO:** Mr. Rippetoe commended Directors and staff for their responses to this unprecedented set of circumstances.

7. Urgent non-agenda items (must meet the requirements of Government Code, Section 54954.2) – **None**

8. Budget Committee Comment [Govt. Code §54954.2(a)(2)]: Chair Kim expressed her thanks for the Center’s willingness to work with the City and other agencies to establish the shelter during this crisis.

There being no further business, the meeting adjourned at 1:37 p.m.

CERTIFICATION

I, Carol Kim, Chair of the Budget Committee of the Board of the Directors of San Diego Convention Center Corporation, Inc., do hereby certify that the foregoing is a true and correct copy of the minutes of the business transacted by the Budget Committee of the Board of Directors of the San Diego Convention Center Corporation, Inc. at a duly noticed meeting held on March 24, 2020.

Carol Kim, Chair

Agenda Item 5.A

SAN DIEGO CONVENTION CENTER CORPORATION

MEMORANDUM

TO: Budget Committee

FROM: Mardeen Mattix, Chief Financial Officer

DATE: For the Agenda of April 20, 2020

RE: Review of Revised Fiscal Year 2021 Proposed Budget (since BOD approval 3-26-2020)

BACKGROUND

The San Diego Convention Center Corporation budget is adopted by San Diego Convention Center Board of Directors and approved by the City Council of San Diego. Our FY2021 budget was approved March 26, 2020 based on our budget process consists of three main phases: budget development, budget review and balancing of the reserves to maintain minimum goal levels. **Due to the COVID-19 pandemic, reserves are anticipated to be depleted during FY2021 as Corporation is facing an operating loss, debt service obligations and servicing critical needs capital items.** We start the budgeting process with developing a three-year outlook. Staff input requirements and Finance Department review and benchmark against trends. Concurrently, a 10-yr Capital Improvement Plan (CIP) is developed and scheduled with focus on the immediate three years. Both proposed budget and 10-yr CIP are balanced against the reserves until all three elements are in alignment. The FY2021 strategic focus is to begin the roof replacement project with focus on the original (“West Building”) roof through a debt financing mechanism to maintain safe and quality show presence to our clients to maintain our superior quality service for events.

DISCUSSION

The FY2021 Budget approved on March 26, 2020, produced Net Operating Revenues of \$2,714,800 compared to \$2,027,200 in the FY2020 Budget. Based on continued evolution of the COVID-19 pandemic, recent mandates from the Governor of California declared limited social gathering through July 2020. Convention Center staff revised FY21 budgetary impacts to exclude July event activity from the prior approved budget, causing a FY2021 Net Operating Loss of (\$1,009,908). Debt Service Obligation originally approved as \$1,723,900 consisted of IBank and Storage Warehouse obligations. Corporation qualified for CARES Act funding through the Paycheck Protection Program of \$4.2 million with estimated debt forgiveness of \$3.0 million to cover lost wages during the last quarter of the fiscal year. Debt payments related to the CARES Act loan increase estimated debt payments annually by \$250,000. Total Debt Service Obligations exceed available reserves reducing available payment obligations to \$1,572,844. Corporation requests the City cover the second installment of IBank interest payments due 2/1/2020 of \$431,000.

On April 1, 2020, City of San Diego exercised its authority to use the Center as a temporary homeless shelter as a collective effort to alleviate the threat of illness caused by the outbreak of the novel coronavirus, COVID-19. Corporation supports this operation by providing incident command, security, cleaning and coordination of shelter efforts in conjunction with the City. Revised FY2021 assumes the temporary shelter will not be operational past June 30, 2020.

The Corporation forecasts to begin FY2021 with a projected beginning Operating Reserve balance of \$5,018,452 after factoring the effects of COVID-19 fallout through July with accounting for the loan forgiveness. Corporation anticipates ancillary revenues may see a \$1,000,000 further reduction than budgeted with the economy facing a slow recovery initially. Corporation will take mitigating cost reduction measures in the early part of FY21 in addition to what is budgeted and will adjust equitably as business resumes. After factoring mitigating cost measures, funding Debt Service Obligations (\$1,572,844) and Capital Outlays (\$2,435,700), Operating Reserves will be depleted.

Categorical differences between the FY2021 Proposed Budget and FY2020 Budget compared to FY2020 Forecast are detailed below. Forecast FY2020 in all categories are all affected by COVID-19 impacts as projected through May 2020.

TOTAL OPERATING REVENUES

Overall revenues reduced from \$42.7 million to \$37.7 million, which is (\$4,959,990) or 11.6% decrease from the FY2021 budget approved last month. All categories decreased with the exception of City funding of \$2,186,400, which is entirely passed through to San Diego Tourism Authority for contracted Sales and Marketing efforts.

PERSONNEL EXPENSES

Total Personnel expense originally budgeted in FY2021 of \$24.5 million was further reduced by (\$915,372) for a total of \$23.6 million. FY2021 budget includes a continued cost mitigation plan that accounts for personnel reductions, furlough and layoff extension made during FY2020.

Cost mitigation plans included:

- Exempt staff designated as essential employees originally were planned to have wages reduced by 20% in April. Due to the Paycheck Protection Program guidelines for the SBA loan requirement, Corporation decided to forego FY2021 scheduled incentive increases as well as mandated time off to draw down PTO balances equivalent to the 20% reduction. Corporation believes this also will help preserve leadership employment efforts through this difficult time.

- Full-time staff (including represented employees and exempts deemed non-essential) that were furloughed or temporarily laid-off will return to work as business resumes.
- Part-time staff were laid off beginning late March until business resumes, with the exception of a few security officers and cleaning service workers
- A number of positions subject to Reduction in Force will not be refilled.

Further cost saving measures planned to extend into FY2021 not budgeted includes:

- Scheduled merit increases due July 1 will be delayed to later in the calendar year if business resumes to support the reinstatement.
- Anticipated extended furlough or conservative staffing during the initial term of FY2021 until event levels resume
- Step increases for represented staff may be delayed following discussions with Union representatives.
- Vacation sell back program suspended with anticipated savings of \$200,000 than prior year.

Savings in health insurance premiums of (\$311,200) offset increased projected unemployment insurance claims of (\$105,000) in FY2021.

UTILITIES

Utilities expense originally budgeted for FY2021 of \$4,507,670 was reduced by (\$300,000) to \$4,207,670 with the assumption there would be no business activity in July 2020.

INSURANCE

Insurance Premiums estimated in the FY2021 original budget of \$603,340 were further reduced by (\$19,930) to \$583,410 due to final renewal pricing obtained during April 2020.

TOTAL OPERATING EXPENSE

Total Operating Expense originally budgeted for FY2021 of \$39,991,190 was reduced by (\$1,235,302) to \$38,755,888 based on the variances noted above.

NET OPERATING REVENUES/ (EXPENSES)

Net Operating Expenses over Operating Revenues are budgeted at a net loss of (\$1,009,908) based on the assumption social gatherings will not be permitted until August 2020.

If we assume the restriction on gatherings extends longer into the year with a slow economic recovery, Corporation will face further personnel cuts, extended furloughs and challenges operationally maintaining the business operations, repair and infrastructure demands the building faces. Corporation continues to research opportunities for loans, grants and support in conjunction with City officials.

10 YR- CIP and OPERATING CAPITAL BUDGET

FY2021 total Capital Improvement Plan remains budgeted for \$2,435,701, which includes \$1,500,000 for Capital Infrastructure Projects (“CIP”) and Operating Capital (“O&M”) of \$935,701. SDCCC’s focus is to repair leaks in the building by prioritizing the roof replacement of the original (“West”) building and replacing corroded sewer drain lines. The design, engineering and planning phase for the roof replacement will occur during FY2021 with schedule construction anticipated Sept 2021 – June 2022 of FY2022. Additionally, the Center’s primary capital operating projects consist of converting software platforms for event management and finance and public address loud speakers during the upcoming FY2021.

Capital improvement projects will use Operational Reserves to cover the costs with the exception of the roof replacement anticipated to fund from debt proceeds in FY2022. Estimated costs of \$1,250,000 for design and engineering incurred during FY2021 are planned to be reimbursed from debt proceeds to be issued in FY2022.

Due to reduced contributions from the City over the years with more demand to fund capital projects from operating surplus, SDCC will need to procure a debt financing mechanism in order to replace the West Building roof. Staff obtained a lease proposal to support the design and West side roof replacement estimated to cost \$6.8 million. Additionally, the East Building roof would need replacement within the next five years, with the metal portion already exceeding its useful life.

OPERATING RESERVES

Operating Reserves are expected to be eliminated, reducing the balance to \$0 from a forecast ending balance in FY2020 of \$5,018,452. FY2021 Budgeted Operational deficit of -\$1.0 million reduced by Debt Service payments \$1.5 million further reduced by Capital Outlay costs of \$2.4 million account for the decrease in reserve balance.

STAFF RECOMMENDATION

Approve authorization of FY2021 Proposed Budget and 10-Year Capital Improvement Plan for submission to the City of San Diego for council approval.

_____/s/_____
Mardeen Mattix
Chief Financial Officer

Agenda Item 5.B

SAN DIEGO CONVENTION CENTER CORPORATION

MEMORANDUM

TO: Budget Committee

FROM: Mardeen Mattix, Chief Financial Officer

DATE: For the Agenda of April 20, 2020

RE: Authorization to Place Property, General and Excess Liability, Workers' Compensation, Director's & Officers, and Employment Practice Insurance through the Brokerage Services of Marsh & McLennan Agency

BACKGROUND

The Corporation's Property, General & Excess Liability, Workers' Compensation, Directors & Officers, and Employment Practice Liability insurance policies expire April 30, 2020.

DISCUSSION

In April 2018, Corporation issued a formal Request for Proposal (RFP) to brokers qualified through an initial Request for Qualification (RFQ) process. Through this process, the Corporation awarded Marsh & McLennan an initial term of one-year with the option to extend for two (2) additional one-year periods. Staff exercised the last one-year option for comprehensive insurance package services for all of the Corporation's insurance policies.

Property

A comprehensive all risk property package insures total building value of \$768,000,000 (this amount reflects an increased value of \$7,100,000, which was due mainly to the industry building index factor). Total premiums (before allocations to the City of San Diego and the Port of San Diego) are \$276,500, which is \$57,900, or 26% higher, than the expiring policy. Net property rate is \$.036 per \$100 of property value, 25% higher than the expiring rate. Corporation's share of net premium (after deducting for amounts billed back to the City and the Port) is \$222,200, an increase of \$46,500, or 26%, compared to the expiring policy.

This year's increased rate is due to overall property market conditions, which continue to worsen as brokers are seeing the highest average rate increases in the past 10 years. Increased property rates are due mainly to higher-than-average attritional losses over the past three years, record catastrophic losses in 2017, higher-than-average losses in 2018, and increasing reinsurance costs.

In marketing our property program, Marsh received six quotes, including the incumbent, Affiliated FM. Three carriers declined to quote based on non-competitive pricing, one declined based on premium size, and one provided a quote over \$500,000. Early indications had pegged the rate increase at +30%. Therefore, a 25% increase in rate is very competitive and under the market rate.

Staff recommends authorizing Marsh to renew property policy with the incumbent, Affiliated FM.

General Liability

According to Marsh, general liability underwriting results continue to deteriorate for many insurers. With jury verdicts increasing and severity trends driven by social inflation, has resulted in underwriters attempting to renew at an increased rate. However, SDCC's favorable loss experience, exposure class, and risk transfer in our License Agreements, have significantly mitigated the market rate increases (about 10% to 20%). As a result, Scottsdale Indemnity (incumbent) provided a renewal quote with just a 1% rate increase.

The proposed general liability policy is for \$1,000,000 base coverage, including a single occurrence deductible of \$100,000. Additionally, this policy includes \$1,000,000 bodily injury for each occurrence, with a \$2,000,000 aggregate, caused by a "transmissible pathogen", which includes COVID-19 related claims. Total quoted premium is \$19,600, a decrease of \$3,100, or 14% lower than the expiring policy. This year's decrease is attributable mainly to lower attendance resulting from COVID-19 related canceled events.

Staff recommends authorizing Marsh to renew general liability policy with the incumbent, Scottsdale Indemnity.

Excess Liability

The Corporation is required to maintain comprehensive excess liability insurance with limits of \$50 million. Marsh secured quotes for \$25 million over the \$1 million base and is working with underwriters to secure the remaining \$25 million. Due to the timing of the Board meeting on 04/20/20, Marsh has provided an estimate for the total excess liability at a cost of \$85,000, an increase of \$23,000, or 37% higher, compared to the expiring policy.

Excess rates have been rising dramatically the past year due to social inflation and higher jury awards. As a result, some carriers have left the market with limited replacements entering the market prior to the COVID-19 pandemic disruption. Now carriers are writing business in a time of uncertainty and are therefore more selective in their risk coverage. Additionally, with the Convention Center currently operating as a homeless shelter, excess underwriters are re-evaluating their risk exposure and pricing accordingly. Under normal circumstances, this is not a class of business excess underwriters would

typically insure.

Workers' Compensation

The recommended workers compensation program is under-written through incumbent, Travelers. As with the current year's program, the proposed Travelers program is a high deductible (\$250,000 per claim) program requiring a fixed base of non-refundable premiums, assessments, and fees totaling \$141,500, an increase of \$3,500, or 2.5% higher, than the expiring program. The net workers' compensation rate is \$.78 per \$100 of payroll, 1% higher than the expiring policy. The Travelers package does require an additional collateral contribution of \$180,000 due to prior year's high Incurred Losses. Including the projected claim costs of \$300,000, the overall program costs are expected to be approximately \$441,500.

As a comparison to the high deductible program, we received two competing quotes for a guaranteed premium package. ICW quoted \$723,500, while State Fund provided an indication ranging from \$923,000 to \$1,000,000. Based on the high cost of the guaranteed premium program, the large deductible program will likely yield significant cost avoidance over the guaranteed premium program.

Directors & Officers (Including Employment Practice, Fiduciary Liability, and Crime)

Marsh submitted a package written through the incumbent, Zurich. The one-year policy provides a \$3,000,000 coverage limit, a \$100,000 retention for Director's & Officers, and \$125,000 for Employment Practice (EPL). A retention increase of \$25,000 for the EPL from \$100,000 to \$125,000 is still lower than most carrier policy's minimum retention of \$250,000. Total premiums resulted in \$57,000, an increase of \$9,300, or 19%, compared to the expiring policy. The premium increase is due mainly to the current firming market conditions and recently filed claims.

RECOMMENDATION

Authorization to place Property, General and Excess Liability, Workers' Compensation, Directors & Officers, and Employment Liability Insurance through the brokerage services of Marsh Risk & Insurance Services as detailed in the discussion above for a period of three years, with an option to extend the placement for one two-year period.

/s/

Mardeen Mattix
Chief Financial Officer

