

Agenda Item 4.f
SAN DIEGO CONVENTION CENTER CORPORATION
MEMORANDUM

TO: Board of Directors
FROM: Carol Wallace, President & CEO
DATE: For the Agenda of March 18, 2015
**RE: Authorization to Award a Contract for Phase III Expansion Analysis/
Consulting Services to Conventions, Sports & Leisure International**

BACKGROUND

Corporation desires to engage the services of a highly qualified consultant to provide analysis of market, program, financial and economic implications of various Convention Center expansion options, including contiguous and non-contiguous.

DISCUSSION

Staff contacted Convention, Sports & Leisure International (CSL) directly, as a single source provider, based on the firm's leading reputation and experience in providing feasibility studies in the Convention Center industry. In addition, CSL, in partnership with Piper Jaffray, has previously provided a study of financing options related to the Phase III Expansion for the Mayor's Task Force in 2009. Staff discussed scope of services with CSL and requested a proposal to include the following tasks (Analysis):

- Local Market Interviews and Site Analysis
- Analysis of Existing Convention Center Utilization
- Competitive/Comparable Facility and Market Analysis
- Analysis of Industry Trends Impacting the Project
- Analysis of Event Planner/Customer Opinions
- Key Findings Regarding Each Convention Center Expansion Option
- Analysis of Financial Operations
- Analysis of Economic Impact/ROI

CSL submitted a proposal in response to staff request for the Analysis indicating a total not to exceed cost of \$90,000, of which \$76,000 is for professional services and \$14,000 for out-of-pocket reimbursable expenses. CSL can begin work immediately and is able to provide a final written Analysis by end of June 2015.

RECOMMENDATION

Authorization to award a contract for Phase III Expansion Analysis/Consulting Services to Conventions, Sports & Leisure International in an amount not to exceed \$90,000. Funding for the project will be shared by Corporation, City of San Diego and JMI Realty.



Carol Wallace
President & CEO



March 11, 2015

Ms. Carol Wallace, President & CEO
San Diego Convention Center Corporation
111 West Harbor Drive
San Diego, California 92101

Dear Ms. Wallace:

This letter sets forth our understanding of the terms and objectives of our engagement to analyze the market, program, financial and economic implications of various potential San Diego Convention Center (SDCC) expansion options. These may include, but are not limited to the development of space that is contiguous to the existing SDCC, as well as options for development of non-contiguous space.

We understand that each expansion option will have a particular ability to attract events in various market sectors, and that the unique market capture, room night, economic impact and financial operating levels for each option need to be clearly understood.

The strategic planning effort described herein will define the event levels, type of event, professional attendance levels, room night generation, and critical facility features associated with each SDCC expansion options. This research will provide comparative data needed to make decisions as to how to proceed with the project.

This Letter also provides the nature and limitations of the services to be provided, the estimated project timing and the related fee arrangement. The specific scope of services devised for this project is described in detail below.

Scope of Services

Specific tasks to be completed as part of this analysis are summarized below.

- Task 1 – Local Market Interviews and Site Analysis
- Task 2 – Analysis of Existing SDCC Utilization
- Task 3 – Competitive/Comparable Facility and Market Analysis
- Task 4 – Analysis of Industry Trends Impacting the Project
- Task 5 – Analysis of Event Planner/Customer Opinions
- Task 6 – Key Findings Regarding Each SDCC Expansion Option
- Task 7 – Analysis of Financial Operations
- Task 8 – Analysis of Economic Impacts

Each of these tasks are described in more detail on the following pages.

Task 1. Local Market Interviews and Site Analysis

At the outset of the study process, we will conduct in-person interviews with a cross-section of the local visitor industry including SDCC management and other organizations or businesses that may provide useful information.

We will also conduct on-site inspections of existing SDCC, hotel, entertainment and related visitor industry amenities in the immediate and surrounding areas of the Center and proposed expansion locations. The success of future SDCC expansion under either option will be impacted by the access to these types of amenities, and recommendations will reflect current and projected future hospitality and entertainment development within the site area.

Task 2. Analysis of Existing SDCC Utilization

There are utilization patterns and statistics that can provide useful information as to how added space would be absorbed, having implications on the contiguous versus non-contiguous evaluation. As part of this task, we will analyze the existing/historical utilization characteristics for the SDCC focusing on:

- Current SDCC space use by area.
- Number and type of events that use the entire facility.
- How multiple overlapping events are accommodated within the existing space.
- Seasonality patterns.
- Square footage and daily occupancy by type of space.

The results of this task will provide an assessment of how various contiguous and non-contiguous expansion scenarios will impact the ability to accommodate the current and future space needs of the existing base of events.

Given the extensive data maintained by SDCC staff, we will rely on their assistance in preparing the analysis and presentation materials for this task.

Task 3. Competitive/Comparable Facility and Market Analysis

Development of convention center space has taken place or is planned in numerous markets competitive with or comparable to San Diego. These include San Francisco, San Jose, Seattle, Nashville, Orlando, Miami Beach, New Orleans and Las Vegas. Our master planning experience in most of these markets will be valuable as we review the unique physical and operational characteristics of these projects, the industry trends they are attempting to respond to, and the potential applicability of development concepts to expansion options for the SDCC.

The type of data that will be assembled for comparable and competitive expansion projects include:

- Exhibit, meeting and ballroom/multipurpose space and capacities.
- Fixed and temporary seating components.
- Technology amenities.
- Quality and location of the urban entertainment and hospitality infrastructure.
- Event attendee amenities that provide a competitive advantage.
- Air, rail, ground transportation, parking and shuttle access.
- Future facility, hotel and other visitor industry development plans.
- Layout and design focus.
- Location/size of committable, convention-quality hotel properties/rooms.

Cities to be included in this analysis will include but are not limited to San Francisco, Seattle, Orlando, New Orleans, Las Vegas, Anaheim, Denver, Boston and San Antonio. SDCC staff will assist in the development of data necessary for this task.

The analysis conducted in this task will also consider the complimentary and competitive aspects of the major local hotel inventory. The impact of potential increased in-house group business on room block commitments for SDCC events, as well as the potential impact of added room inventory will be considered.

Task 4. Analysis of Industry Trends Impacting the Project

As modest rebound in the convention industry and the national economy continue to emerge, there have been changes to the selection criteria used by convention and tradeshow planners. Planners are highly focused on factors that impact the experience of the event attendee, including walkable access to hotels, restaurants and entertainment. Meetings space needs continue to increase. Event attendees, increasingly from the millennial generation, seek productive work spaces within facility prefunction areas to collaborate with other industry professionals. Centers will have to offer capacity for evolving meeting formats that go beyond standard lecture settings. Event exhibitors and corporate sponsors increasingly look to a defined return on investment.

CSL understand these and related important characteristics and how they have and will continue to affect the industry. Our understanding of industry trends and their implications on specific markets and needed convention center and destination amenities is something that we take very seriously, as demonstrated by our ongoing dedication of significant staff resources to important industry research efforts.

Our focus during this task is to evaluate these trends and their potential implication on the viability of various future SDCC expansion options. The ability of various expansion scenarios

to address current and emerging industry trends will be carefully considered as we develop project recommendations.

Task 5. Analysis of Event Planner/Customer Opinions

The process of choosing a particular SDCC expansion option should rely in part on opinions and attitudes of past, current and potential SDCC customers. The purpose of this task is therefore to develop primary convention industry research specific to the San Diego convention and tradeshow market. We will interview a large sample of targeted event planners (including current, past, lost and potential users of the SDCC) from a national and regional basis. Event organizer survey results will be analyzed to provide summaries of the following data:

- Opinions as to contiguous versus non-contiguous event spaces.
- Opinions as to various development concepts to best link any future expansion taking place adjacent to the existing site.
- Likelihood of using existing/expanded event space under various expansion scenarios.
- Exhibit, meeting, ballroom and other space levels required to attract the event.
- Demand for non-traditional event space.
- Demand for ancillary facility amenities.
- Other related event information and relevant opinions.

For each of the two basic scenarios analyzed, we will develop estimates of market capture and event activity that could be generated. The measures of event demand to be focused on will include:

- Event levels by event segment.
- Attendee generation.
- Room night generation.
- Expected SDCC occupancy levels by building area.

We will also conduct focus groups as part of task, with sessions in Chicago and Washington D.C.

Task 6. Key Findings Regarding Each SDCC Expansion Option

By combining the results of this task with the results generated in previous tasks, we will develop a market-based presentation of the key issues that should be considered by decision makers when deciding the future of SDCC expansion.

We will assess the extent to which added convention space under various scenarios serves to accommodate the market potential for the SDCC. The influence of emerging industry trends on future SDCC expansion options will also be assessed.

We will also identify the surrounding site area conditions, pedestrian linkages, signage and other aspects required to help ensure the viability of each expansion scenario. The event planner surveys and focus groups conducted as part of this study will be used to carefully examine industry opinions associated with each option.

We will be available to work with SDCC management and project architects as they devise more specific physical planning documents for the expansion that integrates the results of our strategic planning research.

Task 7. Analysis of Financial Operations

Based on the results of the expansion site and configuration analysis, we will prepare a financial operating analysis focusing on the impacts to the existing revenue and expense performance of the SDCC for each development option. Specifically, we will develop a computer-based model incorporating existing and comparable facility data, and the estimated levels of event utilization and attendance derived from the market analysis.

Potential future expenses including salaries (permanent and event driven staff costs), utilities, maintenance, supplies, insurance, contract service costs and others will be estimated. Revenues such as rental, food and beverage, telecommunications and other such sources will also be evaluated. We will work with SDCC management during this process to ensure that the nuances and unique operating aspects of the operation are reflected in the analysis.

Task 8. Analysis of Economic Impacts

Analysis of non-local attendees attracted to the area as a result of various SDCC expansion options will be developed based on estimates of future event activity by market segment developed previously in the analysis. These estimates will be used to calculate total current and potential future out-of-town delegate spending in the San Diego area for each expansion option. These estimates will be based on appropriate per-delegate spending levels using industry data adjusted to the local area. The resulting delegate spending levels would be segmented by industry and applied to economic impact multipliers.

From these economic impact variables, we will apply appropriate local, regional and statewide tax rates (including, but not limited to hotel/motel and sales taxes) to estimate the added tax revenue generated for each SDCC expansion option.

Professional Fees and Expenses

Estimates of professional fees for Tasks 1 through 8 are presented below.

Task 1 – Local Market Interviews and Site Analysis	\$5,500
Task 2 – Analysis of Existing SDCC Utilization	3,500
Task 3 – Competitive/Comparable Facility and Market Analysis	5,000
Task 4 – Analysis of Industry Trends	4,000
Task 5 – Analysis of Industry/Customer Opinions	17,800
Task 6 – Key Findings Regarding Each SDCC Expansion Option	19,000
Task 7 – Analysis of Financial Operations	10,200
Task 8 – Analysis of Economic Impacts	<u>11,000</u>
Total Professional Fees – All Tasks	\$76,000

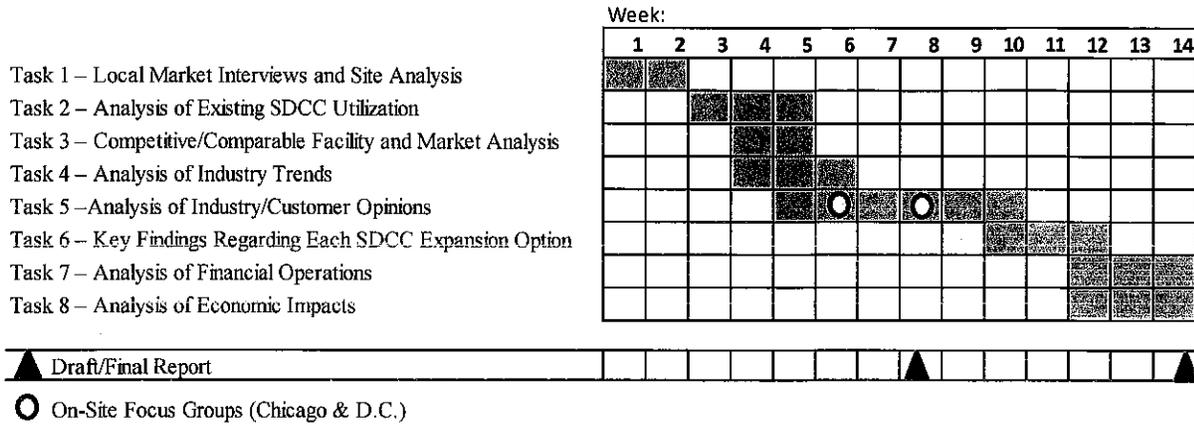
Out-of-pocket expenses including travel costs, postage, telephone, surveys, and report copy reproduction will be billed separately, and are not expected to exceed \$14,000. Professional fees and out-of-pocket expenses will be billed and are payable on a monthly basis.

Should additional work be required beyond the scope of services detailed herein, professional fees will be billed on an hourly rate basis. Total professional fees for additional services will depend on the number of hours required to complete the services and skill levels of the assigned personnel.

Project Timing

We can begin this strategic planning project immediately upon notice to proceed. We expect that the completion of all Tasks 1 through 8 will require approximately 14 weeks to complete in final draft form. We also expect to deliver a draft presentation of initial findings within the first six to eight weeks of the study, with your comments incorporated into the draft as the process is finalized.

A summary project timeline is presented below.



This schedule depends upon timely receipt of requested information from SDCC management, and availability of primary stakeholders for important interviews near the outset of the engagement.

The timing for the Alternative Scenario would likely be several weeks shorter, with a final report issued within ten weeks of project start.

Conditions of Work

Information and Data. CSL is entitled to assume, without independent verification, the accuracy of all information and data that the Client provides to CSL. All information and data to be supplied will be complete and accurate to the best of the Client’s knowledge. CSL will use information and data furnished by others if CSL in good faith believes such information and data to be reliable; however, CSL shall not be responsible for, and CSL shall provide no assurance regarding, the accuracy of any such information or data. CSL shall be providing advice and recommendations to the Client; however, all decisions in connection with the implementation of such advice and recommendations shall be the Client’s responsibility. CSL shall have no responsibility for any decisions made by the Client relating to CSL’s services hereunder. CSL shall have no responsibility for any assumptions provided by the Client, which assumptions shall be the Client’s responsibility. The reports may include estimates of annual operating results based upon courses of action that the Client expects to take prior to and during the period under analysis. The Client is responsible for representations about its plans and expectations, and for the disclosure of significant information that might affect the estimated results.

Reports. Any reports prepared by CSL are valid only when presented in their entirety and only for the purpose stated therein. It is expressly understood that (a) CSL’s reports, suggestions, analyses and conclusions, if any, do not, in whole or in part, constitute a fairness or solvency opinion and (b) CSL will not perform any review, audit or other attestation procedures with

respect to financial information as defined by the American Institute of Certified Public Accountants and will not issue any opinion, report or other form of assurance with respect to any financial information. There will usually be differences between the estimated and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. Should the Client have any reservations with regard to the estimates, we will discuss them with the Client before the report is issued. Any partially completed work products and drafts presented to the Client are for internal use only.

Confidentiality. CSL will preserve the confidential nature of information received from the Client in accordance with CSL's established policies and practices. The Client agrees not to reference CSL's name or any reports, analyses or other documents prepared by CSL, in whole or in part, in any document distributed to third parties without CSL's prior written consent. The Client agrees that any reports, analyses or other documents prepared by CSL will be used only in compliance with these terms, conditions, applicable laws, and regulations.

Property. To the extent that CSL utilizes any of its property (including, without limitation, proprietary databases, proprietary information, any hardware or software) in connection with its services, such property shall remain the property of CSL, and the Client shall not acquire any right or interest in such property. CSL shall have ownership (including, without limitation, copyright ownership) and all rights to use and disclose its ideas, concepts, know-how, methods, techniques, processes and skills, and adaptations thereof (including, without limitation, generalized features of the sequence, structure and organization of any works of authorship) in conducting its business, and the Client shall not assert or cause to be asserted against CSL or its personnel any prohibition or restraint from so doing.

LIMITATION ON WARRANTIES. THIS IS A CONSULTING SERVICES AGREEMENT. DUE TO THE INHERENT UNCERTAINTY INVOLVED WITH PREDICTING FUTURE EVENTS AND LOCAL/INDUSTRY CONDITIONS, CSL MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE FINDINGS OR RECOMMENDATIONS CONTAINED WITHIN ANY OF ITS ANALYSES, INCLUDING ANY ESTIMATES AND DISCLAIMERS, AND CLIENT HEREBY EXPRESSLY WAIVES, ANY AND ALL CLAIMS BASED ON ANY POSSIBLE REPRESENTATIONS AND WARRANTIES, WHETHER EXPRESS, IMPLIED OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

LIMITATION ON DAMAGES. CSL, ITS MEMBERS, PRINCIPALS, DIRECTORS, OFFICERS, EMPLOYEES, PARENT COMPANY AND AFFILIATES SHALL NOT BE LIABLE TO THE CLIENT FOR ANY LOSSES, DAMAGES, CLAIMS, LIABILITIES, COSTS, OR EXPENSES IN ANY WAY ARISING OUT OF OR RELATING TO THIS ENGAGEMENT FOR AN AGGREGATE AMOUNT IN EXCESS OF THE FEES PAID BY THE CLIENT TO CSL FOR ITS SERVICES. IN NO EVENT SHALL CSL, ITS MEMBERS, PRINCIPALS, OR EMPLOYEES BE LIABLE FOR CONSEQUENTIAL, SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE, OR EXEMPLARY LOSS, DAMAGE, COST, OR EXPENSE (INCLUDING, WITHOUT LIMITATION, LOST PROFITS AND OPPORTUNITY COSTS). THE PROVISIONS OF THIS LETTER SHALL APPLY REGARDLESS OF THE

FORM OF ACTION, WHETHER IN CONTRACT, STATUTE, TORT (INCLUDING, WITHOUT LIMITATION, NEGLIGENCE), OR OTHERWISE, AND SHALL SURVIVE THE COMPLETION OR TERMINATION OF THIS ENGAGEMENT.

Findings and Recommendations. Any findings and recommendations presented as a part of this engagement will reflect the analysis of primary and secondary information provided by you and other involved parties. Information provided by third parties will not be audited or verified, unless otherwise noted, and will be assumed to be correct. As any projected information provided as a part of this engagement will be based on various trends and assumptions, there will be differences between the information presented and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

Indemnification. The Client and its affiliates shall indemnify and hold harmless CSL, its members, principals, directors, officers, employees, parent company and affiliates from and against any and all causes of actions, losses, damages, claims, liabilities, costs, and expenses (including, without limitation, legal fees and expenses) which may be asserted, brought against, paid or incurred by any of them at any time in any way arising out of or relating to CSL's services, except to the extent it is finally judicially determined that such losses have resulted from the willful misconduct of CSL.

Subsequent Work. CSL, by reason of the performance of its services, is not required to furnish additional work or services, or to give testimony, or to be in attendance in court with reference to the assets, properties, or business interests in question. CSL will have no responsibility to update any report, analysis, or other document relating to its services for any events or circumstances occurring subsequent to the date of such report, analysis, or other document.

Cooperation. The Client shall cooperate with CSL in connection with the performance of its services hereunder, including providing CSL with reasonable and timely access to the Client's information, data, and personnel.

Non-Exclusivity. Nothing in this Letter shall be construed as precluding or limiting in any way the right of CSL to provide consulting or other services of any kind or nature whatsoever to any person or entity as CSL in its sole discretion deems appropriate.

Force Majeure. CSL shall not be liable for any delays or failures to perform its services resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire or other casualty, act of God, strike or labor dispute, war, or other violence, or any law, order, or requirement of any governmental agency or authority.

Independent Contractor. CSL is an independent contractor and not an employee, Agent or partner of Client. CSL is not authorized directly or indirectly to represent to any person that Consultant has the authority to bind the Client to any agreement or course of conduct. However, CSL shall have the right to use subcontractors, as necessary.

Inconsistencies. In the event of any conflict or inconsistency between the provisions set forth in this Letter and any other documents, the provisions of this Letter shall govern.

Complete Agreement. This Letter constitutes the entire agreement between the Client and CSL with respect to the subject matter thereof and hereof, and supersedes all other oral or written representations, understandings, and agreements between the Client and CSL relating to the subject matter thereof and hereof. This Letter cannot be changed, except by written instrument signed by both the Client and CSL. This Letter shall be binding on the Client and CSL, and the Client's and CSL's permitted successors and assigns; however, neither the Client nor CSL may assign this Letter without the prior written consent of the other, except that the Client and CSL may assign this Letter to any successor to all or substantially all of the business or assets of such party.

Governing Law. The Letter shall be governed by and construed under the laws of the State of California.

Counterparts. This Letter may be executed in counterparts, or by facsimile or telecommunicated counterparts, each of which shall be deemed an original and both of which, when taken together, shall constitute the same agreement.

Consent and Good Faith Dealings. The parties hereby covenant, each to the other, that each will deal with the other equitably, and will take into account the reasonable commercial expectations of the other in the exercise of rights and obligations hereunder. When consent or approval is requested for any action, the party from whom approval is sought shall give full and fair consideration to the financial issues raised by the other party and shall act in a fair, timely and non-capricious manner. Unless otherwise indicated specifically in this Letter, consent and approvals shall not be unreasonably withheld, delayed or conditioned.

* * * * *

If you are in agreement with the aforementioned, please indicate by signing in the space provided below, and returning this letter to CSL International. If you would like to discuss this letter, please contact John Kaatz at (612) 294-2001 or jkaatz@cslintl.com.

Very truly yours,

CSL International

CONVENTION SPORTS & LEISURE INTERNATIONAL, LLC,
a Delaware limited liability company

By: _____

Title: _____

Date: _____

The arrangements described above are acceptable to us and set forth the satisfactory basis which to proceed with this engagement.

By: _____

Title: _____

Date: _____