



4.2

DENNIS RICHARDSON  
CHIEF BUILDING OFFICIAL

PLANNING AND BUILDING  
DEPARTMENT

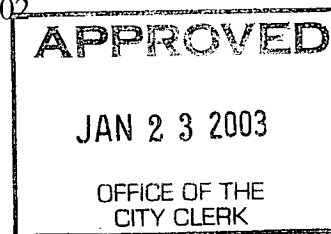
**CITY OF SACRAMENTO**  
CALIFORNIA

1231 I STREET  
ROOM 200  
SACRAMENTO, CA  
95814-2904

ADMINISTRATION  
916-264-7619  
FAX 916-264-8370

December 17, 2002

City Council  
Sacramento, California



Honorable Members in Session:

**SUBJECT:** PLAN REVIEW AND INSPECTIONS PROFESSIONAL SERVICES CONTRACT  
SUPPLEMENTAL AGREEMENTS

**LOCATION AND COUNCIL DISTRICT:** Citywide

**RECOMMENDATION:** Adopt Resolution

**CONTACT PERSON:** Dennis Richardson, Building Official -264-5956  
Frances Chong, Administrative Analyst- 808-8021

**FOR COUNCIL MEETING OF:** January 16, 2003

**SUMMARY:**

The attached resolution authorizes the City Manager to approve total amended increases of \$504,000 for seven consultant contracts. The amendments to the contracts will allow the continued use of the consultant services to through Fiscal Year End 2003.

**COMMITTEE/COMMISSION ACTION:** None

**BACKGROUND:**

- The proposed amended amounts for four consultants who will exceed, or have already been approved to exceed \$100,000, are shown in Exhibit A, Table 1. The proposed amended amounts will support their services to the end of the current fiscal year. Should construction activity decline, use of all consultants will also decline.
- Recruiting for plan review, fire inspection and building inspection professionals has been difficult.

- During the 2002 fiscal year the City experienced record-level activity in building permits. These levels of activity have continued into our 2003 fiscal year.
- Budgeted staff for permit activities cannot handle the workload generated by the high level of construction activity.

**FINANCIAL CONSIDERATIONS:**

The total costs of the additional \$504,000 for consultant services are offset by salary savings from vacant plan review, building inspection, and fire inspection positions.

Funds for consultant services are provided for in plan review fees paid by applicants. The costs of services are offset by revenue generated from building activity.

There will be no negative General Fund impact from these contract amendments.

**POLICY CONSIDERATIONS:**

This request to adopt the attached resolution is in accordance with the policy recommended by the Mayor's Commission to contract out building inspections workload that cannot be performed by city employees. It is also in accordance with policy requiring City Council approval of all contracts over \$100,000.

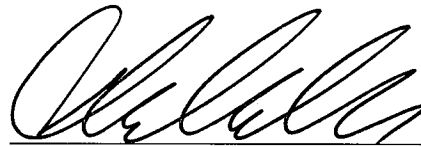
**ENVIRONMENTAL CONSIDERATIONS:**

There are no environmental considerations associated with this report.

**ESBD EFFORTS:**

The total ESBD efforts for the Department for Plan Review and Inspection Services is 46%.

Respectfully Submitted,



DENNIS RICHARDSON  
Chief Building Official

RECOMMENDATION APPROVED BY:



ROBERT P. THOMAS  
City Manager

**Exhibit A, Table 1**

<b>Consultant Name</b>	<b>Current Contract</b>	<b>Amendment</b>	<b>Proposed Contract:</b>
Plan Review Consultants	\$198,000	\$90,000	\$288,000
Mike Anderson Engineering	99,000	50,000	149,000
Sky Engineering	80,000	60,000	140,000
Lisa Beaver	310,000	60,000	370,000
Loralyn B. Davis	200,000	24,000	224,000
Linhart Peterson Powers Associates	430,000	100,000	530,000
4Leaf, Inc.	580,000	120,000	700,000
<b>Total:</b>	<b>\$1,897,000</b>	<b>\$504,000</b>	<b>\$2,401,000</b>

**APPROVED**

JAN 23 2003

OFFICE OF THE  
CITY CLERK**RESOLUTION NO:** 2002-023**ADOPTED BY THE SACRAMENTO CITY COUNCIL****ON DATE OF** \_\_\_\_\_**RESOLUTION AUTHORIZING THE CITY MANAGER TO APPROVE  
CONSULTANT SERVICE AGREEMENT AMENDMENTS FOR A  
CUMULATIVE AMOUNT NOT TO EXCEED \$504,000.00****BE IT RESOLVED BY THE SACRAMENTO CITY COUNCIL THAT:**

The City Council authorizes the City Manager to approve consultant service agreement increases for a cumulative amount not to exceed \$540,000 for the following consultants:

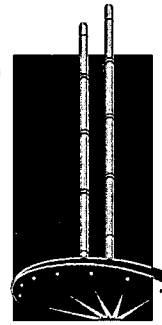
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<b>Total:</b>	<b>\$1,897,000</b>	<b>\$504,000</b>	<b>\$2,401,000</b>

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK\_\_\_\_\_  
**FOR CITY CLERK USE ONLY****RESOLUTION NO.:** \_\_\_\_\_**DATE ADOPTED:** \_\_\_\_\_

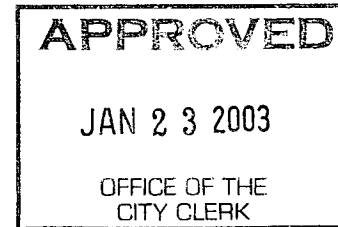
4.3



SACRAMENTO CONVENTION CENTER

December 2, 2002

City Council  
Sacramento, California



Honorable Members in Session

**SUBJECT: Convention Center Business Plan**

**LOCATION AND COUNCIL DISTRICT:** 1030 15<sup>th</sup> Street, District One

**RECOMMENDATION:**

It is recommended that City Council receive the 2002 Business Plan for the Sacramento Convention Center and approve, by Resolution, policy issues related to implementing the Plan.

**CONTACT PERSON:** Michael W. Ross, General Manager 264-5291  
Tina M. McCarty, Administrative Officer 264-5291;  
Sacramento Convention Center

**FOR COUNCIL MEETING OF:** January 23, 2003

**SUMMARY:**

The purpose of this report is to present to the City Council the Business Plan developed for the Sacramento Convention Center Complex (Convention Center, Memorial Auditorium, and Community Center Theater). This Business Plan is for fiscal years 2001/2002 through 2005/2006. The last Business Plan was prepared in 1996 following the expansion of the Convention Center. This Business Plan recommends extension of many of the program directions and policies instituted in the previous Business Plan. New strategies to compete successfully in the changing environment in which the Convention Center operates are also included. Updated aspects of this plan include: market

assessments for convention center business and hotel market trends, capital improvement plans, and financial projections.

**COMMITTEE/COMMISSION ACTION:**

None.

**BACKGROUND INFORMATION:**

Development of the previous Business Plan began in March 1995 following completion of the first phase of the Center expansion. Mason Smith Success Strategies, Inc. facilitated a series of operational strategy sessions. In November of 1995, Keyser Marston Associates, Inc (KMA). was hired to analyze the Center's financial performance and develop performance projections with the assistance of Scott Hospitality Consultants. Their findings became the basis for the development of the 1996 Business Plan goals and objectives.

In March 1997, KMA and Scott Hospitality Consultants reviewed and revised the Transient Occupancy Tax and User Fee Revenue to more closely reflect current performance and trends at the time. Council received and approved certain policy issues related to the Plan in early June 1997. The highlights of the Plan included: Identifying critical challenges, Focusing on measurable objectives, Identifying policy issues, Developing benchmarks and early warning systems to measure performance, and Updating the Fund Balance.

In January of 1998, the City engaged the services of a consulting firm, Conventions, Sports & Leisure, International (CSL), to conduct an audit of the resources and organization available to implement the newly accepted Business Plan. CSL benchmarked comparable and competitive convention center facilities focusing on key organizational elements, operational procedures, and physical amenities, as well as technological resources used for financial reporting at the SCC. Also, included in their study was a brief review of the marketing relationship between the SCC and the SCVB. The resulting report was approved by Council on May 12, 1998, which provided recommendations in four major areas: Organizational Structure and Staffing Levels, Operational Policies, Financial Resources, and SCC/SCVB Marketing Coordination.

Since the approval of the CSL study, a General Manager, Director of Sales, Administrative Officer, and an additional Event Coordinator have been added to the SCC.

Included in the 1997 Business Plan and the CSL Study are solid, sound recommendations and business practices that continue to be utilized and followed. The financial portion of the previous business plan is the most critical updated item. The current Business Plan addresses new evaluation of the

financial performance and projections of future performance, as well as builds on some of the basic directions and recommendations of the past Plan. The following is a summary of the past performance:

Goal Actual	FY97	FY98	FY99	FY00	FY01
Number of Events	634 667	709 787	751 820	788 737	820 763
User Revenue	\$3,251 \$3,318	\$3,892 \$4,278	\$4,248 \$4,759	\$4,588 \$5,255	\$5,023 \$5,717
TOT Revenue	\$10,723 \$10,169	\$11,268 \$11,090	\$11,704 \$11,518	\$12,161 \$12,310	\$13,015 \$14,120

#### **FINANCIAL CONSIDERATIONS:**

The primary purpose of the Business Plan is to guide the Convention Center management over the next five years in order to optimize financial performance. This Business Plan sets a benchmark from which the SCC management can strive to attain financial goals that will get and keep the Community Center Fund in a financially stable, and self sufficient state.

#### **ENVIRONMENTAL CONSIDERATIONS:**

This activity is exempt from CEQA regulations in accordance with CEQA Section 15378 (b)(3), "Continuing administrative or maintenance activities, which are not conducted in conjunction with a project subject to CEQA review, are not considered to be 'projects' and are therefore exempt from CEQA".

#### **POLICY CONSIDERATIONS:**

In order to continue to meet the goal of "Enhancing the appeal of the Convention Center for the economic and cultural vitality of the Sacramento community", it is requested that the City Council approve the following five major recommendations. Supporting each major recommendation exists policies and new policy directives. It is requested that Council:

- Affirm the following existing policies, and
- Approve the following new policy directives.

**AFFIRM:**

1. Maintain the Center's competitive position by continuing to follow industry standards and practices.
2. Follow the Convention Sports and Leisure 1998 Operations Analysis as described on pages 73-74 (Attachment A) of the 2002-06 Business Plan.
3. Maintain and evaluate opportunities to expand current service provider contracts, such as Audio Visual, Communications, and Ticketing.
4. Continue emphasis on the increasing growth of Group A Business (Large Conventions booked by the Bureau).
5. Continue effort be placed on Group B business (local events) in order to maximize occupancy.
6. Complete Community Center Theater Renovation Project analysis in order to pursue renovation and update the facility so that it may compete with new, state-of-the-art venues emerging in the area.

**APPROVE:**

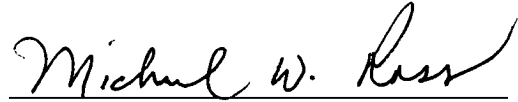
1. Accept the 2002-2006 Sacramento Convention Center Business Plan.
2. Seek optimal use from a net revenue perspective, rather than attempting to maximize the number of events. Specifically, allow Group A and high revenue Group B uses to displace lower revenue events.
3. Accelerate square foot rental rates as part of the upcoming budget process for exhibit space at the SCC to reach market levels within the near term and delegate authority to increase rental rates to the Convention Center General Manager, not to exceed a 10% average annual increase.
4. Implement a rate increase as part of the upcoming budget process for electric services, following the authority specified in the previous recommendation.
5. Evaluate the opportunity to expand retail foods in the Convention Center, similar to the addition of Starbucks.
6. Consider additional positions to the areas of Sales, Administration, Event Services, and Box Office staff, over the next five years, as budget allows.
7. SCC management reviews and approves SCVB event proposals in order to maximize yield management.



**ESBD CONSIDERATIONS:**

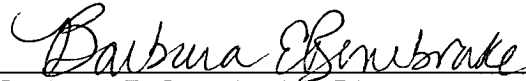
None. No goods or services are being purchased.

Respectfully submitted,



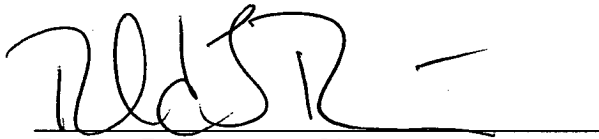
Michael W. Ross, General Manager  
Sacramento Convention Center

APPROVED:



Barbara E. Bonebrake, Director  
Convention, Culture and Leisure Department

RECOMMENDATION APPROVED:



Robert P. Thomas, City Manager

Table of Contents:

Resolution  
Presentation Overheads

6-7  
8-16

**APPROVED**

**JAN 23 2003**

OFFICE OF THE  
CITY CLERK

**RESOLUTION NO. 2003-024**

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

**RESOLUTION APPROVING THE PROPOSED POLICY ISSUES RELATIVE TO  
THE RECOMMENDATIONS OF THE 2002 SACRAMENTO BUSINESS PLAN**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the City Council accept the Sacramento Convention Center Business Plan;
2. That the City Council affirm and approve the following existing policies relative to the recommendations of the 2002 Sacramento Business Plan Update:
  - Maintain the Center's competitive position by continuing to follow industry standards and practices.
  - Follow the Convention Sports and Leisure 1998 Operations Analysis as described on pages 73-74 (Attachment A) of the 2002-06 Business Plan.
  - Maintain and evaluate opportunities to expand current service provider contracts, such as Audio Visual, Communications, and Ticketing.
  - Continue emphasis on the increasing growth of Group A Business.
  - Continue effort be placed on Group B business in order to maximize occupancy.
  - Complete Community Center Theater Renovation Project analysis in order to pursue renovation and update the facility so that it may compete with new, state-of-the-art venues emerging in the area.
3. That the City Council approve the following policy directives relative to the recommendations of the 2002 Sacramento Business Plan Update:

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**FOR CITY CLERK USE ONLY**

**RESOLUTION NO.:** \_\_\_\_\_

**DATE ADOPTED:** \_\_\_\_\_

- Seek optimal use from a net revenue perspective, rather than attempting to maximize the number of events. Specifically, allow Group A and high revenue Group B uses to displace lower revenue events.
- Accelerate square foot rental rates as part of the upcoming budget process for exhibit space at the SCC to reach market levels within the near term and delegate authority to increase rental rates to the Convention Center General Manager, not to exceed a 10% average annual increase.
- implement a rate increase as part of the upcoming budget process for electric services, following the authority specified in the previous recommendation.
- Evaluate the opportunity to expand retail foods in the Convention Center, similar to the addition of Starbucks.
- Consider additional positions to the areas of Sales, Administration, Event Services, and Box Office, over the next five years, as budget allows.
- SCC management reviews and approves SCVB event proposals in order to maximize yield management.

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MAYOR

ATTEST:

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CITY CLERK

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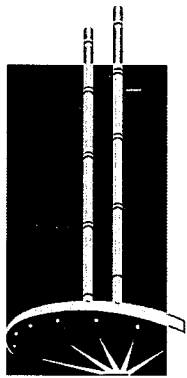
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DATE ADOPTED: \_\_\_\_\_

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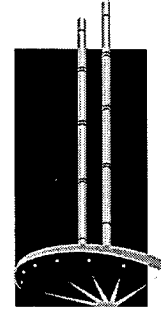
# Sacramento Convention Center



2002-2006

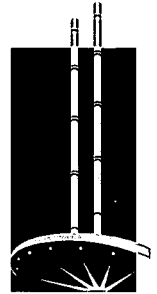
Business Plan

# Business Plan 2002-2006



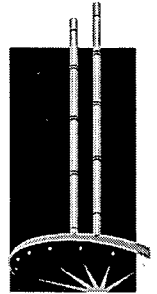
- Past Performance 1997 –2001
  - Business Plan Goals to Actual Performance
  - Organizational Improvements Implemented
- Future Performance 2002-2006
  - Group A Business - Convention Business
  - Group B Business – Short Term Business (local)
  - Revenue and Event Goals
- TOT Projections 2002-2006
- Community Center Fund Balance
- Policy Recommendations

# 1997-2001 5-Year Comparison



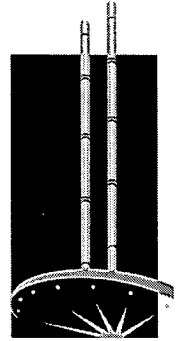
Goal Actual	FY97	FY98	FY99	FY00	FY01
Number of Events	634	709	751	788	820
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User Revenue (000's)	\$3,251	\$3,892	\$4,248	\$4,588	\$5,023
	\$3,318	\$4,278	\$4,759	\$5,255	\$5,717
TOT Revenue (000's)	\$10,723	\$11,268	\$11,704	\$12,161	\$13,015
	\$10,169	\$11,090	\$11,518	\$12,310	\$14,120

# Organizational Improvements



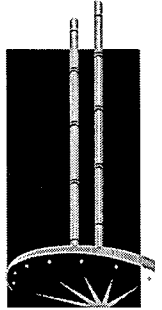
- Re-alignment and addition of SCC management to improve and promote industry standards.
- Re-organization of the SCVB Management Team.
- Facility Rental Rate Increase Approved, 2000.
- Entered into Service Provider Agreements for AV, Communications, and Ticketing.
- Expanded Retail Foods with opening of Starbucks.
- SCVB established East-Coast Presence w/ Washington DC (2001), and Chicago (2002) Offices.

# Group A Business - Conventions



- Booked by the SCVB 18 months and out with substantial room nights. Events include Conventions, Conferences, and Tradeshow.
- Increased Growth Potential due to:
  - SCVB's new marketing dollars from the STBID,
  - Expanded Hotel Inventory,
  - Significant Government & Association Business due to Sacramento's Capitol status,
  - Significant improvements in customer service, staffing, and overall achievement of industry standards.

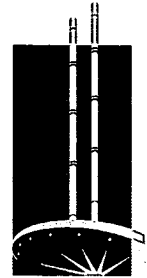




## Group B Business – Local Events

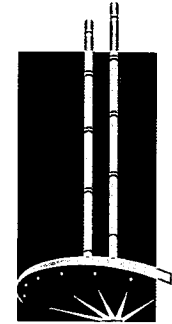
- Booked by the Center within 18 months with a modest amount of room nights. Events include Performing Arts, Concerts, Entertainment, Consumer Shows, Food Functions, and Meetings.
- Limited Potential to expand Group B Business due to:
  - Scheduling conflicts with growing Group A,
  - Significant reduction in events due to slowing economy and 9-11 tragedy,
  - Increased Competition- from venues for entertainment and concerts,
  - Opening of the Sheraton Grand and future hotel competition,
  - Governor's mandate restricting state travel and meetings.

# 2002-2006 Business Plan Goals



	2002	2006	5 Yr. % Growth
Room Nights	102,100	165,700	12.5%
Actual	98,605		avg. annually
SCC Fund TOT	\$14,068,175	\$16,984,000	4.7% avg.
	\$14,594,000	0	annually
Number of Events	636	778	4.4%
	644		avg. annually
Total Event Revenue	\$5,407,000	\$7,292,000	7%
	\$5,650,000		avg. annually
Avg. Revenue per Event	\$8,501	\$9,373	2%
	\$8,773		avg. annually

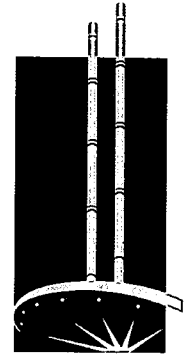
# Fund Balance Summary



- Total borrowed from Risk Management Loan equals \$6.6M; \$5.4M less than total approved loan amount of \$12M.
- Anticipated Loan Draw of \$1.2M in FY02, Actual Loan draw \$1M.
- Based on Business Plan Projections, Last Loan draw anticipated for FY03 = \$500K.
- Begin Loan re-pay in FY05.

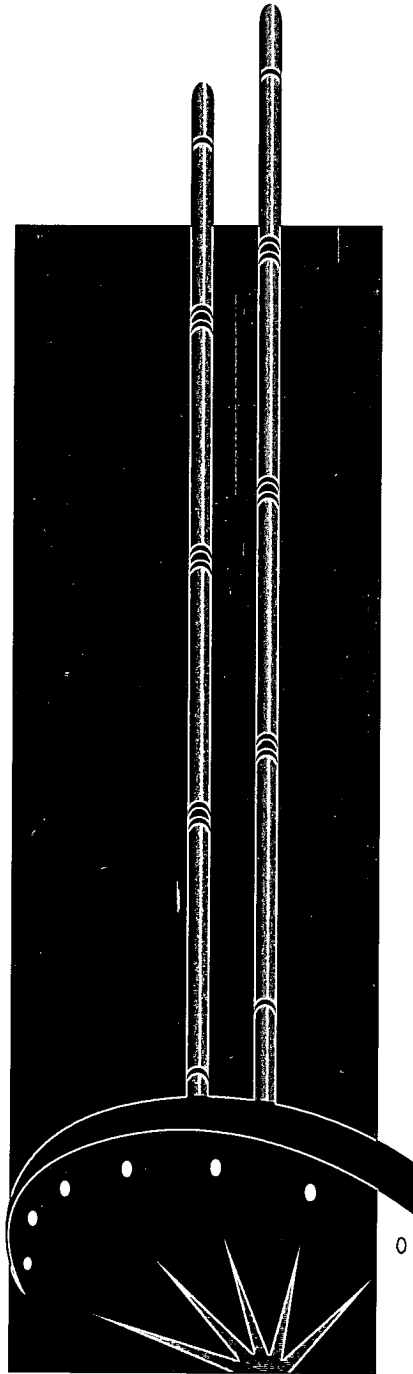
# 2002-2006

## Policy Recommendations



- Accelerate Exhibit Space Square Foot Rates.
- Increase existing Electrical Rates to competitive level.
- Evaluate Expansion of Retail Food Services.
- Maintain Current Service Provider Contracts: Audio Visual, Ticketing, & Communications.
- Proceed with Theater Renovation Plans.
- Establish Future CIP/Equipment Expenditure Program.

# 2002-2006 BUSINESS PLAN



## SACRAMENTO CONVENTION CENTER

## TABLE OF CONTENTS

I.	INTRODUCTION .....	4
II.	EXECUTIVE SUMMARY OF ECONOMIC ANALYSIS .....	5
III.	FINANCIAL ANALYSIS.....	15
A.	Overview .....	15
B.	Group A Events .....	16
C.	Group B Events .....	17
D.	Miscellaneous Revenue.....	19
E.	Current Pricing Analysis .....	25
F.	Expense Overview and Analysis .....	26
G.	Capital Improvement Analysis .....	29
H.	Fund Balance.....	32
IV.	SACRAMENTO HOTEL MARKET AND TOT ANALYSIS .....	33
A.	Hotel Market Overview.....	33
B.	Impact of September 11, 2001 on the Sacramento Hotel Market .....	35
C.	TOT Analysis .....	37
V.	MARKETING SUMMARY AND ANALYSIS.....	41
A.	Target Market(s) .....	41
B.	Group A Marketing .....	42
C.	Group B Marketing.....	43
VI.	GROUP A MARKET OPPORTUNITY .....	45
A.	Event Segments Redefined.....	45
B.	Group A Events - Historical Trends.....	46

C. Group A Projection Assumptions and Rationale .....	48
<b>VII. GROUP B MARKET OPPORTUNITY .....</b>	<b>54</b>
A. Group B Event Segments.....	54
B. Performing Arts, Concerts & Entertainment.....	54
C. Performing Arts.....	55
D. Entertainment/Concerts.....	58
E. Small Trade and Consumer Shows .....	60
F. Receptions and Food Functions.....	61
G. Meetings.....	62
H. Other/Graduation .....	64
I. Group B Room Nights.....	64
<b>VIII. BACKGROUND - COMPARISON TO THE LAST 5-YEAR BUSINESS PLAN .....</b>	<b>65</b>
A. Previous Business Plan.....	65
B. Comparison between Operating Results and Projections .....	66
C. Operational Analysis .....	68
<b>ATTACHMENTS</b>	
ATTACHMENT A CSL STUDY 1998	73
ATTACHMENT B CSL STUDY 2000	75
ATTACHMENT C ORGANIZATION CHART	76
ATTACHMENT D CONVENTION CRITERIA POLICY	77
<b>INCLUDED TABLES</b>	
TABLE A PROJECTED EVENTS BY MARKET SEGMENT	20
TABLE B FACILITY REVENUES BY USER SEGMENT	21
TABLE C PROJECTED USER FEES PER EVENT	22
TABLE D PROJECTED CONVENTION CENTER REVENUES	24
TABLE E CONVENTION CENTER FUND BALANCE	32
TABLE F ESTIMATED HOTEL SUPPLY/DEMAND GROWTH	39
TABLE G PROJECTED TOT COLLECTIONS	40

## I. INTRODUCTION

This Business Plan for the Sacramento Convention Center Complex has been developed for fiscal years 2001/2002 through 2005/2006. The last Business Plan was prepared in 1996 following a major expansion of the exhibit and meeting space at the Convention Center. This Business Plan recommends extension of many of the program directions and policies instituted in the previous Business Plan. It also recommends new strategies to compete successfully in the changing environment in which the Convention Center operates.

Updated aspects of this plan include: market assessments for Convention Center business and hotel market trends, capital improvement plans, and financial projections.

Conley Consulting Group (CCG) was retained by the City of Sacramento to prepare an analysis of the Sacramento Convention Center (SCC) for the purpose of assisting development of this 5 year Business Plan. CCG was a consultant along with a team of others who were responsible for analysis of secondary priority events and revenues, and projection of Transient Occupancy Tax (TOT) revenues. Scott Hospitality Consultants (SHC) was responsible for analysis of first priority events, analysis of the hotel sector, and the factors influencing TOT revenues. Seifel Consultants, Inc. was responsible for analysis of operating results between FY1996/7 and 2000/01. The information contained in this report was finalized and printed in January 2003. This report is organized as follows:

**Section II** is an executive summary of the economic analysis completed by the CCG team and relevant recommendations.

**Section III** is a financial analysis of the SCC operation including the methodology used to project events and SCC revenues, and the anticipated impacts on the Community Center Fund Balance.

**Section IV** is an analysis of the Sacramento hotel market and a projection of potential TOT revenues.

**Section V** is a summary and analysis of the past, present, and future marketing strategy and plan.

**Section VI** is an analysis of the market potential for attracting Group A events to the SCC and a projection of future events and the TOT revenues to be generated by those events.

**Section VII** is an analysis of the market potential for attracting Group B events to the SCC and a projection of future events.

**Section VIII** is a comparison of the actual operating results of the SCC over the past 5 years to the projections in the previous Business Plan.



## II. EXECUTIVE SUMMARY OF ECONOMIC ANALYSIS AND RECOMMENDATIONS

### EXECUTIVE SUMMARY

The focus of any convention center is generally to increase and drive the city's demand for hotel room nights and enrich the ability to sell the city as a convention destination, both as a means of achieving positive economic impact. In Sacramento's case, the investment made by the City in 1996 to expand the Convention Center is now beginning to pay off. Larger, national conventions and tradeshow are becoming more attracted to Sacramento as a viable location and facility for their events. Though the numbers of events projected in the previous business plan fell short, the revenue and the overall profitability exceeded expectations. The last business plan assumed continued growth in the number of events across the market segments. This Plan focuses on the theory that priority bookings such as large conventions and tradeshow will continue to grow at a moderate rate, while smaller, second priority bookings, such as small meetings, will dwindle due to facility availability. Therefore, what has become apparent, based on historical performance, is that overall economic stability is not necessarily based on the overall number of events. Rather, fiscal success is directly tied to capturing and growing the larger, City-wide pieces of business. It is believed that this philosophy is healthy and prudent, as the Sacramento Convention Center is arriving at a point in which it may now begin to make decisions based on economic impact for itself and the City, instead of fear of vacancy.

In order to fully understand the following summary and recommendations, it is important to define the two categories into which all event types are grouped.

**Group A Events** are those that are traditionally considered the major target for the marketing efforts of the Sacramento Convention and Visitors Bureau (SCVB) and was the focus of the Convention Center expansion.

The events that fall into this category are:

1. **Major Conventions** – (large conventions which meet the convention criteria of 525 + room nights on two or more consecutive nights in two or more hotels and use the Convention Center). Examples include: FDIC West, League of California Cities, and Government Technologies Conference.
2. **Conventions, Conferences and Tradeshow** – (smaller conventions, conferences and tradeshow, which have substantial, room nights but do not meet the convention criteria.) These Group A events have priority booking, and are usually booked 18 months or more in advance, typically generating significant hotel demand. Examples include: Intel Conference, Mary Kay

Cosmetics Conference, and State Farm Insurance Western Regional Conference.

**Group B Events** are traditionally booked by the Convention Center. These events, which have secondary booking priority to Group A, generate a more modest hotel demand.

These include:

1. Performing Arts
2. Concerts
3. Entertainment
4. Small Tradeshows & Consumer Shows
5. Receptions/Food Functions
6. Meetings
7. Graduations

As stated above, the terms "Group A" and "Group B", along with the individual market segments are used throughout the following text to define and reference past, current, and future business objectives, trends, and opportunities.

#### Summary of Financial Projections and Performance Measures

	2002	2003	2004	2005	2006
<b>Room Nights</b>	102,200	109,000	122,900	153,800	165,800
<b>TOT Revenue* 12%</b>	\$ 15.3 M	\$ 16.2 M	\$ 16.8 M	\$ 17.6 M	\$ 18.5 M
<b>Group A Events</b>	58	64	72	75	78
<b>Group B Events</b>	578	613	657	683	700
<b>Total Events</b>	636	677	729	758	778
<b>Group A Revenue</b>	\$ 1.7 M	\$ 1.9 M	\$ 2.3 M	\$ 2.5 M	\$ 2.7 M
<b>Group B Revenue</b>	\$ 3.2 M	\$ 3.4 M	\$ 3.8 M	\$ 4.0 M	\$ 4.1 M
<b>Total Event Revenue**</b>	\$ 4.9 M	\$ 5.3 M	\$ 6.1 M	\$ 6.4 M	\$ 6.8 M

\* Note: TOT revenue listed above reflects the City's 12% share. The Community Center Fund receives only 11% of the total TOT.

\*\*Note: Total Event Revenue listed in the above chart does not include Non-Event revenue which is included in the Fund balance.

## Critical Challenges

During the past five years the Center has managed typical challenges associated with opening a newly expanded facility. Some of these challenges included operational organization and standards, customer service delivery, and event management. Looking into the future five years, the Center will be faced with maintaining its past achievements in areas such as customer service, cleanliness, and efficient event management. However, the greatest challenge lies in continuing to grow the business and its profitability. In the ever-changing industry of Convention Center and Assembly management, the key to long-term success is to actively pursue and maintain new and returning clients, alike. The following is a list of specific challenges facing the Center.

- **Uncertain economic times.** Nationally, the travel and convention industry has been hard hit by the combined effects of the economic recession and safety concerns due to the September 11, 2001 terrorist attacks. Sacramento's convention and visitor industry has fared reasonably well since Sept. 11th, benefiting from coordinated strategic efforts and a well-balanced mix of business: government, corporate, convention/meeting, and leisure. However, the convention/meeting product is the most vulnerable, as cities such as San Francisco and San Diego (as well as larger full-service hotels with significant meeting space) have dropped space and room rates enough to erode much of the value difference that has been a competitive advantage for Sacramento. While this may be a short-term phenomenon, many meeting decision-makers who might normally choose Sacramento now have significantly more destination options in their price range.
- **Successful financial performance as an Enterprise Fund.** It is anticipated that by the end of fiscal year 2004, the Convention Center's capital and operating costs will be supported by Convention Center operating revenues and the dedicated portion of the City's Transient Occupancy Tax (TOT) funds, without further reliance on the City's Risk Management Fund. Once the Fund becomes solvent, an operating reserve has been included in the Fund Balance projections.
- **Revenue from Convention Center operations.** Convention Center management has surpassed previous projections of event revenues, through successful implementation of yield management techniques, careful application of pricing policies, and developing new revenue generating customer service programs. Over the next five years, these revenue gains must be maintained and expanded.
- **Support and coordinate the marketing efforts of the Sacramento Convention and Visitors Bureau (SCVB), for Group A events.** The SCVB's

enhanced marketing capacities are expected to solicit and support increased convention and trade show business in the future.

- **Retain Performing Arts, Concerts, and Entertainment event market shares**, given the increased competition from new area venues such as the Auto West Amphitheater, Raley Field, The Cove at Cal Expo, and Mondavi Center, along with the potential for further competition from Discovery Park.
- **Increase marketing efforts for Group B (local serving) events**, for which the Convention Center is responsible. Given the increased competition from local hotels, it will continue to become more important to concentrate marketing efforts on larger or perhaps more complex events in order to replace those smaller pieces of business that are more suited for the now-available smaller hotel facilities.
- **Proceed with the renovation of the Community Center Theater** in order to stay competitive. Authorization for a needs assessment and initial design concept has been granted and pursued. The project awaits public presentation, feasibility analysis and development plans.
- **Advocate and support expansion of hotel room supply in Sacramento.** Hotel generated TOT revenues will continue to be the largest source of financial support to the Convention Center. Continued growth in these revenues is required to support the Center's success as an enterprise fund. Additionally, a greater hotel room supply will allow the SCVB to book even larger conventions at the Center.

The analysis conducted in support of this 2002 Business Plan concludes that it is feasible for the Convention Center to meet these challenges, and to continue to operate successfully. The Business Plan incorporates a strategy to capitalize on these opportunities.

### **SEPTEMBER 11, 2001 IMPACT**

At the time the Business Plan Update was being prepared, the national travel industry was facing one of its most significant crises. The terrorist attacks of September 11, 2001 came at a time when the economic slowdown was already apparent, and the resulting loss of consumer confidence and corporate belt tightening sent meeting attendance and hotel occupancy levels plummeting in most national market areas.

Although Sacramento's hotel business has remained relatively strong since Sept. 11th, the citywide convention/meeting product - Group A business - is facing fierce competition regionally and nationally. Sacramento has traditionally offered a significant convention/meeting value compared to larger destinations, but over the past several months, virtually every major convention/meeting destination has become more cost-

competitive with Sacramento. As a result, at least in the 18- to 36-month meeting range, Sacramento's target customers for citywide conventions now have significantly more destinations to consider. In addition, the largest change has been in the number of Group B events. The reduction of Group B business was expected to occur over time, given the projected growth in major conventions and tradeshow, and increased competition from new competitive facilities in the local market. The reduction in Group B events such as small meetings has been accelerated by the economic state since September 11<sup>th</sup>.

## **MARKET OPPORTUNITY**

### **1. Group A Potential (Major Conventions, Conferences and Tradeshow)**

Group A event segments have been redefined as part of this Business Plan Update, and narrowed to include only those events, which fully meet the criteria established for booking priority and meeting room discounts. Smaller trade shows and consumer shows are now classified as Group B events.

In 2001, the Sacramento Tourism Business Improvement District was created. This room night fee was anticipated to support approximately \$3 million annually in additional funds for the Convention and Visitor's Bureau, funding a significant expansion of national marketing efforts. However, due to the effects of September 11<sup>th</sup>, the actual amount for FY02 was \$2.8 million.

There is increased potential to capture new Group A business due to the following factors:

- Expanded Hotel Inventory, including the Sheraton Grand and to a lesser extent, the Embassy Suites, which opened in June 2002. These facilities add significant supply to the downtown market and allow the SCVB to market the Convention Center with a greater block of hotel guest rooms proximate to the Convention Center.
- The Sacramento group market includes significant government and association business, two segments less impacted by the events of Sept. 11. (However, as previously noted, virtually all of Sacramento's Group A target customers are being courted by larger destinations, which have reduced space and room costs and are making compelling offers to those customers).
- The SCVB's new market initiative, which will increase the ability to capture these events in the future.

Thus, the number of Group A major convention events is expected to grow from 23 events in FY 2001/02 to 33 events by FY 2005/06. The number of hotel rooms per event is expected to grow to 4,000 per event by FY 2004/05.

Smaller conventions, conferences, and tradeshow are expected to level off at 45 events by FY 2003/04 and with an average of 750-hotel rooms per event. Due to the increase in major conventions less facility space will be available to accommodate smaller conventions, conferences, and tradeshow.

## **2. Group B Potential (Local Events)**

The biggest impact of the economic slowdown and the September 11th downturn for the Convention Center has been in Group B business. The number of events, particularly in the meetings and receptions segment, has been significantly reduced. However, the Center has retained a large proportion of the higher revenue generating events in these categories. Thus the operating revenue loss has been proportionately less.

Over the next five years, the number of Group B events is expected to recover and surpass levels near those achieved in 2001. However there is limited potential to capture additional events in this Group. The primary reasons for this conclusion are increased competition and increased scheduling conflicts between the growing Group A business and Group B events at the Convention Center. For Entertainment events, new competitive venues have been added to the Sacramento market, including performance venues for entertainment and concerts, and hotels with facilities competing for meetings and reception events. In addition, the projected growth of Group A events, which has booking priority, is a constraint to adding Group B events to peak utilization periods in the Convention Center.

In 2000/01 there were a total of 712 Group B events. In 2001/02 there are projected to be 600 Group B events. In the next five years, the number of events is projected to grow to 700 events. Operating revenue generated by Group B events is projected to increase from the current level of \$3.4 million to \$4.1 Million.

It is important to note that while the addition of new hotels greatly enhances the SCC's competitive position for Group A events, it has also increased competition for Group B events such as receptions, food functions, and meetings.

## **3. Sacramento Hotel Market and TOT Analysis**

By 2000 the City of Sacramento was achieving citywide hotel room occupancies of 73.8% with a \$92.00 average room rate. Over the previous five years, room demand grew at over 5% per annum and average room rates increased by 7% per annum well beyond annual inflation figures for the same period. While the Sacramento market has been affected by recent economic and security concerns, the impact has been less than in other hotel markets both nationally, and on the West Coast. Area-wide occupancies have dropped to 65.3% for Sacramento through January, 2002, and to 64.1% for the top TOT hotels. However, citywide room revenue actually increased for the same period, reflecting a slight increase in demand.

Future growth in hotel revenues in Sacramento is tied to the future increases in hotel supply, most notably the Sheraton Grand in 2001 and Embassy Suites in 2002. In

addition, the marketing efforts of the SCVB to bring larger Group A events into the Convention Center as well as significant annual increases in leisure travelers in the future; and the continuing stability of the Sacramento economy. Based on these and historical factors, the annual TOT revenues (12%) are estimated to increase from approximately \$15.3 million in FY 2001/02 to approximately \$18.5 million by FY 2005/06. Actual impact to the SCC Fund (11%) is projected to reach 14.1 million in FY 2001/02 and rise to approximately \$17 million in FY 2005/06. (Note: The City's TOT tax is 12%; of which the SCC receives 11% and the General Fund receives 1%. More detail is included in Section III.)

## **FINANCIAL PROJECTIONS**

This business plan was prepared using fiscal year 2001 as a benchmark for analysis and projections, as it was the most recent full year of actual figures available at the time of development. Since development of the analysis on which the projections are based, fiscal year 2002 has concluded. While the analysis was not re-run based on the fiscal year 2002 actuals, the projections were reviewed against them to ensure that assumptions made did not conflict with actual business figures. Minor adjustments were made where appropriate and are noted as such.

The past Business Plan projected overall Fund revenues to hit \$18 million by fiscal year 2001, with \$13 million from TOT receipts and \$5 million from User Fees. In actuality, TOT rose to \$15.8 million overall, \$13.1 million of which went to the SCC Fund, while User Fees equaled \$5 million.

However, due to a change in accounting practice, the Center's success is understated. Prior to FY01, User Fee revenue was calculated on a cash basis, meaning all cash was counted in the year it was received, with the exception of outstanding invoices amounts from June events, which were anticipated and included. Deposits for events scheduled for future years, were counted when received, which, in some cases, was multiple years before the event took place. Recognizing that this practice represented a growing liability for the City and specifically the Community Center Fund, the revenue accounting practice was switched to an accrual basis.

Therefore, in FY01 all proceeds for future events were placed in a holding account until the fiscal year in which the event took place. In FY01, this change resulted in a reduction of \$700,000 in revenue recognition. Thus, based on the way revenues were recognized when the past Business Plan was written, the FY01 revenues would have been calculated as approximately \$5.8 million, a growth of 15% over the Business Plan projection.

Over the next five years, the Community Center Fund revenue is expected to grow by an average of 5.2% annually to an estimated \$25.4 million in FY06. TOT is projected to rise an average of 4.7% annually, to an estimated \$18.5 million (\$17 million in the SCC Fund) in FY06. Meanwhile, User Fee Revenues are expected to raise by, an average of 6.3% annually to an estimated \$7.3 million dollars by FY06, as reflected in Table D. Initially the new accounting practices will show lower annual user fee

revenues. Over time, the amount of revenue collected, but held in reserve for future events should be balanced out by the revenue allocated from the holding fund for the current year's events.

## **Operating Recommendations**

### **1. Maintain the Center's competitive position by continuing to follow industry standards and practices by adhering to the following:**

- Implement the remaining operating recommendations from the Convention Sports and Leisure (CSL) 1998 Operations Analysis
- Continue to implement the staffing recommendations from the CSL analysis, which suggested that the SCC has an inadequate number of staff in the areas of Sales and Marketing, Finance, Human Resources, and Event Management/Coordination.

### **2. Increase revenues to fund the Convention Center Operations by:**

- Securing Group A and high revenue Group B uses which will displace lower revenue events that can be accommodated at local hotels or other venues. Seek optimal use from a net revenue perspective, rather than attempting to maximize the number of events. In addition to Group A business, high revenue consumer shows and meetings should be actively pursued.
- Accelerating square foot rental rates for exhibit space at the SCC to reach market levels within the near term. Due to the nature of booking conventions and other Group A events several years in advance, the Convention Center should have rental rates established for a minimum of 5 future years.
- Exploring the adoption of a preferred service contract and implementing a rate increase for electric services in the short term.
- Evaluating the opportunity to expand retail food services in the Convention Center, as a compliment to the addition of Starbucks.
- Maintaining current vender contracts and evaluating opportunities to expand them, thus providing services to event attendees as well as a broader revenue base for the Convention Center.
- Actively market the Center to existing and new users to ensure that vender utilization remains high.
- SCC management reviewing and approving SCVB event proposals, prior to offers being made to potential clients in order to maximize yield management.



**3. Renovate the Community Center Theater to maintain the Theater's competitive position in the regional market.**

- Complete evaluation of the needs assessment and initial design in order to pursue renovation and update the facility so that it may compete with new, state-of-the-art venues emerging in the area.

**4. Increase Group A Business**

- The SCVB can now market aggressively on the national level with the additional funding raised by the STBID.
- Additional hotel rooms from the opening of the Sheraton and the Embassy Suites, now give the region a larger supply with which to accommodate larger Conventions.

**5. Maintain Group B Business Marketshare**

- Monitor the impact of new venues on the performing arts, concerts, and entertainment segments and develop programs to regain or replace lost business.
- Partner with Classique Catering and the SCVB in hosting FAM or "Familiarization" trips to showcase the facility and its amenities to prospective clients and meeting planners.
- Cultivate positive relationships with current clients to ensure repeat or expanded-business, especially Theater users who now may enjoy availability for additional performances and/or shows.
- Cultivate positive relationships with nearby hotel staff to promote opportunities to work together on larger pieces of business and accommodate multiple clients simultaneously.
- Market the facilities through outreach such as regional tradeshow, advertisements, and sponsorships.
- Maintain high levels of customer service and cleanliness, while monitoring customer requirements through the use of the customer survey.

## Summary of Recommendations

- Maintain the Center's competitive position by continuing to follow industry standards and practices.
- Follow the Convention Sports and Leisure 1998 Operations Analysis.
- Maintain and evaluate opportunities to expand current service provider contracts, such as Audio Visual, Communications, and Ticketing.
- Continue emphasis on the increasing growth of Group A Business (Large Conventions booked by the Bureau).
- Continue effort be placed on Group B business (local events) in order to maximize occupancy.
- Complete Community Center Theater Renovation Project analysis in order to pursue renovation and update the facility so that it may compete with new, state-of-the-art venues emerging in the area.
- Seek optimal use from a net revenue perspective, rather than attempting to maximize the number of events. Specifically, allow Group A and high revenue Group B uses to displace lower revenue events.
- Accelerate square foot rental rates for exhibit space at the SCC to reach market levels within the near term. Delegate authority to increase rental rates to the Convention Center General Manager, not to exceed an average annual increase of 10%.
- Implement a rate increase for electric services, following the authority specified in the previous recommendation.
- Evaluate the opportunity to expand retail foods in the Convention Center, similar to the addition of Starbucks.
- Add the following positions to the SCC staff, over the next five years, as budget allows in the following areas: Sales, Administration, Event Services, and Box Office.
- SCC management reviews and approves SCVB event proposals in order to maximize yield management.

### III. FINANCIAL ANALYSIS

#### A. OVERVIEW

The Sacramento Convention Center (SCC) operations are primarily supported by two revenue sources: 1) Transient Occupancy Tax (TOT), which is the City's tax on hotel room charges and 2) revenues from fees paid by users of the SCC. In addition, the Convention Center has historically received a nominal amount of revenue from sources, such as recycling fees, postage and handling fees, and miscellaneous income. These sources are discussed below.

##### 1. **Transient Occupancy Tax**

For purposes of this analysis, the City's TOT rate is assumed to remain fixed at 12% of room charges. The TOT is allocated between several government funds. The Community Center Fund receives TOT revenue equal to 10% of the room charges, which funds the SCC operations, and the debt service for the Center's expansion. One percent of the TOT revenue goes to the General Fund to cover costs associated with the Center's debt service. The remaining 1% of TOT revenue is deposited in the City's General Fund, primarily for support of the Arts and the SCVB. The projection methodology for TOT revenues is described in Section IV.

##### 2. **User Fees**

User fee revenues for the Convention Center include facility rental fees, equipment rentals, labor revenue, concession income, catering fees and box office fees. User fee revenues are driven by changes (increases or decreases) in either: 1) the number of events, 2) the composition of events, or 3) user fees charged per event.

The number of events and the user fees per event were projected based on a review of recent and historical trends, in conjunction with extensive interviews of SCC and SCVB staff and potential users of the facilities.

In general, the FY 00/01 actual data provided the basis for the projection through 2006. The projected events (as shown in Table A) were multiplied by the user fees per event (in Table C) to yield total user fees (as shown in Table D).

##### 3. **Miscellaneous Revenue**

Miscellaneous Revenue is defined as that revenue which is earned by such areas as Box Office postage and handling fees, electrical vender reimbursement revenues, insurance fees, cardboard recycling and ATM fees, etc. In 2000/01, non-event revenue at the SCC totaled \$576,000, which represented just over 10% of the revenue derived from user fees, and approximately 3% of the SCC's total budget. Non-event revenue

is not anticipated to increase significantly over the projection period, as described in greater detail below.

#### **4. Total Convention Center Revenues**

For purposes of this analysis, the projected revenues of the Convention Center include its designated share of TOT revenues, plus user fee revenues, and non-event revenue (Table D).

#### **B. GROUP A EVENTS**

##### **1. User Fee Revenues- Major Conventions**

Total user fees per event were based on an analysis of the composition of actual 2000/01 user fees, taking into account planned rental increases by venue. For example, in 2000/01, user fees for Major Conventions were comprised as follows:

Facility Rental Fees	52.0%
Equipment Rental	14.0%
Labor	12.0%
Catering	13.0%
<hr/>	
Total User Fees	100.0%

In 2000/01, user fees for Major Conventions averaged \$42,637 per event. Rent represented approximately 52% of total user fees (or \$22,203 per event), and was comprised of approximately 75% Exhibit Hall and 25% Meeting Room rent. Projected increases in rents were based on approved increases by venue, according to the schedule listed below:

#### **Scheduled Facility Rental Increases Sacramento Convention Center Complex**

<b>Venue</b>	<b>Rent 1999</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>
Exhibit Hall	\$0.14/SF	\$0.17/SF (20%)	\$0.19/SF (15%)	\$0.21/SF (10%)
Meeting Space	\$0.20/SF	\$0.21/SF (5%)	\$0.22/SF (5%)	\$0.23/SF (5%)
Theater	None	None	None	None
Mem. Aud.	None	None	None	None

Based on the typical venue for Major Conventions (75% Exhibit Hall and 25% Meeting Room), the approved rental increase for 2002 represents an approximate 12.5% increase over the 2001 rent (assuming space requirements remain constant by event and venue). All other user fees were assumed at 2.0%. For 2002/03, 2005 and 2006, there are no planned rental increases. In 2003/04, the blended Exhibit Hall/Meeting Room rent is projected to increase 8.75%.

## **2. User Fee Revenues- Conventions/Conferences and Trade Shows**

For this business plan the Conventions/Conferences and Trade Shows event category is a combination of two event categories tracked, separately, prior to 2002. In 2000/01, there were nine trade show events, averaging \$15,000 in user fees per event, plus 26 convention/conference events, averaging \$16,746 in user fees per event. The blended total user fees averaged \$16,297 per event for the 35 combined events. Rental fees comprised 73.8% of total user fees for conventions and conferences and 65.3% for trade shows, yielding a blended rate of 70.8% for the combined category.

Using the same venue composition for conventions/conferences and trade shows as for Major Conventions (e.g. 75% Exhibit Hall and 25% Meeting Room), the blended, approved rent increase for 2002 is projected at 12.5%. In 2003/04, the blended Exhibit Hall/Meeting Room rent is projected to increase 8.75%. Other User Fees were projected to increase with inflation, estimated at 2% in 2002, and 2004. For 2002/03, 2004/05, and 2005/06, there are no planned rental or Other User Fee increases.

## **C. GROUP B EVENTS**

### **1. User Fee Revenues**

Group B events include the following subcategories: Performing Arts, Concerts, Entertainment, Small Trade Shows, Consumer Shows, Receptions/Food Functions, Meetings and Graduation/Other. User fee revenues were projected based on an analysis of the composition of the 2000/01 user fee revenues (e.g., rent versus other user fees) and the venue of the event (e.g., whether that venue was scheduled for any rental increases).

For purposes of projecting future facility rentals, both the proportion of revenue derived from facility rentals and the event venue(s) were assumed to remain constant throughout the projection period (except where noted). The average facility rentals and other user fees per event in 2000/01 are summarized below.

### **2. Projected Facility Rental Income**

Facility rental income for Group B was based on the average rental fees by event type in 2000/01. Future rental fees were projected based upon the weighted average scheduled rent increases by venue. As noted previously, rent increases are approved for the following areas: 1) Meeting Space (located in either the Activity Building or the 3<sup>rd</sup> Floor of the Convention Center) and 2) Exhibition Hall Space. Meeting space has a scheduled 5% rent increase in FY 2001/02 and an additional 5% increase in FY

2003/04. The Exhibition Hall has a scheduled 15% increase in FY 2001/02 and a 10% increase in FY 2003/04.

### Group B User Fee Revenue 2000/2001

	Facility Rentals		Other User Fees		Total User Fees	
	\$ Per Event	% of Total	\$ Per Event	% of Total	\$ Per Event	% of Total
Performing Arts	\$7,915	45%	\$9,556	55%	\$17,480	100%
Concerts	\$3,930	36%	\$7,138	64%	\$11,068	100%
Entertainment	\$4,251	40%	\$6,435	60%	\$10,686	100%
Small Trade Shows	\$6,126	63%	\$5,845	37%	\$8,343	100%
Consumer Shows	\$10,147	63%	\$5,845	37%	\$15,992	100%
Receptions/Food Functions	\$1,318	38%	\$2,170	62%	\$3,489	100%
Meetings	\$1,526	68%	\$710	32%	\$2,237	100%
Graduation/Other	\$976	52%	\$2,506	48%	\$3,482	100%

To forecast the per event revenue changes over time for each segment, recent experience, projected trends, and scheduled price increases resulted in the following trend projections:

- **Performing Arts.** Revenues for Performing Arts events are adjusted for the changed mix in users with the loss of UC Davis Presents.
- **Entertainment.** The growth in entertainment events will be from increased utilization of the Little Theater, which accommodates smaller scale, lower revenue events. Thus, the average rent per Entertainment events is projected to decline although with additional events the total revenue from this category will increase.
- **Small Trade Shows.** The average rent per Small Trade Show event is projected to increase 12.5% in FY 2002 and 9.0% in 2004.
- **Consumer Shows.** The average rent per Consumer Show is projected to increase 14.5% in FY 2002 and 9.75% in 2004.
- **Receptions and Food Functions.** The average rent per Reception/Food Function is projected to increase 8.0% in FY 2002 and 6.75% in 2004.
- **Graduations/Other Events.** The average rent per Graduations/Other event is therefore projected to increase 4.25% in FY 2002 and 3.0% in 2004.

### 3. Projected Other User Fees

Other user fees for Group B events are projected to increase on a similar basis to Group A events: 2% in 2002, 2004, and 2006, respectively.

#### **D. MISCELLANEOUS REVENUE**

Miscellaneous revenue was projected based on an analysis of FY 2000/01 figures, in consultation with SCC staff. Non-event revenue in 2000/01 included items such as:

- Cardboard recycling revenue
- Miscellaneous income
- Box Office Postage and Handling
- Electrical reimbursement revenue
- Off-premise catering
- ATM fees
- WOMBO, Telecommunication Services
- Insurance
- Projection Presentation Technology, Audio Visual Services
- Tickets.com

With the exception of items listed below, non-event revenue is expected to escalate, similar to Other User Fees for Group A and B events, as follows: 2% starting in 2001/02, and annually thereafter every other year. Cardboard recycling and ATM fees are assumed to remain constant.

Tickets.com revenue in FY 2000/01 includes a \$100,000 signing bonus, which is not applicable to the following years. Tickets.com revenue is assumed to remain constant at \$25,000 per year for continued sponsorship and terminates in 2004/05. In addition, the SCC receives \$25,000 per year from Pepsi under a ten-year contract that is assumed to remain constant through the projection period.

In addition, revenues from WOMBO and Projection Presentation Technology after January 2001 are included in equipment rental (part of other user fees) and allocated to events. SCC staff suggested that increases in Electrical, WOMBO and Projection Presentation Technology revenues are more accurately a function of growth in specific Group A and B events (primarily meetings, conferences and conventions, but potentially additional events as well), and should be reflected as such. Center Staff should seek to expand non-event revenue where possible and over time new items are likely to be added to this list.

There will be a substantial jump in both telecommunication and audiovisual revenue in FY02, as this will be the first full year of both contracts.

Table A

**PROJECTED NUMBER OF EVENTS BY MARKET SEGMENT**  
**Sacramento Convention Center**  
**2001/02 - 2005/06**

User Segment	ACTUAL			Estimated as of 4/1/02	PROJECTED			
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
<b>Group A</b>								
Major Conventions	12	17	15	23	24	27	30	33
Conventions, Conferences and Trade Shows	54	38	32	35	40	45	45	45
<b>Subtotal - Group A</b>	<b>66</b>	<b>55</b>	<b>47</b>	<b>58</b>	<b>64</b>	<b>72</b>	<b>75</b>	<b>78</b>
<b>Group B</b>								
Performing Arts*	32	59	54	54	48	52	55	59
Concerts	45	25	22	24	24	24	24	24
Entertainment	16	9	17	29	32	36	39	42
Subtotal Performing Arts/ Concerts/Entertainment	93	93	93	107	104	112	118	125
Small Trade Shows	19	28	26	18	18	18	18	18
Consumer Shows	17	14	22	18	20	21	21	21
Receptions/Food Functions	138	141	161	134	150	165	170	170
Meetings/other	462	367	387	270	290	310	325	335
Graduation	25	27	27	31	31	31	31	31
Subtotal Other Group B	661	577	623	471	509	545	565	575
<b>Subtotal - Group B</b>	<b>754</b>	<b>670</b>	<b>716</b>	<b>578</b>	<b>613</b>	<b>657</b>	<b>683</b>	<b>700</b>
<b>Total Events</b>	<b>820</b>	<b>725</b>	<b>763</b>	<b>636</b>	<b>677</b>	<b>729</b>	<b>758</b>	<b>778</b>
% Change over previous year		(11.6%)	5.2%	(16.6%)	6.4%	7.7%	4.0%	2.6%
<b>Number of Performances*</b>								
Performing Arts	183	168	177	185				
Entertainment	29	24	42	53				

\*Events in these segments vary in duration so the number of performances is tracked in addition to the number of events

Source: Conley Consulting Group; Scott Hospitality Group; Convention Center Ungerboeck Event Management Report for 1998/99, 1999/00, and 2000/01; and SCVB staff (Group A projections).

Conley Consulting Group; Scott Hospitality Consultants; Seifel Consulting Inc.  
 1/14/2003



Table B

**FACILITY AND OTHER REVENUES BY USER SEGMENT**  
**FY 2000/01 BASELINE FOR PROJECTIONS**  
**Sacramento Convention Center**

User Segment	No. of Events	Total Revenue*	Facility Rentals		Other Revenues	
			total	per event	total	per event
<b>Group A</b>						
Major Conventions	15	\$639,557	\$333,048	\$22,203	\$306,509	\$20,434
Conventions, Conferences and Seminars	32	\$567,265	\$385,768	\$12,055	\$181,497	\$5,672
<b>Subtotal - Group A</b>	<b>47</b>	<b>\$1,206,822</b>	<b>\$718,816</b>	<b>\$34,258</b>	<b>\$488,006</b>	<b>\$26,106</b>
<b>Group B</b>						
Performing Arts	54	\$943,933	\$427,398	\$7,915	\$516,535	\$9,565
Contemporary Concerts	22	\$243,495	\$86,464	\$3,930	\$157,031	\$7,138
Entertainment	17	\$181,660	\$72,263	\$4,251	\$109,397	\$6,435
Subtotal	93	\$1,369,088	\$586,125	\$6,302	\$782,963	\$8,419
Trade Shows	26	\$216,928	\$159,285	\$6,126	\$57,643	\$2,217
Consumer Shows	22	\$351,828	\$223,240	\$10,147	\$128,588	\$5,845
Receptions/Food Functions	161	\$561,684	\$212,236	\$1,318	\$349,448	\$2,170
Small Meetings and Other Functions	387	\$865,554	\$590,685	\$1,526	\$274,869	\$710
Graduation	27	\$94,010	\$26,348	\$976	\$67,662	\$2,506
Subtotal	623	\$2,090,004	\$1,211,794	\$1,945	\$878,210	\$1,410
<b>Subtotal - Group B</b>	<b>716</b>	<b>\$3,459,092</b>	<b>\$1,797,919</b>	<b>\$2,511</b>	<b>\$1,661,173</b>	<b>\$2,320</b>
<b>Total - Group A and Group B</b>	<b>763</b>	<b>\$4,665,914</b>	<b>\$2,516,735</b>	<b>\$3,298</b>	<b>\$2,149,179</b>	<b>\$2,817</b>
Non-Event Revenue		576,767				
<b>Total Revenue</b>		<b>5,242,681</b>				

\* These numbers may vary slightly from actual cash received due to cash accounting practices vs. accrual basis used in Event Management System.

Source: Conley Consulting Group; Scott Hospitality Group; Convention Center Ungerboeck Event Management System Report for 1998/99, 1999/00, and 2000/01.

Conley Consulting Group; Scott Hospitality Consultants; Seifel Consulting Inc.

PROJECTED USER FEES GENERATED PER EVENT BY MARKET SEGMENT

Table C

Sacramento Convention Center

2001/02 - 2005/06

User Segment	ACTUAL		PROJECTED				
	1999/00 <sup>3</sup>	2000/01 <sup>4</sup>	2001/02 <sup>4</sup>	2002/03	2003/04	2004/05	2005/06
<b>Group A</b>							
Major Conventions							
Facility Rentals <sup>1</sup>	\$18,427	\$22,203	\$24,979	\$24,979	\$27,164	\$27,164	\$27,164
Other Fees <sup>2</sup>	<u>\$9,490</u>	<u>\$20,434</u>	<u>\$20,945</u>	<u>\$21,573</u>	<u>\$22,436</u>	<u>\$23,333</u>	<u>\$24,267</u>
Subtotal Major Conventions	\$27,917	\$42,637	\$45,923	\$46,552	\$49,600	\$50,498	\$51,431
Conventions Conferences and Trade Shows							
Facility Rentals <sup>1</sup>	\$17,033	\$12,055	\$13,562	\$13,562	\$14,749	\$14,749	\$14,749
Other Fees <sup>2</sup>	<u>\$3,795</u>	<u>\$5,672</u>	<u>\$5,814</u>	<u>\$5,988</u>	<u>\$6,228</u>	<u>\$6,477</u>	<u>\$6,736</u>
Subtotal - Conventions/Conf./Trade Shows	\$20,828	\$17,727	\$19,376	\$19,550	\$20,976	\$21,225	\$21,485
<b>Group B</b>							
Performing Arts							
Facility Rentals <sup>1</sup>	\$7,187	\$7,915	\$7,915	\$8,753	\$8,753	\$8,753	\$8,753
Other Fees <sup>2</sup>	<u>\$7,534</u>	<u>\$9,565</u>	<u>\$9,805</u>	<u>\$11,056</u>	<u>\$11,499</u>	<u>\$11,959</u>	<u>\$12,437</u>
Subtotal - Performing Arts	\$14,721	\$17,480	\$17,719	\$19,810	\$20,252	\$20,712	\$21,190
Concerts							
Facility Rentals <sup>1</sup>	\$3,632	\$3,930	\$4,127	\$4,127	\$4,292	\$4,292	\$4,292
Other Fees <sup>2</sup>	<u>\$5,231</u>	<u>\$7,138</u>	<u>\$7,316</u>	<u>\$7,536</u>	<u>\$7,837</u>	<u>\$8,151</u>	<u>\$8,477</u>
Subtotal - Concerts	\$8,863	\$11,068	\$11,443	\$11,662	\$12,129	\$12,442	\$12,768
Entertainment							
Facility Rentals <sup>1</sup>	\$6,544	\$4,251	\$3,826	\$3,443	\$3,271	\$3,107	\$2,952
Other Fees <sup>2</sup>	<u>\$11,133</u>	<u>\$6,435</u>	<u>\$5,792</u>	<u>\$5,212</u>	<u>\$4,952</u>	<u>\$4,704</u>	<u>\$4,469</u>
Subtotal - Entertainment	\$17,677	\$10,686	\$9,617	\$8,656	\$8,223	\$7,812	\$7,421
Small Trade Shows							
Facility Rentals <sup>1</sup>	\$4,310	\$6,126	\$6,892	\$6,892	\$7,512	\$7,512	\$7,512
Other Fees <sup>2</sup>	<u>\$1,767</u>	<u>\$2,217</u>	<u>\$2,272</u>	<u>\$2,341</u>	<u>\$2,434</u>	<u>\$2,532</u>	<u>\$2,633</u>
Subtotal - Small Trade Shows	\$6,077	\$8,343	\$9,165	\$9,233	\$9,947	\$10,044	\$10,145

Conley Consulting Group; Scott Hospitality Consultants; Seifel Consulting Inc.

**PROJECTED USER FEES GENERATED PER EVENT BY MARKET SEGMENT**  
**Sacramento Convention Center**  
**2001/02 - 2005/06**

**Table C**

User Segment	ACTUAL		PROJECTED				
	1999/00 <sup>3</sup>	2000/01 <sup>4</sup>	2001/02 <sup>4</sup>	2002/03	2003/04	2004/05	2005/06
Consumer Shows							
Facility Rentals <sup>1</sup>	\$11,181	\$10,147	\$11,619	\$11,619	\$12,751	\$12,751	\$12,751
Other Fees <sup>2</sup>	<u>\$5,564</u>	<u>\$5,845</u>	<u>\$5,991</u>	<u>\$6,171</u>	<u>\$6,418</u>	<u>\$6,674</u>	<u>\$6,941</u>
Subtotal - Small Trade Shows	\$16,745	\$15,992	\$17,610	\$17,789	\$19,169	\$19,426	\$19,693
Receptions/Food Functions							
Facility Rentals <sup>1</sup>	\$1,005	\$1,318	\$1,424	\$1,424	\$1,520	\$1,520	\$1,520
Other Fees <sup>2</sup>	<u>\$1,595</u>	<u>\$2,170</u>	<u>\$2,225</u>	<u>\$2,291</u>	<u>\$2,383</u>	<u>\$2,478</u>	<u>\$2,578</u>
Subtotal - Receptions/Food Functions	\$2,600	\$3,489	\$3,648	\$3,715	\$3,903	\$3,998	\$4,097
Meetings							
Facility Rentals <sup>1</sup>	\$1,660	\$1,526	\$1,629	\$1,629	\$1,727	\$1,727	\$1,727
Other Fees <sup>2</sup>	<u>\$675</u>	<u>\$710</u>	<u>\$728</u>	<u>\$750</u>	<u>\$780</u>	<u>\$811</u>	<u>\$843</u>
Subtotal - Meetings	\$2,335	\$2,237	\$2,357	\$2,379	\$2,507	\$2,538	\$2,571
Graduation/Other							
Facility Rentals <sup>1</sup>	\$1,989	\$976	\$1,017	\$1,017	\$1,048	\$1,048	\$1,048
Other Fees <sup>2</sup>	<u>\$1,192</u>	<u>\$2,506</u>	<u>\$2,569</u>	<u>\$2,646</u>	<u>\$2,752</u>	<u>\$2,862</u>	<u>\$2,976</u>
Subtotal - Graduation/Other	\$3,181	\$3,482	\$3,586	\$3,663	\$3,799	\$3,909	\$4,024

1. FY 2001/02 is based on FY 2000/01 average facility rental per event times mandated weighted average increase for exhibit hall and meeting space. Facility rents are assumed to then remain constant until mandated increase in FY 2003/04.

2. Entertainment rates are adjusted for change in types of events with increased use of Little Theater. Performing Arts are adjusted for loss of UCD Presents, which increases the average event revenue.

3. 2001/02 figures reflect refined Group A event definitions. 1999/00 and 2000/01 actual figures have also been adjusted to reclassify Small Trade Shows as Group B events.

Source: Conley Consulting Group; Scott Hospitality Group; Sacramento Convention Center Ungerboeck Event Management Report dated 3/12/02.

Conley Consulting Group; Scott Hospitality Consultants; Seifel Consulting Inc.

Table D

**TOTAL PROJECTED CONVENTION CENTER REVENUES<sup>1</sup>****Sacramento Convention Center****2001/02 - 2005/06**

User Segment	PROJECTED TOTAL REVENUES					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
<b>User Fees</b>						
Group A	\$1,206,822	\$1,734,000	\$1,899,000	\$2,283,000	\$2,470,000	\$2,664,000
Group B	\$3,759,092	\$3,229,000	\$3,391,000	\$3,761,000	\$3,957,000	\$4,147,000
Subtotal User Fees	\$4,965,914	\$4,963,000	\$5,290,000	\$6,044,000	\$6,427,000	\$6,811,000
Non Event Revenue	\$576,767	\$577,000	\$577,000	\$472,000	\$489,000	\$481,000
<b>Subtotal Center Revenue</b>	<b>\$5,542,681</b>	<b>\$5,540,000</b>	<b>\$5,867,000</b>	<b>\$6,516,000</b>	<b>\$6,916,000</b>	<b>\$7,292,000</b>
<b>Transient Occupancy Tax (TOT) Revenues</b>						
Total TOT*	\$124,996,900	\$127,893,000	\$134,645,000	\$140,000,000	\$147,000,000	\$154,400,000
10% Community Center Fund	\$12,499,690	\$12,789,000	\$13,465,000	\$14,000,000	\$14,700,000	\$15,440,000
1% Debt Support	\$1,249,969	\$1,279,000	\$1,346,000	\$1,400,000	\$1,470,000	\$1,544,000
<b>Subtotal TOT Revenues</b>	<b>\$13,749,659</b>	<b>\$14,068,000</b>	<b>\$14,811,000</b>	<b>\$15,400,000</b>	<b>\$16,170,000</b>	<b>\$16,984,000</b>
<b>Total Projected SCC Revenue</b>	<b>\$19,292,340</b>	<b>\$19,608,000</b>	<b>\$20,678,000</b>	<b>\$21,916,000</b>	<b>\$23,086,000</b>	<b>\$24,276,000</b>
<b>% Change over previous year</b>		<b>2%</b>	<b>5.5%</b>	<b>6.0%</b>	<b>5.3%</b>	<b>5.2%</b>

\* Note: FY03 TOT projection is less than actual amounts used in the City's Budget. Actual budgeted TOT for FY03 was \$134,900,000; as reflected in the Fund Balance (Table E).

Source: Conley Consulting Group; Scott Hospitality Consultants; Seifel Consulting Inc.; Sacramento Convention Center

## **E. CURRENT PRICING ANALYSIS**

The expanded Center now gives Sacramento the ability to compete more effectively with other facilities both regionally and state wide. In addition, the Center can now compete in the national market for conventions, tradeshow, sporting events and other large functions.

As part of the January 2000 Conventions Sports and Leisure Inc. (CSL) analysis of key operating policies for the Center, 10 major facilities around the country, with characteristics similar to the SCC were evaluated. The objective of the survey was to identify specific rates and to review policies that may offer an opportunity for SCC management to improve revenue levels. The following are the CSL recommendations for 2000-2004 and staff's recommendations for the future.

### **1. Current Rental Rates**

	<b>2000</b>	<b>2002</b>	<b>2004</b>
Exhibit Hall (sq.ft.)	\$0.17	\$0.19	\$0.21
Meeting Space (sq. ft.)	\$0.20	\$0.21	\$0.22

The CSL study noted that the rates for exhibit space at the SCC were significantly below industry averages. The 1999 rate of \$0.14 per net square foot per day at the SCC was 36% below the average of comparable Centers. Given the rental rates charged at comparable Centers, a plan to increase the SCC rates over a five-year period was recommended and approved by City Council on March 20, 2000. Specifically, an immediate 20% increase (from \$0.14 to \$0.17) was implemented. In the third and fifth year, 15% and 10% increases were added, resulting in a year five total of \$0.21 per net square foot per day.

The SCC's average meeting room rate of \$0.20 was comparable to many of the centers reviewed, and slightly lower than Centers in Portland, San Jose and Seattle. Given the rental rates charged at comparable centers, a plan to increase the SCC rates along a standard cost of living scale should be considered. Starting in 2000, 5% semiannual increases were implemented.

### **2. Rental Rate Recommendation**

#### **a. Convention Center**

Although the above-mentioned rates have been approved by City Council after further evaluation, Scott Hospitality Consultants (SHC), in conjunction with the SCVB and Convention Center management recommend that in the year 2004 exhibit hall rates increase to a comparable rate of \$0.23 per square foot. This new rate is still far below comparable facilities within California, including competitors Long Beach and San Jose. Meeting room rates should stay as planned and approved through 2004.

It is further recommended that a rate increase in the range of 5-10% for both Exhibit Hall and Meeting space be explored for the year 2006 and 2008. Exhibit Hall rates should increase in 2006 to \$0.25 and 2008 to \$0.27. Due to the nature of booking conventions several years in advance the Convention Center should have rental rates established for a minimum of 5 years. In order to achieve a competitive, market rate as mentioned above, it is recommended that authority be given to the Convention Center General Manager to increase rates, as needed not to exceed an average annual increase of 10%.

b. Memorial Auditorium, Little Theater and Community Center Theater

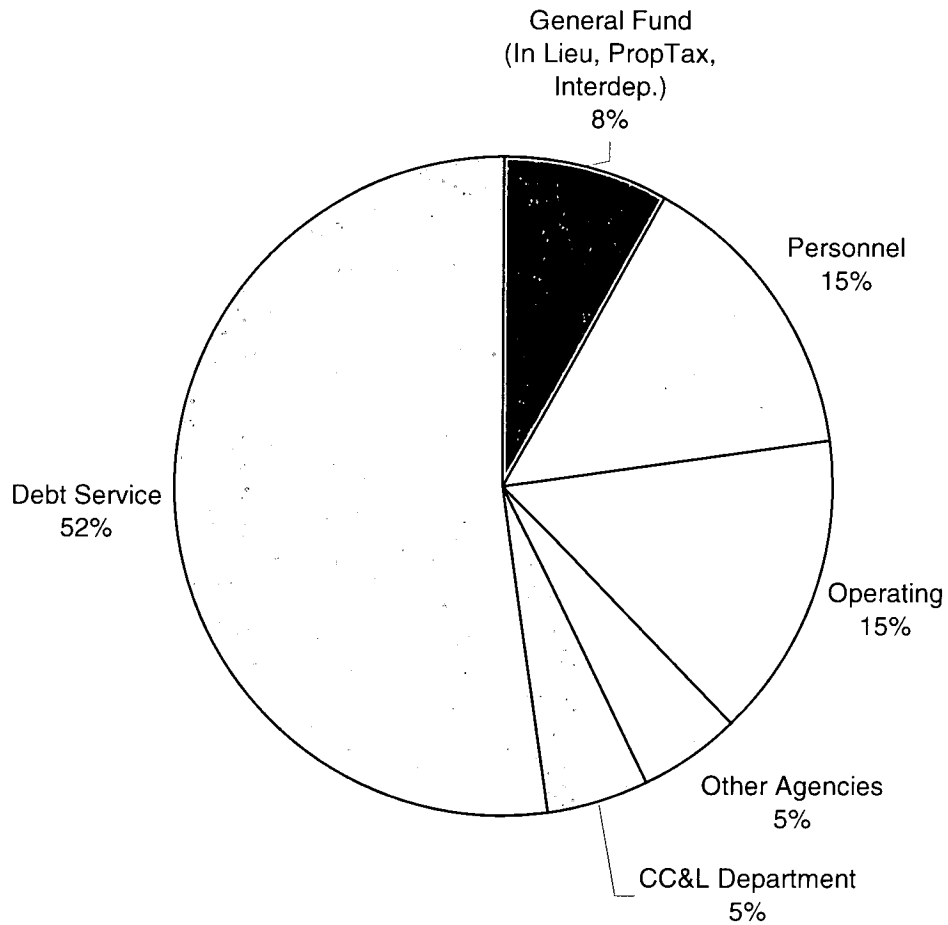
Due to market conditions, the opening of several new venues, including Autowest Amphitheater, Raley Field, The Mondavi Center at UC Davis, and the 3,500-seat amphitheater at Cal Expo; a rental rate increase is not recommended for Memorial Auditorium, the Little Theater, or the Community Center Theater. In fact staff may want to look at creative ways to entice current clients to continue to use these venues. Enticements may include a frequent promoter rate and reducing or "capping box" office fees during seasonal or "need" periods. Additionally, Staff may consider exploring the possibility of reducing rates for banquets held at Memorial Auditorium, similar to rates used at the Convention Center, which includes a 50% reduction in rent for food functions.

**F. EXPENSE OVERVIEW AND ANALYSIS**

The Convention Center Operating Budget is a large piece of the Community Center Fund (CCF), which supports the Convention Center, Memorial Auditorium, and the Community Center Theater; as well as administration of the Convention Culture and Leisure Department. Funding for the debt service related to the Center's expansion is also supported by this fund. Currently the Community Center Fund's fiscal year 2002 operating budget is \$22 million, \$11 million of which is expansion debt service. The Convention Center's Operating Budget is \$9.5 million dollars, with the Convention Culture and Leisure Department making up the remaining \$1.5 million. From these amounts, the Community Center Fund, through the Convention Center Operating Budget, also contributes support to such agencies as the Sacramento Convention and Visitors Bureau, the Sacramento Sports Commission, Downtown Partnership Association, the Old Sacramento Management Board, and the Downtown K Street Trolley.

The following chart displays the breakdown of actual expenses for the Community Center Fund for fiscal year 2001, and provides detail on the actual cost of operating the Convention Center Complex.

## Community Center Fund Expense Breakdown FY01



As stated above, Debt Service accounts for by far the largest portion of the Community Center Fund. Combined, the Operating and Personnel expenses, which support the actual operation of the Center facilities, are 30% (\$6,100,383) of the Fund. General Fund expenses include property tax, In Lieu Fees (assessed as a percentage of CCF revenues), and Interdepartmental Allocation (pays for the Center's use of City administrative resources such as City attorneys, accountants, training, etc) amount to 8%, or \$1,676,255. Five Percent, (\$1,062,206) of the Fund goes to support outside agencies. Finally, the remaining five percent supports the administrative expenses for the Convention Culture and Leisure Department, responsible for eleven divisions and non-profit partnerships.

While the debt service is a fixed cost, other expenses of the Convention Center facilities are variable. Below, is a comparison of variable expenses for the past three years:

Convention Center Actual Expenses FY99-01				Variance % FY99 to FY01
	FY99	FY00	FY01	
Debt Service	\$ 10,788,513	\$10,787,142	\$ 10,790,040	0%
General Fund	\$ 1,485,593	\$ 1,596,320	\$ 1,676,225	13%
In Lieu Franchise Fees	\$ 690,072	\$ 750,279	\$ 766,417	11%
Property Tax	\$ 445,766	\$ 446,626	\$ 442,280	-1%
Interdept. Allocation	\$ 349,755	\$ 399,415	\$ 467,528	34%
Personnel	\$ 2,573,812	\$ 2,708,201	\$ 3,003,319	17%
Operating	\$ 1,895,216	\$ 1,880,424	\$ 2,037,463	8%
Utilities*	\$ 1,007,842	\$ 1,023,681	\$ 1,050,987	4%
Other Agencies	\$ 787,205	\$ 865,592	\$ 1,000,360	27%
CC&L Department	\$ 931,835	\$ 965,781	\$ 1,014,529	9%
Total	\$ 18,462,174	\$18,803,460	\$ 19,521,936	6%

Source: SCC Actual Expenses, City OLGL

Combined, the three variable cost items, (Personnel, Operating and Utilities), which directly support the operation of the facilities rose 11% between FY99 and FY01 or 3.7% annually. The Personnel expense is fairly fixed, therefore leaving little opportunity to radically affect this expense. In contrast, the greatest opportunity for SCC management and staff to control expense is in the Operating budget. The past Business Plan anticipated annual growth in this area of 3%, which is the approximate increase in Center operating expenses. The cost of services and supplies are likely to continue to increase at a moderate pace.

*\*On a side note, it is important to mention that staying within the anticipated 3% increase over the past three years has required careful management, as the energy crisis of 2001 and rising costs were not anticipated in the budget. Despite this, the SCC was able to cut costs to absorb the increase. The Utility expense is a critical cost of doing business over which, the SCC itself, has marginal control. While utilities such as electricity, gas, and water are required to host events, the SCC has restrained costs by means of conservation. Specifically, the SCC was successful at conserving by such methods as monitoring temperatures during lighter occupancy periods, installing energy saving light sensors, closing exhibit hall doors when possible, and reducing the lighting in administrative spaces.*



### Anticipated Convention Center Operating Costs FY03-FY06

FY03	FY04	FY05	FY06
\$3,187,869	\$3,283,505	\$3,382,010	\$3,483,470

In the future, a continued 3-4% annual increase is projected in operating expenses over the next four years. This estimate does not take into account unknowns such as spikes in utility costs, insurance premiums, or extreme changes in business practices, such as additional outside services. The estimates above reflect anticipated Operational expense, based on current trends.

### G. CAPITAL IMPROVEMENT ANALYSIS

The Sacramento Convention Center plans to complete various capital improvements to its facilities over the next 3-5 years. The 2002-03 Approved CIP Budget for the Community Center includes four projects totaling \$890,000. These include replacement of the Convention Center carpet, Memorial Auditorium stage repairs, replacement of air conditioning units at the Convention Center and facility modifications required under the Americans with Disabilities Act. Additional funding is also planned over the next five years for the existing general maintenance CIP including, upgraded security system(s), installation of a lighting control system in the Exhibit Hall, and replacement of the HVAC system at the Convention Center and CC& L Administrative offices. Total proposed five-year spending is \$4,400,000. These projects are consistent with the City's General Plan.

The chart below details the anticipated five-year funding levels for the various Community Center Projects.

2002-07 Capital Improvement Program					
Title	Budget				
	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
ADA Facility Modifications	\$50,000	\$210,000	\$210,000	\$210,000	\$210,000
Community Center Maintenance		\$250,000	\$600,000	\$600,000	\$690,000
Convention Center Carpet	\$400,000			\$100,000	\$100,000
Memorial Auditorium Stage	\$200,000	\$200,000			
Convention Center Chiller Repair	\$240,000				
Administration Office HVAC		\$120,000			
Exhibit Halls C, D & E Lighting		\$100,000			
<b>TOTAL</b>	<b>\$890,000</b>	<b>\$880,000</b>	<b>\$810,000</b>	<b>\$910,000</b>	<b>\$1,000,000</b>

Long range plans for capital improvements are necessary to allow the Complex to compete as viable entertainment and convention destination. The following lists specific items that are anticipated in the above, CIP's over the next 5 years:

**Community Center Maintenance** is the largest CIP, spanning from FY03-04 and continuing indefinitely into the future. This CIP is used for items such as equipment replacement/purchase and upgrades, as well as moderate facility repair and improvements. Those items currently listed for expenditure as priority and budget permit include:

**Convention Center**

Equipment Including:

- Tables and carts,
- Stage risers,
- House light control and dimmer system (Exhibit Hall),
- Floor scrubber,
- Carpet extractor,
- Replace exhibit hall D wood doors and hardware to steel doors, and
- Variable frequency controls on cooling tower motors.

**Community Center Theater**

- Replace and upgrade lobby and House Light Dimmer and controller
- Repair/replace loft blocks.

**Memorial Auditorium**

- Renovation of the basement food service area
- Complete painting of the public areas.

**The Convention Center Carpet CIP** was established to replace all carpet in the Convention Center. This project will begin in FY02-03. The project begins building a surplus again in FY05-06 to allow the Center to save smaller contributions annually in order to plan for the next carpet replacement in approximately ten years.

**The Memorial Auditorium Stage CIP** was set up to professionally assess the repair, improvement and equipment needs of the seventy-five year old facility. Needs assessment will begin in FY02-03, followed by construction repairs and equipment needs during FY03-04. Specifically, the following items are currently identified:

- Install stage work light fixtures and upgrade work/house light control
- Replace damage section of wood floor
- Purchase 6 additional rigging beams and additional rosette guards
- Purchase/upgrade front Truss, Column Lights, and lighting Inventory
- Upgrade Sound system and Center Cluster
- Upgrade Pit Cover System
- Replace stage deck
- Purchase 5-wire distro. for Memorial Auditorium stage usage
- Install ETC Unison House light control and dimming system
- Replace lighting controls with low voltage control

**The Convention Center Chiller Replacement CIP** was set up to replace the existing centrifugal chillers, as they are not energy efficient by today's standards and the refrigerant needed is no longer manufactured.

**The Convention Center Administrative Office HVAC CIP** was set up to replace an antiquated cooling system that is failing interminably. The existing system is 15 years old and has had the refrigerant compressor and pneumatic control components replaced and recalibrated, multiple times. In addition, the refrigerant needed for operation is no longer manufactured.

**Exhibit Halls C, D & E Lighting System CIP**, will install a lighting control system that will allow control from one central location and include a dimmer system as well. Initially, this system was to be installed during the expansion in 1994-96, however due to budget constraints, this functionality was never completed.

Additionally, Center Management hopes to be given approval to pursue **Renovation of the twenty eight year old Community Center Theater**. The Theater is woefully inadequate in bathroom, lobby, and concession space as well as outdated in technology and staging equipment. The loading dock area is also an area of great need as its space is inefficient when large shows with multiple trucks attempt to move in/out. The hope is that the following equipment and upgrades will be addressed through this potential, future CIP:

- Upgrade Theatre lighting fixture inventory
- Purchase new ETC Source 4 fixtures (replace failing, non-repairable Century gray bodies)
- Rewire remaining PAR 56 Strip lights
- Upgrade Stage dimmer
- Upgrade Sound system
- Upgrade/replace existing orchestra shell and ceiling pieces

#### **Miscellaneous**

The following items are additional items that have been identified, as future needs, upgrades and repairs. Specific funding plans have not yet been determined.

- Replace 7 Boilers,
- Replace terrace patio and planter membrane,
- Convert cold boxes to air cooled refrigeration and move condensers to the kitchen roof,
- Replace chill-water valves, cooling coil on Mz5 on Activities Building & Theater air handling systems,
- Roof replacement for Exhibit halls C, D, & E expansion, due in year 2010,
- Replace and upgrade lobby and house light dimmer in the Community Center Theater,
- Replacement scissors and blue lifts,
- Replacement fork lift,
- Replace Bobtail and Pickup trucks.

## H. FUND BALANCE

To maintain the financial integrity of the Community Center Fund, the City Council in 1997 approved the use of resources from the Risk Management Fund to provide an annual loan, if needed, to offset any year-end deficit. The loan draw for FY 02 was just over \$1 million, \$200,000 less than originally budgeted. This will result in a total borrowing since 1997/98 of \$6.6 million—approximately \$5.4 million less than was originally projected. It is expected that a final inter-fund loan will be required in FY03 of approximately \$500,000 with repayment beginning in FY05. It is anticipated from FY04, the Community Center Fund will be able to meet all current financial obligations, including the expansion debt payments and inter-fund loan repayment through its self-generating revenues.

The following projection of the fund, potential loan draw, and re-payment schedule, are based on the best information available at the time.

**Community Center Fund 5-Year Projection  
Balance Sheet**

**Table E**

	<b>2001-02 <u>Actual</u></b>	<b>2002-03 <u>Estimate</u></b>	<b>2003-04 <u>Estimate</u></b>	<b>2004-05 <u>Estimate</u></b>	<b>2005-06 <u>Estimate</u></b>
<b>BEGIN FUND BALANCE</b>	\$50,000	\$50,000	\$50,000	\$519,000	\$545,000
<b>REVENUES</b>					
Transient Occupancy Tax	\$13,164,000	\$13,490,000	\$14,003,000	\$14,703,000	\$15,438,000
Interest Income	\$807,000	\$754,000	\$975,000	\$1,069,000	\$1,172,000
User Fees	\$5,650,000	\$5,900,000	\$6,515,000	\$6,913,000	\$7,288,000
Other Revenue	\$1,316,000	\$1,349,000	\$1,400,000	\$1,470,000	\$1,544,000
<b>TOTAL REVENUES</b>	<b>\$20,937,000</b>	<b>\$21,493,000</b>	<b>\$22,893,000</b>	<b>\$24,155,000</b>	<b>\$25,442,000</b>
<b>EXPENDITURES</b>					
Operating Expenses	\$10,301,000	\$10,608,000	\$11,069,000	\$11,389,000	\$11,734,000
Debt Service	\$10,808,000	\$10,475,000	\$10,476,000	\$10,474,000	\$10,476,000
Capital Improvements	\$850,000	\$890,000	\$880,000	\$810,000	\$910,000
<b>TOTAL EXPENDITURES</b>	<b>\$21,959,000</b>	<b>\$21,973,000</b>	<b>\$22,425,000</b>	<b>\$22,673,000</b>	<b>\$23,120,000</b>
<b>CURRENT SURPLUS/(DEFICIT)</b>	----- (\$1,022,000)	----- (\$480,000)	----- \$469,000	----- \$1,482,000	----- \$2,322,000
<b>AVAILABLE FUND BAL.</b>	<b>(\$972,000)</b>	<b>(\$430,000)</b>	<b>\$519,000</b>	<b>\$2,001,000</b>	<b>\$2,867,000</b>
<b>Interfund Transfer (Loan Repay)</b>	\$1,022,000	\$ 480,000	0	(\$1,000,000)	(\$1,000,000)
<b>Reserve for Operations</b>				(\$456,000)	(\$469,000)
<b>ENDING FUND BALANCE</b>	<b>\$50,000</b>	<b>\$50,000</b>	<b>\$519,000</b>	<b>\$545,000</b>	<b>\$1,398,000</b>

## IV. SACRAMENTO HOTEL MARKET AND TOT ANALYSIS

### A. HOTEL MARKET OVERVIEW

*Note: This portion of our analysis was completed, in draft, before September 11, 2001. Since those traumatic and other economic events had an impact on the Sacramento hotel market, a revised section describing this impact has been added immediately following the Hotel Market Overview section.*

#### 1. Historical Market Performance

The first step in this analysis was an assessment of the condition of the Sacramento hotel market for purposes of determining its future pattern potential in terms of new additions to the room's inventory; historical changes in room night demand; and, historical changes in average annual room rates and total room revenue actually achieved. These factors all become key elements for projecting future TOT growth.

This research included in person interviews with key hoteliers, meeting planners and SCVB personnel; evaluating operating history of the local hotel market in the last 5 or so years through data supplied by Smith Travel Research (STR); analyzing actual historical data provided by the City; and, examining recent studies of the Sacramento hotel market.

The recent operating history was analyzed in terms of reported performance data for groups of hotel properties or lodging tracts. The first lodging tract was of the entire Sacramento lodging market. Seventy-two percent or 5,446 of 7,564 total rooms participate in the STR studies. It was determined that this percentage was sufficient to represent the Sacramento universe. This tract indicated that the City as a whole achieved a 73.8% occupancy with a \$92.00 average room rate by year-end 2000. This represents an average annual increase in demand of 3.6% and an average annual increase in average room rate of 5.0% over the past five full years.

Compared to the State of California as a whole, for the year 2000 Sacramento exceeded the state wide average occupancy level of 71.7%, but trailed the state in average room rate (\$101.50), trailed the state's average room rate growth (7 vs. 8%), and trailed in annual increase in lodging demand (5.4 vs. 7.3%).

The second lodging tract was of the top nine TOT contributors in the City. The hotels in this category are shown on the next page. This tract is important because these hotels contribute over 65% of the City's TOT revenues. These properties achieved 73.4% occupancy and a \$110.00 average room rate for 2000, similar occupancies, but higher average room rates than the City as a whole. Over the past five years the top nine contributors averaged a 7% annual increase in average room rate but only a 1% annual increase in room demand. This is indicative that the current percentage occupancy represents the stabilized occupancy level and one that, in all likelihood, should not be exceeded in any future projections of TOT revenues.

The third and fourth lodging tracts were done to compare the market performance of first class, full service hotels with the performance of the more economical, limited service hotels that represent the greatest increase in room supply over the past five years. Interestingly enough, the limited service hotels achieved the highest occupancies of 2000 (77.7% compared to 70.7% for the full service hotels) but the lowest average room rates (\$72.50 vs. \$109.50). This is a clear indication that there continues to be a rate sensitivity in the Sacramento market that needs to be incorporated in the assumptions for future TOT growth.

#### **Top Nine Hotel Tax Contributors Sacramento, 2000/01**

Holiday Inn, Sacramento North	230-rooms
Clarion Hotel Downtown South	238-rooms
Doubletree Hotel Sacramento	448-rooms
Hilton Inn Sacramento, Arco	331-rooms
Red Lion Sacramento Inn	376-rooms
Radisson Hotel Sacramento	307-rooms
Hyatt Regency	503-rooms
Hawthorn Suites Sacramento	272-rooms
Marriott Courtyard, South Natomas	151-rooms
<b>Total</b>	<b>2,856-rooms*</b>

Sources: City of Sacramento, Scott Hospitality Consultants, Conley Consulting Group

\*The Sheraton Grand, with 503-rooms, opened in April 2001 and will be added to the list for 2001/02.

## **2. Future Increases in Lodging Supply**

The Sheraton Grand, which opened a new 503-room downtown facility in April 2001 across the street from the Sacramento Convention Center, represents the major new addition to the downtown inventory of first class, convention-oriented hotels over the past five years. There also have been an additional 658-rooms added to the overall market during this time period, but these have been limited service products outside the downtown area. The 232-unit Embassy Suites also opened in June 2002.

Of the several other proposed hotels, the only project that is considered viable for projection purposes is a proposed 240-unit Residence Inn by Marriott to be built at 15<sup>th</sup> and L streets. For TOT projection purposes, it is estimated to come on line between FY2004/05 and FY2005/06.

## **3. Future Hotel Demand Levels in Sacramento**

After a strong first half of calendar year 2001, the local hotel market performance started to level off and then drop somewhat due to the national and statewide economic downturn. This occurred simultaneous with the opening of the 503 room Sheraton

Grand, which created weakness in occupancy and softness in room rates because of the supply increase.

The future success of the downtown Sacramento hotel properties will be tied to the Convention Center and SCVB's ability to attract more Citywide group business. This is because the Convention & Visitor's Bureau (SCVB) will have larger room blocks to market (due to the new supply created by the Sheraton Grand and Embassy Suites.) The most challenging period will be the next 18 months as the new supply of hotel rooms is absorbed amidst a period of comparatively flat lodging demand. Because of the long lead-time between event booking and the actual event, the SCVB's newly funded and enlarged pro-active sales & marketing efforts will take a minimum of 18 months before any significant results begin to show. Assuming that effort produces the kinds of results anticipated, hotel conference demand should be brisk in the later half of 2003, 2004 and beyond.

Future growth in the commercial market segment is not projected to be significantly different in the future from historical averages because of no major increases in demand generators (e.g. significant increases in absorbed first class office space).

The leisure market is another that is impacted directly by the future marketing efforts of the SCVB. This has historically been the smallest lodging segment because Sacramento is not viewed as a hotel destination. However, with the new marketing pro-activity of the SCVB, thousands of new leisure room nights of demand are estimated, beginning in FY 2002/03.

## **B. IMPACT OF SEPTEMBER 11,2001 ON THE SACRAMENTO HOTEL MARKET**

As mentioned previously, Sacramento's hotel business has remained relatively strong since Sept. 11. The Sacramento Convention and Visitors Bureau has attributed this to four factors: a better mix of hotel business than most destinations; less reliance on fly-in business (and having said that, Sacramento's fly-in business is actually all the way back to August 2001 levels); sound strategic decision-making and cooperative efforts from the region's hospitality community; and increased marketing funds through the Sacramento Tourism Business Improvement District assessment (which has allowed Sacramento to launch a new leisure travel campaign, establish a Washington, D.C., sales office to go after national association business, etc.).

To determine how the Sacramento hotel market has fared since our original analysis, two lodging tracts were requested from Smith Travel Research (STR) covering the seven-month period from July 2001 through January 2002.

The results of this analysis are informative and help establish the revised basis for re-projecting the growth in future TOT over the next five fiscal years:

1. Because of the events mentioned above, overall room demand growth has slowed to less than one percent for the City as a whole (Compared to an average 3.6% per annum for the previous five years). However, room demand

at the top 10 hotels grew 7.7%. This indicates that there has been pent up demand for downtown hotel rooms that can now be accommodated because of the Sheraton Grand. For TOT projection purposes, however, aside from growth in the Group A, All Other Groups, and Leisure Segments, we have treated 2001/02 as a period of relatively minimal demand growth, reflective of the City's first seven months. Beginning in the later part of 2002 and continuing for the next five fiscal years demand is expected to gradually return to historical levels.

2. With a declining demand growth rate, overall average room rates have increased only 1.3% (vs. an average of 6.8% per annum for the previous five years); but room rates at the top 10 hotels actually decreased by (3.3%). What this means is that, in order to gain a greater penetration into the City's overall flat room demand as discussed above (or to retain existing business), the ten 10 hotels had to lower their room rates. Accordingly, the TOT projections reflect room rates with zero inflation for FY 2001/02 over 2000/01. Future inflation of room rates is expected to be modest until FY 2003/04 when room rates are expected to increase 3.5%.
3. For the first seven months of FY 2001/02 overall Citywide room revenue is up 2%, with the top 10 hotels up 4.4% in room revenue or over twice as much as the City as a whole. Given this trend, we have estimated FY 2001/02's revenues being in that 2.0% range for TOT projection purposes. It should be noted at this point, however, that the current trends indicate cause for concern, including:
  - Even with the area-wide increases in room's demand and room's revenue, due to the more dynamic increases in hotel supply, occupancies (65.3% for all hotels and 64.1% for the top 10 hotels) are at historical lows. Normally, 70% is viewed as the minimum area-wide occupancy for a "healthy" hotel market.
  - Citywide room revenue in 2001/02 is anticipated to increase \$1.3 million over 2000/01. The top 10 hotels are anticipated to enjoy a \$1.9 million increase, while; all other hotels actually sustained a decrease in their room's revenues by (\$600,000) over the past seven months.

Nationwide trends suggest that post September 11<sup>th</sup> travelers, whether they are commercial, leisure or group, are more room rate sensitive than ever before. In Sacramento, where there are now more lodging choices for customers to stay, room rates will continue to be pressured at least through 2002 and 2003.



## **C. TOT ANALYSIS**

### **1. Projections**

With the addition of the 503-room Sheraton Grand to the downtown first class hotel supply beginning in April, 2001, Scott Hospitality Consultants (SHC) projects that the City's 12% TOT collections will total \$15.3 million for FY 2001/02 growing to \$18.5 million by FY 2005/06. Specifically, the SCC Fund will receive an 11% portion of the TOT starting at \$14.1 million in FY 2001/02, and rising to \$17 million by FY2005/06.

### **2. Projection Methodology**

This section summarizes the TOT revenue projections for the SCC. It is an important finding of our analysis that room supply is a key determinant of the future TOT revenue. If the room supply is constrained, and no new hotels are added, future TOT growth is also constrained. This has been aptly demonstrated in the STR lodging tract for the top nine TOT contributors discussed earlier.

### **3. Analytical Assumptions**

The basic assumptions underlying our analysis are as follows:

- The City's TOT rate remains fixed at 12%.
- The analysis focuses on the top nine hotels in the City, which are assumed to be primary hotels in which conventions historically have been booked. These hotels collectively comprised 63% of the City's total TOT collection in FY 1999/00 and 65% in FY 2000/01. (Note: the 503-room Sheraton Grand is added to this group in April, 2001 because it will be a first class, full service hotel catering to the convention and corporate markets and, thus, the percentage of the City's total TOT.)
- SHC calculated current room demand by market segment, based on recent market segmentation analysis prepared by PKF Consultants. This analysis assumes that the percentage shares amongst segments of demand for the market as a whole, as estimated by PKF, apply to these nine hotels as well.
- Given the estimated occupancy level and total room supply for the nine hotels plus the addition of the 503-room Sheraton Grand, room nights of demand for the commercial group (including conventions), contract/airline, and leisure demand segments were estimated. Part of this methodology incorporated input from the SCVB regarding the actual convention room nights of demand they had booked for FY 2001/02 and their estimates of both convention and leisure demand for each subsequent FY through 2005/06.

- Growth rates for room demand for each market segment were estimated based on the market trend data discussed earlier and discussions with the marketing division of the SCVB.
- Room nights of demand were projected through FY 2005/06 for each market segment and for the ten hotels identified earlier.
- Comparing the demand to the room supply leads to an initial estimate of potential occupancy rates. Because it is generally difficult to achieve full year occupancy at over 75% for most market areas, this occupancy level was used as a guideline to indicate when available room supply was likely to be a constraint to satisfying the total demand projected. (In this projection, the 75% level is never achieved.)
- In addition to the impact discussed above, constrained room supply has historically impacted the potential hotel rooms committable for conventions. That had been the case in Sacramento, where some hotels had reduced the number of rooms they were willing to commit to the SCVB for convention use because they were able to net a higher rate from the transient and individual corporate customers. Because of the addition of the Sheraton Grand to the competitive hotel supply, constraints on room supply are effectively eliminated.
- According to STR, the average daily room rate for the top nine TOT contributors (plus two months of operation from the Sheraton Grand) was \$110.00 through May of 2001. Based on growth in the demand in each of the market segments, and the potential for room rate increases, SHC estimated the current and future total room revenue for the aforementioned ten properties through FY 2005/06.
- The top nine hotels currently represent 65% of total TOT collections for FY 2000/01. Given the market dominance of these properties, and ability to capture the strongest market segments of demand, we assumed that these properties (plus the Sheraton Grand) would increase their market share to 68% of the total market by FY 2003/04.
- Total room revenues were calculated based on the projections for the ten-property sample. Citywide room revenues were estimated based on a ratio rising over the 5 fiscal years from 65% to 69% of the citywide total room revenues generated by the top ten hotels.
- TOT revenues were estimated at 11% of the total room revenue for all of the City's hotels.

Table F

**SACRAMENTO CONVENTION CENTER  
ESTIMATED FUTURE GROWTH IN SUPPLY AND DEMAND  
FOR TOP CONVENTION HOTELS (1999/2000 - 2005/2006)**

<b>PROJECTED DEMAND FOR TOP CONVENTION HOTELS (1)</b>	<i>Market Share</i>	<b>1999/0</b>	<b>2000/1</b>	<b>2001/2</b>	<b>2002/3</b>	<b>2003/4</b>	<b>2004/5</b>	<b>2005/6</b>
		<i>(Demonstrated)</i>						
<b>Commercial</b>	44%							
Projected Room Nights		303,160	337,568	337,600	347,700	358,100	368,800	379,900
Projected Growth Rate (2)			11.3%	0.0%	3.0%	3.0%	3.0%	3.0%
<b>Conference/Group</b>	37%							
Convention Center Related								
Projected Room Nights		71,200	80,000	102,100	109,200	120,120	138,138	151,952
Projected Growth Rate (3)			12.4%	27.6%	7.0%	10.0%	15.0%	10.0%
<b>All Other</b>								
Projected Room Nights		183,700	203,900	220,000	232,100	236,162	238,800	238,800
Projected Growth Rate (2)			11.0%	7.9%	5.5%	2.9%	0.0%	0.0%
Subtotal Room Nights		254,900	283,900	322,100	341,300	356,282	376,938	390,752
Projected Growth Rate			11.4%	13.5%	6.0%	4.4%	5.8%	3.7%
<b>Contract/Airline</b>	13%							
Projected Room Nights		89,600	99,700	99,700	99,700	99,700	99,700	99,700
Projected Growth Rate (2)			11.3%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Leisure</b>	6%							
Projected Room Nights		41,300	46,000	48,800	55,100	64,500	75,300	87,400
Projected Growth Rate (2)			11.4%	6.0%	12.9%	17.1%	16.7%	16.1%
<b>TOTAL ROOM NIGHTS DEMAND FOR TOP CONVENTION HOTELS</b>		<b>689,000</b>	<b>767,200</b>	<b>808,200</b>	<b>843,800</b>	<b>878,582</b>	<b>920,738</b>	<b>957,752</b>
Growth Rate			11.3%	5.3%	4.4%	4.1%	4.8%	4.0%
<b>TOTAL ROOM NIGHTS DEMAND SATISFIED</b>		<b>689,000</b>	<b>767,200</b>	<b>808,200</b>	<b>843,800</b>	<b>878,582</b>	<b>920,738</b>	<b>957,752</b>
<b>TOTAL ROOM NIGHTS DEMAND UNSATISFIED</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL ROOM NIGHTS SUPPLY FOR TOP CONVENTION HOTELS</b>	100%	<b>951,600</b>	<b>1,042,400</b>	<b>1,135,200</b>	<b>1,219,800</b>	<b>1,219,800</b>	<b>1,263,600</b>	<b>1,307,400</b>
<b>PROJECTED OCCUPANCY (6)</b>		72.4%	73.6%	71.2%	69.2%	72.0%	72.9%	73.3%
Existing Supply of Top Convention Hotel Rooms (4)		2,607						
Projected Addition to Supply								
Proposed Downtown Hotel								
Future Hotels (5)			249	254	232		120	120
Total Existing and Projected		2,607	249	254	232	-	120	120
Cumulative No. of Convention Hotel Rooms			2,856	3,110	3,342	3,342	3,462	3,582

Source: Conley Consulting Group, Scott Hospitality Consultants  
April 2002

## SACRAMENTO CONVENTION CENTER PROJECTED TOTAL TOT COLLECTION (1999/2000 - 2005/2006)

PROJECTED TOTAL TOT REVENUES FOR TOP CONVENTION HOTELS							
	FY1999/0	FY2000/1	FY2001/2	FY2002/3	FY2003/4	FY2004/5	FY2005/6
Commercial					103%	103%	103%
Projected Room Nights Demand	303,200	337,600	337,600	347,700	358,100	368,800	379,900
Projected Average Daily Room Rate	\$110	\$110	\$110	\$113	\$113	\$115	\$116
Projected Growth Rate (2)			0.0%	3.0%	0.0%	1.5%	1.0%
Total Projected Room Revenue	\$33,352,000	\$37,136,000	\$37,136,000	\$39,394,410	\$40,465,300	\$42,299,516	\$44,008,357
Commercial Est. ADR/ Market Share	\$110	44%					
Conference/Group							
Convention Center Related							
Projected Room Nights Demand	71,200	80,000	102,100	109,200	120,120	138,138	151,952
Projected Average Daily Room Rate	\$110	\$110	\$110	\$113	\$113	\$115	\$116
Projected Growth Rate (2)			0.0%	3.0%	0.0%	2.0%	1.0%
Total Projected Room Revenue	\$7,832,000	\$8,800,000	\$11,231,000	\$12,372,360	\$13,573,560	\$15,921,786	\$17,689,104
Conference/Group Est. ADR/ Market Share	\$110	37%					
All Other							
Projected Room Nights Demand	183,700	203,900	220,000	232,100	236,162	238,800	238,800
Projected Average Daily Room Rate	\$110	\$110	\$110	\$112	\$112	\$115	\$117
Projected Growth Rate (2)			0.0%	2.0%	0.0%	2.5%	1.5%
Total Projected Room Revenue	\$20,207,000	\$22,429,000	\$24,200,000	\$26,041,620	\$26,450,116	\$27,414,240	\$27,825,454
Contract/Airline							
Projected Room Nights Demand	89,600	99,700	99,700	99,700	99,700	99,700	99,700
Projected Average Daily Room Rate	\$90	\$90	\$90	\$90	\$90	\$90	\$90
Projected Growth Rate (2)			0.0%	0.0%	0.0%	0.0%	0.0%
Total Projected Room Revenue	\$8,064,000	\$8,973,000	\$8,973,000	\$8,973,000	\$8,973,000	\$8,973,000	\$8,973,000
Contract/Airline Est. ADR/ Market Share	\$90	13%					
Leisure							
Projected Room Nights Demand	41,300	46,000	48,800	55,100	64,500	75,300	87,400
Projected Average Daily Room Rate	\$84	\$85	\$85	\$87	\$88	\$90	\$92
Projected Growth Rate (2)			0.0%	2.0%	2.0%	2.0%	2.0%
Total Projected Room Revenue	\$3,469,200	\$3,910,000	\$4,148,000	\$4,777,170	\$5,703,993	\$6,792,262	\$8,041,389
Leisure Est. ADR/ Market Share	\$85	6%					
<b>TOTAL PROJECTED ROOM NIGHTS DEMAND SATISFIED BY TOP 9 CONVENTION HOTELS</b>	<b>689,000</b>	<b>767,200</b>	<b>808,200</b>	<b>843,800</b>	<b>878,582</b>	<b>920,738</b>	<b>957,752</b>
<b>TOTAL PROJECTED ROOM REVENUE FOR TOP CONVENTION HOTELS</b>	<b>\$72,924,200</b>	<b>\$81,248,000</b>	<b>\$85,688,000</b>	<b>\$91,558,600</b>	<b>\$95,166,000</b>	<b>\$101,400,800</b>	<b>\$106,537,300</b>
<b>TOTAL TOT REVENUE @ 12% FOR TOP CONVENTION HOTELS</b>	<b>\$8,750,900</b>	<b>\$9,749,800</b>	<b>\$10,282,600</b>	<b>\$10,987,000</b>	<b>\$11,419,900</b>	<b>\$12,168,100</b>	<b>\$12,784,500</b>
SCC Share (11%)	\$8,021,700	\$8,937,300	\$9,425,700	\$10,071,400	\$10,468,300	\$11,154,100	\$11,719,100
City's (1%) Share	\$729,200	\$812,500	\$856,900	\$915,600	\$951,700	\$1,014,000	\$1,065,400
<b>TOP CONVENTION HOTELS TOT AS % OF ALL LODGING TOT REVENUES (3)</b>	<b>63%</b>	<b>65%</b>	<b>67%</b>	<b>68%</b>	<b>68%</b>	<b>69%</b>	<b>69%</b>
Total City TOT	\$115,752,700	\$124,996,900	\$127,892,500	\$134,645,000	\$139,950,000	\$146,960,000	\$154,400,000
<b>TOTAL TOT REVENUES FOR ALL LODGINGS</b>	<b>\$13,890,300</b>	<b>\$14,999,700</b>	<b>\$15,347,200</b>	<b>\$16,157,400</b>	<b>\$16,790,000</b>	<b>\$17,630,000</b>	<b>\$18,530,000</b>
<b>Growth Rate</b>		<b>8%</b>	<b>2%</b>	<b>5%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>

Source: Conley Consulting Group, Scott Hospitality Consultants  
April 2002

## V. MARKETING SUMMARY AND ANALYSIS

The Marketing Plan for the Sacramento Convention Center Complex must be an encompassing plan capable of enticing the many events, which might find one of the three facilities, including the Sacramento Convention Center, Sacramento Memorial Auditorium, and the Community Center Theater, as a suitable venue. The Sacramento Convention Center is the largest full-service convention and meeting space within 100 miles, and is also the pre-eminent entertainment venue in the area. It is the leading economic magnet for the downtown Sacramento region, annually attracting over 1,000,000 people to its functions. Primary markets include conventions, conferences and tradeshow, which generate demand for hotel rooms and associated transient occupancy tax (TOT) revenue. Sacramento Memorial Auditorium with its rich history offers facilities for a wide range of occasions, from concerts and banquets to a sports arena for boxing or basketball games. Certainly not least, the Community Center Theater with its precision acoustics and plush seating for 2,452 hosts a variety of top caliber events from touring Broadway musicals to performances by the City's local performing arts community.

### A. TARGET MARKET

The Complex serves a diverse market, which can be divided into eight basic event segments. Each segment has unique utilization characteristics including the types of facilities used (Exhibit Hall, Meeting Rooms, Community Center Theater and Memorial Auditorium), the timing or seasonality of events, and the cost and revenue potential.

Again, as stated in the Executive Summary, the following terms are used to more accurately analyze the market potentials. Each of the nine fall into one of the two groups, referred to as Group A and Group B business.

**Group A Events** are those that are traditionally considered the major target for the marketing efforts of the Sacramento Convention and Visitors Bureau (SCVB) and was the focus of the Convention Center expansion.

The events that fall into this category are:

1. Major Conventions – (large conventions which meet the convention criteria of 525 + room nights on two or more consecutive nights in two or more hotels and use the Convention Center).
2. Conventions, Conferences and Tradeshow – (smaller conventions, conferences and tradeshow, which have substantial, room nights but don't meet the convention criteria.) This Group A events have priority booking, and are usually booked 18 months or more in advance of the event and typically generate significant hotel demand.

**Group B Events** are traditionally booked by the Convention Center. These events, which have secondary booking priority to Group A, generate a more modest hotel demand.

These include:

- Performing Arts
- Concerts
- Entertainment
- Small Tradeshows & Consumer Shows
- Receptions/Food Functions
- Meetings
- Graduations

## **B. GROUP A MARKETING**

There are three main factors that will enable the SCVB to recruit larger conventions on a national level and better sell Sacramento as a destination city,

- Most critically, starting in February 2001, the SCVB is estimated to receive an additional \$2.8 million dollars for FY02, as a result of the formation of the Sacramento Tourism Business Improvement District (STBID). These new funds have enabled the SCVB to reach potential clients throughout the region, as well as, become a presence on the national convention circuit.
- Secondly, the expansion of the Sacramento Convention Center tripled the available exhibit space, thus providing the SCVB with a venue large enough to accommodate national conventions.
- Finally, the opening of the Sheraton Grand Hotel, located across the street from the Convention Center, added another 500+ rooms to the downtown room inventory, which was also a crucial piece.

With the addition of the STBID funds, the SCVB has enhanced its staff and capabilities. Specifically, a Vice President of Sales position was rehired to oversee convention practices and to create strategies to bring more convention business to the region. In July 2001, the SCVB hired a new Vice President /Chief Marketing Officer who is responsible for developing strategies and executing programs that create demand for Sacramento as a convention, visitor, and film production destination. The department is embarking on an image campaign that positions Sacramento as the premier destination for Gold Rush history and touts the region's first-class hotel properties, meeting facilities, and entertainment venues. With the Washington, DC area as home to over 4,000 associations, the SCVB opened its first office there to create an East Coast presence and lure Washington-based association business to Sacramento. The primary responsibilities of the Washington office are selling and marketing Sacramento as a convention destination to meeting planners and association executives in the

greater DC, Virginia, Maryland, and Northeast marketplace. On the Regional & National level, the SCVB and SCC partner together on Destination ad campaigns through trade publications, as well as participate in various tradeshows and conferences to showcase the destination and the facility. Additionally, the SCVB has also added services (like Passkey) that enable potential clients to now research the destination and book hotel rooms, on line.

### **C. GROUP B MARKETING**

The SCC uses a number of resources to market Group B events by attracting and targeting pieces of business in the local, regional and sometimes national levels for the facility. Paid advertisements are used on the local level through Sacramento Magazine and the Sacramento Visitors Guide, as well as in trade-related publications such as Meeting Professionals International, California Society of Association Executives and Society of Government Meeting Planners. Once a lead or contact is made with a potential or repeat client, an internal trace system is used to solicit new business, book repeat business, and follow up on room rental deposits as well as track contracted space. Positive working relationships with the various hotel Sales Managers in and around the Center have also contributed to the marketing successes, by fostering a partnership in communicating meeting room availability and referral business.

Following September 11<sup>th</sup>, widespread uncertainty in the hospitality and travel industries caused both the SCVB and the SCC to market more aggressively to our local associations. Together, with the City, the SCVB launched a “meet in your own backyard” campaign to encourage local organizations, which might normally travel for annual conferences, to hold their events, in Sacramento. The SCC has also worked closely with Classique Catering on numerous hosted “Familiarization”/FAM trips in order to showcase the facility, services, and talents of their award winning exclusive Caterer to potential Complex clients. In an attempt to remain in touch with the direction, trends, and innovations of the industry, members of the SCC staff belong to a variety of professional organizations such as National Consumer Shows (NACS), California Society of Association Executives (CSAE), Meeting Professionals International (MPI), International Association of Exposition Managers (IAEM) and International Association of Auditorium Managers (IAAM).

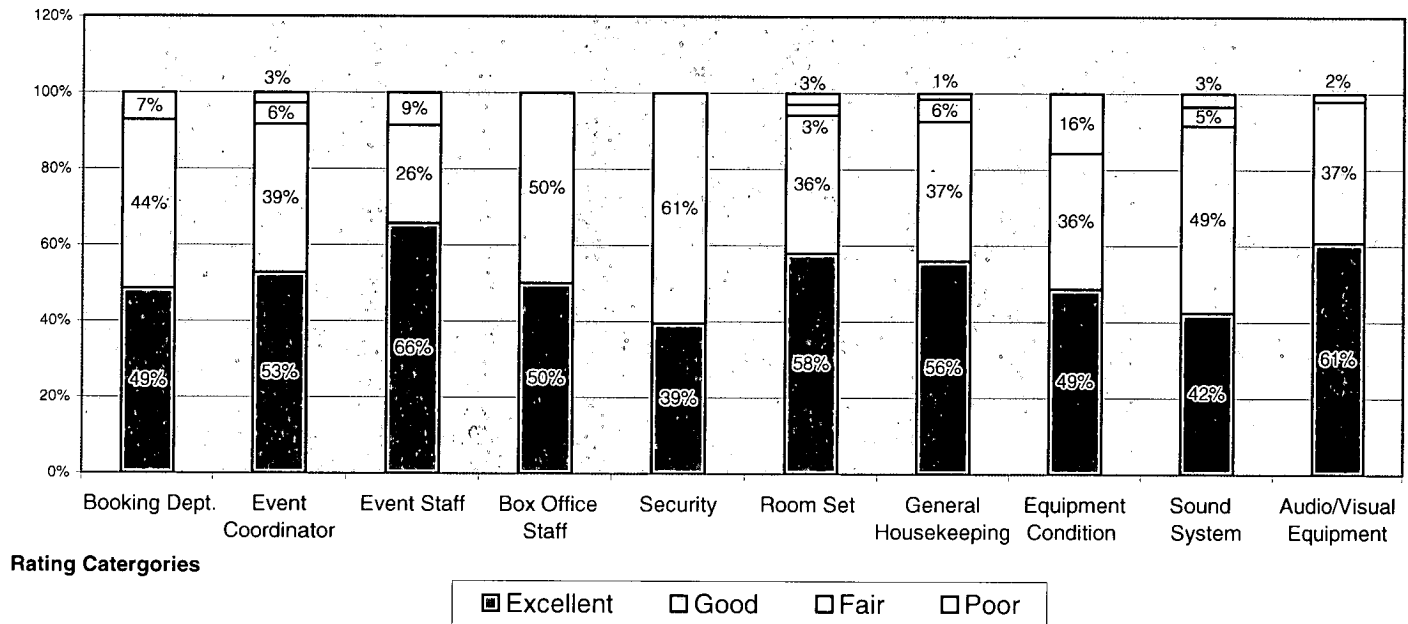
Besides developing stronger working relationships and marketing strategies with their partners in the convention business, the SCC has improved its product. Several years ago, the CSL survey determined that the level of customer service needed improvement. Improvements that have been implemented include:

- Establishing a preliminary point of contact, whereby the event manager, supports the event from start to finish.
- Service and cleanliness levels were improved by increased training, modified work schedules for improved efficiencies, and the use of additional workforce

during peak events. The SCC now prides itself on its earned reputation for a clean, service oriented facility.

- A customer survey and thank-you letter is mailed to each client after every event. The information gained from these surveys, serves as a monitor of the progress to use as a training tool by staff.

### SCC Customer Survey Satisfaction Ratings for 2001



As displayed in the chart above, the SCC has made great strides in improving the levels of service, now provided to its clients. Consequently, 98% of the survey respondents said that they would use the SCC facilities again. SCC has found this survey to be a great indication of the level of customer service clients are receiving, and thus will continue to solicit the survey, using FY01 as a benchmark .



## VI. GROUP A MARKET OPPORTUNITY

### A. EVENT SEGMENTS RE-DEFINED

#### Definitions (1996 – 2001)

In the 1996-2001 SCC Business Plan Group A events were divided into three segments as defined below:

- **Major Conventions:** Citywide conventions utilizing the exhibit hall and meeting rooms that book 525 room nights for two or more consecutive nights;
- **Conventions, Conferences, and Seminars:** Smaller conventions, meetings and training activities that generate some hotel usage (but not at the level of major conventions) and a heavy usage of the SCC's meeting rooms;
- **Trade Shows:** These are industry-specific exhibits that usually take place in conjunction with conventions and both exhibitors and convention attendees utilize hotel rooms (at or below the level of the major conventions segment). A unique sub-segment of the trade show segment is "consumer shows" that are special interest shows that target the general public as their audience.

When the strategic business plan was written in 1995, the marketing of Group A business was the responsibility of the SCVB. These two business units have been substantially reorganized since then and new leadership brought in to direct each unit. The SCVB now is separated from the SCC with a different reporting hierarchy. However, the responsibility for marketing Group A business continues to be a function of the SCVB.

#### Current Segment Definitions

The definition of Group A segments was changed in late 2001 to better reflect the SCVB's updated marketing objectives and strategies as well as the SCC's tracking/recording system. Among other things, this was to allow for uniformity and accountability between the SCVB and the SCC. This has, however, resulted in the historical trend lines of SCC Group A utilization being difficult to track over the last three years in particular. Group A events have now been divided into two segments, as defined below.

**Major Conventions** - Large Conventions (which meet the convention criteria of 525 + room nights on 2 or more consecutive night in 2 or more hotels)\* and use the Convention Center. Typically books outside 18 months.

\* See Attachment D for full Convention Criteria Policy

**Conventions, Conferences, and Tradeshows** - Smaller Conventions, Conferences and Tradeshow, which have substantial, room nights but do not meet the convention criteria. Events in this category use the Convention Center and are typically booked outside 18 months.

## **B. GROUP A EVENTS- HISTORICAL TRENDS**

### **1. Bookings:**

The growth in the actual number of major conventions booked between 1996 and 2001 has been less than what was projected in the business plan (i.e., by 2000-01 the actual number of major conventions booked was 18 vs. 22 projected). This event segment was least impacted by the 2002 definitional changes, and is therefore most comparable across time periods.

To evaluate the possible explanations for the differences between actual vs. projected performance the consultant reviewed the following factors:

- availability of space at the SCC when the major conventions needs dictate;
- availability of hotel rooms at the appropriate time for major conventions;
- sales/marketing efforts/results of the SCVB in booking major conventions.

Each of these factors is evaluated below:

#### **a. SCC Space Availability**

Based on an occupancy study of all the meeting/exhibit venues of the SCC in fiscal year 2000-01, it was determined that, with the exception of the community theater, meeting and exhibit space has been generally available to accommodate additional Group A business.

#### **b. Hotel Room Availability**

Sacramento's top contributors to the City's transient occupancy tax collections are the City's nine largest and convention-oriented hotels. An analysis of the last 5 year's operating history of those properties shows that:

- Room demand at these properties grew a total of only one percent over the five year period, thus indicating these hotels have been operating at a stabilized level of occupancy of approximately 72%;

- There was no significant change in the number of available rooms at these properties during the same five year period;
- Average room rates at these nine hotels have increased at an average annual growth rate of 7%, a larger growth rate than any other category of hotel product in Sacramento.

These data indicate that management at the nine hotels believed they were able to yield a greater RevPar (revenue per available room) during this five year period from the higher room rates of their own transient (i.e. non citywide group/convention) business and their own "in house" group business. In contrast, Group A citywide SCC business generally yields a lower room rate. This explains the hotels' reluctance to commit blocks of rooms to the SCVB to market Group A events.

In 1995 SCC projected that in order to achieve the five year forecast of potential Group A events, there would need to be a total of 600 new Convention Center oriented hotel rooms added to the downtown market area. This included one additional hotel in FY 1998/99 and one more in FY 2000/01. Had these increases actually occurred as projected, more rooms theoretically could have been available for Group A events. As it turned out, however, only the 503-room Sheraton Grand was added downtown and that was just in the last three months of FY2001.

#### c. SCVB Sales and Marketing Efforts

Several changes in the local environment will directly benefit the Convention Center Group A Business. The SCVB has undergone a transition in the management of its sales and marketing for Group A business over the past five years. New funding has been secured through the development of the Sacramento Tourism Business Improvement District (STBID) to aid the SCVB in their marketing efforts. Hotel marketing strategies have changed since the opening of the Sheraton Grand and Embassy Suites hotels. This increased supply is likely to overcome the historical reluctance of the primary convention hotels to increase their room block allotments for Convention Center business. Availability of larger room blocks with steadily increasing marketing efforts is projected to increase the Center's capture of Group A business.

## 2. User Fees:

Due in fact to the reduced number of actual Group A events booked as well as a re-definition of categories, the overall Group A user fee revenue for the past five fiscal years has not met the previous business plan projections. Between FY1996-97 and FY 1999/00 the user fee revenue ranged between 68 and 94% of projections. The most positive trend that is evident here (because of improving efficiency and productivity factors) is that the average user fees per Group A event has increased to \$17,600 by FY 2000/01 vs. a projected amount of \$11,600 for the same fiscal year. Therefore, while the number of events was below that of projections, the shortfall was minimized by the quality of the existing events. This quality is a trend the Convention Center justifiably anticipates continuing over the ensuing projection period.

### **3. Group A Room Nights Booked:**

Between FY 1997/98 and FY 2000/01, the actual room nights booked ranged between 71% (FY 2000/02) and 95% (FY 1998/99) of those amounts projected. This is fairly consistent with the actual reduced number of total Group A bookings with a trend toward larger room blocks per event. For example, the number of room nights booked per major convention grew from 1,202-room nights/major convention in 1997/98 to 2,816 room nights/major convention by 2000/01. This, too, is a positive trend that the SCC and SCVB are projecting into the future. Ultimately with the addition of the Sheraton Grand and Embassy Suites, the room nights booked per major convention is projected to grow to 4,000. Thus the total could increase over time with the increase in convention-oriented hotels and/or the increase in room block allocations by the hotels.

## **C. GROUP A PROJECTION ASSUMPTIONS AND RATIONALE**

### **1. Market and Other Factors**

The potential to capture future Group A business at the Convention Center is dependent on several key factors. These include, among others: likely changes in the future supply of first class hotels in the downtown area; local, regional and national economic trends; and the marketing resources of the SCVB.

#### **a. Hotel Supply Changes**

There are three new hotel properties to be added to the supply inventory for potential future Group A event bookings, based on information available at the time of this research:

- the 503-room Sheraton Grand hotel which opened in April, 2001 directly across the street from the Convention Center;
- the 232-unit Embassy Suites next to the Sacramento River at Capital Mall which opened in June of 2002;
- a 240-unit Residence Inn scheduled for development at 15<sup>th</sup> and L Streets with a planned opening in the fall of 2004.

These new hotels comprise nearly 1000 new rooms, and will add approximately 700 rooms to the citywide room blocks that can then be marketed by the SCVB to more and larger-sized Group A events.

#### **b. Local, Regional and National Economic Trends**

Generally speaking, the Sacramento metropolitan statistical area has been expanding in a number of sectors (e.g. population, employment, occupied first class office space) that should continue to generate commercial demand for the city and its hotels. Because it is a lower cost point than the Silicon Valley and San Francisco, Sacramento

has experienced an increase in the level of manufacturing, distribution and non-research and development portions of a number of technology companies. Additionally, because it is the state capital, the city's economy is strongly tied to the business of the state government. This provides a stabilizing influence on the hotel and convention (particularly association) demand, because so much of it is tied to ongoing state government activities. In fact, for this reason, the Group A projections assume a large percentage of "repeat" business that will continue to occur, regardless of the economic cycle.

Recent studies have determined, the economy of the state of California is the seventh largest in the world and comprises almost 3.0% of the world's economy. California is also the home of over 30 million persons and this population is continuing to grow at approximately 400,000 persons annually. Not surprisingly, California accounts for approximately 18% of all US exports, and 22% of all US imports. These factors obviously account for the national economic import of California and, as the state's capital, Sacramento. These factors all impact the potential for continuing growth in hotel and convention demand for the foreseeable future.

According to *Trade Show Week*, after years of rapid growth in the number of events and attendance at trade shows, the market has matured and is now impacted by the downturn in the economy. Nationally, future growth in this segment will be dependent on an economic recovery. However, the trade show market is also disproportionately affected by the current technology sector downturn, as this industry has dominated the trade show sector in recent years.

Additionally, there has been a substantial expansion in the number of exhibit halls seeking to host trade shows, nationally. Eighty-five Convention Centers across the country are now building or have plans to expand exhibition space. At the same time, attendance at trade shows has dropped significantly, reportedly by as much as 40% for 2001 compared to 2000. In combination with slowed growth in the number of shows, these factors indicate that the demand for trade shows in the Sacramento Region is likely to soften.

c. Marketing Resources at the SCVB

The development of the SCVB has a substantially increased marketing budget, with \$2.8 million in additional funds from the Sacramento Tourism Business Improvement District (STIBD) revenues allocated to marketing. The STIBD revenues come from a self-assessed room night fee that area hotels agreed to participate in to fund the national marketing efforts of Sacramento as a destination. This has allowed the SCVB to increase its marketing presence in Washington D.C. (a key association business-generating location) to add a permanent presence and add more marketing coverage in Chicago, another feeder area of Group A leads. However, because Group A business is booked 18 months or more in advance, the results of this increased marketing effort will be felt in 2003/04, which happens to coincide with the increases in Convention Center-related new hotel rooms.

## **2. Group A Event Projections**

### **a. Major Conventions**

Given the historical results achieved at the SCC, evaluating the future market potential for Group A events with the sales team at the SCVB and assessing the relevant factors related to Group A demand as discussed above, the following projections of Group A Major Conventions and Trade Show events and room nights per event are projected over the next five fiscal years:

<b>Fiscal Year</b>	<b>No. of Events</b>	<b>Room Nights/Event</b>
2001/02	23	3,300
2002/03	24	3,300
2003/04	27	3,300
2004/05	30	4,000
2005/06	33	4,000

### **b. Conventions, Conferences, and Trade Shows**

Given the same assumptions and relevant factors, Group A Conventions/Conferences and Trade Shows are projected as follows:

<b>Fiscal Year</b>	<b>No. of Events</b>	<b>Room Nights/Event</b>
2001/02	35	750
2002/03	40	750
2003/04	45	750
2004/05	45	750
2005/06	45	750

## **3. Impact of September 11, 2001 on the Group A Event Projections**

The Group A projections were completed in draft form prior to September 11, 2001. Because it was not initially possible to estimate the impact (short or long term) of the tragedy on future hotel and convention center activity, it was determined that the study should be put on hold for a number of months. Accordingly, an update of the study commenced in March 2002.

State-wide, with the nation entering a recession period in March 2001, the 2001 power crisis that cost the state \$9 billion, the implosion of the dot-com sector, and the generally negative economic impact of the terrorist attacks, California's resultant budget deficit is now estimated by some to exceed \$17 billion in 2002.

The negative impact of these combined events on the travel and meeting business has been felt across the state, more so in "fly in" destinations such as San Francisco and

San Jose vs. the “drive in” locations such as Sacramento and San Diego. Further it needs to be noted that:

- Governor Davis has issued an Executive Order for all state employees to cancel or postpone any non-essential trips such as seminars, conferences or training sessions, which will remain in effect until June 30, 2003;
- The corporate meetings market has failed to rebound in the state, and meeting planners are of the opinion that this segment of the meetings market may take another year before returning to previous levels;
- Meeting planners are saying that, statewide, of the meetings business that was canceled immediately after September 11<sup>th</sup>, all but 5% of the association business has already rebooked, but that 65% of the corporate meetings have not rebooked;
- With the re-bookings, there have been significantly more rate sensitivity, as groups are becoming more conservative (fewer attendees, reduced agendas) in their budgeting process (in particular due to the major increase in the cost of “meeting cancellation” insurance);
- The SCVB has reduced its marketing budget related to the STBID from \$3.0 million to \$2.8 million.

Despite the negative impact resulting from the above-noted events, there are a number of positives that have surfaced for Sacramento:

- State associations will continue to meet in Sacramento regardless of external events and these attendees generally drive to their meetings. This is a significant segment for the City’s hotel market and business of the Convention Center.
- Notwithstanding the 2001 negative statewide trends in the travel industry, Sacramento International Airport has been able to add flights between September 2001 and April 2002 (from 138 flights/day to 150 flights/day). Additionally, its passenger activity actually grew 2% over 2000 and a 5-6% increase is projected for 2002 compared to 2001.
- As the overall group business has declined, a number of Sacramento hotels are now marketing themselves to the smaller meetings groups (that may or may not include hotel rooms in their programs) that have previously used the Convention Center. This has freed up space in the Convention Center and allowed it to market itself to larger, greater revenue generating groups.
- In actuality, Citywide hotel demand increased 2.3% in 2001 over 2000 although its annual occupancy dropped due to a greater increase in hotel supply (7.7%).

The Convention Center-oriented hotels increased in demand at an even greater percentage of 5.8 between 2000 and 2001 and revenues increased 8.4%.

Given the actual results achieved and the location attributes of Sacramento as the state capital, we have determined the Group A projections previously developed, prior to September 11<sup>th</sup> are still appropriate for the Convention Center.

#### **4. Group A –Generated Room Nights of Demand (RND)**

An important component of the Group A projections is the total room nights generated by Group A activities. The table below compares historical nights generated by Group A events with projections of rooms associated with future Group A events.

<b>Fiscal Year</b>	<b>Room Nights Generated</b>	<b>% Change</b>
1997/98	49,400 Actual	
1998/99	67,400 Actual	+36%
1999/00	73,400 Actual	+ 9%
2000/01	74,900 Actual	+ 2%
2001/02	102,200	+36%
2002/03	109,000	+ 7%
2003/04	122,900	+13%
2004/05	153,800	+25%
2005/06	165,800	+ 8%

Even though the greatest impact of the SCVB's marketing dollars will not be demonstrated until FY 2003/04, the projected results beginning in FY 2001/02 are significant. These projections have been analyzed with the help of the SCVB and found to be realistic goals for the future years.

#### **5. Group A Revenue Projections**

Group A revenue projections have been based on actual historical operating results from the SCC, discussions with SCC management and application of City Council-authorized rental increases. Accordingly, these estimates are as follows:

##### **a. Major Conventions**

The initial projections for revenues begin with the actual operating results from the SCC. Total fees for 18 events from FY 2000/01 generated \$725,890 in total fees, or \$40,327/event. The total fees were then broken down by actual amounts into lesser revenue streams with facility rental fees being the largest revenue source at 51%. Rent revenue increases were then blended between the Exhibit Hall (75%) and Meeting Rooms (25%). Future rents were then increased on an annual or bi-annual basis according to the approved increases. The remaining, Non-event Revenues were increased annually by 2% to account for minor fluctuations in business and rates.



b. Conventions, Conferences and Tradeshow

Revenue trends for the 9 trade shows and 26 conference/convention events in FY 2000/01 were used to form the basis for the projections of the future revenues. Utilizing the Center's computerized Event Management System, these 35 events achieved \$16,297 average in total fees per event. Rental Rate increases stated above are used for the projections. Where appropriate, facility revenue rental rates projected to increase according to the approved increases.

## **VII. GROUP B MARKET OPPORTUNITY**

### **A. GROUP B EVENT SEGMENTS**

Group B events are generally those that are patronized by residents of the greater Sacramento region and, as such, do not generate significant hotel room nights. In general, the Convention Center staff, rather than the SCVB, is responsible for booking these events.

Group B events are typically scheduled far closer, (within 18 months), to the time of the event than Group A events. Group B events are scheduled after the exclusive marketing window held by the SCVB for Group A events has closed, and thus receive a secondary priority on available venues within the SCC facility. Due to facility availability, the number of Group B events may decline when more Group A events are booked.

Currently the Group B event segments include:

- Performing Arts
- Concerts
- Entertainment
- Small Trade Shows and Consumer Shows
- Receptions/Food Functions
- Meetings
- Graduations/Other

Since 1998, several changes were made in the segment definitions to allow for better tracking and to reflect market distinctions. Changes made to categories include:

- Moving the smaller Trade Shows and Consumer Shows from Group A to Group B, based on the recognition that these event segments do not generally generate significant room nights.
- Distinguishing between concerts and other types of entertainment events in the entertainment category.

### **B. PERFORMING ARTS, CONCERTS, & ENTERTAINMENT**

The Memorial Auditorium, Community Theater, Little Theater, and Exhibit Halls provide venues for Performing Arts, Concerts, and Entertainment events. Over time, tracking of events in these three segments has varied such that the same event might have been recorded in different categories in different years. Thus to have a clear trend analysis, the total events for these three segments were reviewed together. In FY96/97, there were 63 events. The next year, the first full year after the re-opening of Memorial Auditorium, there were a total of 103 events. Events remained relatively level

for FY98/99 to FY00/01 at 93 to 95 events a year for these three segments. For FY01/02, the total events have grown to 107 reflecting increased use of the Little Theater, which was renovated and re-opened in 2000.

The Little Theater was designed to be used (and rented) separately from the rest of the building; though it shared box offices and outside entrances and exits with the rest of the Memorial Auditorium. The Little Theater has its own lobby, its own restrooms, and its own staircase and balcony. Unfortunately, using the Little Theater separately from the main house is very difficult. If events are held simultaneously in the main hall, it is hard to keep the audiences from mingling. Noise intrusion is another problem, especially if one of the events is a concert. This makes the ability to sell the Little Theater very challenging.

### C. PERFORMING ARTS

#### Current Performance

The Performing Arts segment includes non-profit Sacramento groups that use the Theater and Auditorium for performances. In 2001 some of the users in this segment were the California Musical Theater, Sacramento Ballet, Sacramento Opera, Community Concerts, Sacramento Philharmonic Orchestra, Choral Society and U.C. Davis Presents.

The 2,452 seat Community Center Theater is the venue for most of these events. Smaller productions can be staged at the 272 seat Little Theater in the Memorial Auditorium. Performing Arts events are generally held in the time period between September and June. The utilization of the venues are shown below:

#### Venue Utilization – FY01/02

	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Comm. Center Theater	6%	26%	60%	77%	85%	97%	45%	100%	97%	73%	48%	100%
Memorial Aud./ Little Theater	32%	19%	13%	42%	53%	52%	6%	21%	42%	30%	58%	73%

Source: SCC, Conley Consulting Group, updated 5/02 by SCC with actual FY02 event numbers

These events are booked by the Convention Center. Center staff works with local performing arts associations each year to develop a calendar of events. On a tentative basis, events are booked as far out as five years. Thus this segment has booking priority for SCC venues.

Performing Arts events are sponsored by local organizations seeking a venue within the Sacramento region. Today, the 2452 seat Community Center Theater represents the only real theater option in Sacramento for events of that size, and during the prime season demand for the theater exceeds capacity. Center staff indicates that 80% of lost bookings in this category result from schedule constraints. SCC booking efforts for performing arts events has generally been focused on mediating scheduling constraints. As new competitive facilities, discussed below, are added to the regional inventory greater efforts will need to be placed on retaining the current level of events.

The Crest Theater has 975 seats as the next largest venue to the SCC facilities. The region has several amphitheater spaces both larger and smaller than the Community Theater. However, the theater is the dominant venue for the performing arts segment.

Per the SCC marketing plan, efforts are currently underway to identify performing arts groups that could use the Little Theater. In May 2000, this venue reopened after a \$900,000 renovation. Data from FY01/02 indicate good marketing response to the availability of the Little Theater. However, the true challenge in marketing the Little Theater lies in the constraints of using both the Memorial Auditorium and the Little Theater at the same time. For instance, it is impossible to use the Little Theater while a full-scale rock concert is performing in the main Auditorium. Therefore it is challenging to book small pieces of business, suited for the Little Theater, in advance, as that small booking may cause the SCC to have to pass up a larger more profitable piece of business for the Auditorium, due to a date conflict.

Conversations with local performing arts groups indicate that the total cost of using the Community Center Theater can be challenging to those groups who operate on low-cost budgets. Box Office service, equipment, and food & beverage are all part of the Theater service costs. In addition, the theater is a full-service Union Theater house. The terms of the Center's relationship with International Association of Theatrical Stagehand Employees (IATSE) Union require Community Center Theater event sponsors to comply with requirements that can also increase the cost of using the theater and thus, seem burdensome to smaller and non-profit theater groups. Ultimately, the Theater is the largest in the region and therefore not always affordable to smaller, emerging arts organizations that may be better suited for a smaller venue. The challenge with smaller venues for these groups in many cases is that of availability and atmosphere. While the smaller or emerging arts groups aspire to fill the 2400+ seat theater, their audience has not yet reached that level. Therefore, in the mean time they struggle on occasion to fill the performance, while remain determined to be a presence in the City's premiere theater.

Additionally, several new performing arts facilities are under development in the Sacramento Region, including:

- **Mondavi Center at University of California Davis** This new performing arts center will open in the Fall of 2002. It will include a state-of-the-art, 1800-seat performance hall and 250-seat studio theater. As a direct result of this facility being built, the Community Center Theater will lose the bookings of UC Davis

Presents, which has regularly sponsored events at the SCC. UC Davis Presents had 10 events at SCC in FY00/01 and will hold 19 events in FY01/02

- **California Musical Theater** A new permanent "tent" is being constructed to replace the seasonal tent that has been used for Music Circus events. This facility is funded by a bond that will be repaid by a surcharge on theater tickets and supported by a naming rights deal with Wells Fargo. This theater will open in Summer 2003 and has 2200 seats. However, it is not anticipated to affect the Music Circus's demand for the Convention Center's facilities as it replaces their seasonal facility. However this facility could be a competing venue for concerts and other events in the other seasons.

It is anticipated that, over time, the void created by losing UC Davis Presents will be filled by more bookings from other performing arts groups that have indicated difficulty in getting the dates that they desire for the Theater. However, the addition of UC Davis' similar sized theater to the region will alter the Community Center Theater's exclusive position in that size range.

UC Davis Presents is likely to draw acts to Sacramento that other producers would not. For example, they have booked the San Francisco Symphony to open the Center. For the region, the new Center is likely to expand the audience for performing arts of world-class performances. UC Davis has created a marketing effort and booking effort for its facility and will expand its own programming. It is not expected that, other than UC Davis's own events, a significant number of performances or shows that have used the SCC facility in the past would choose the Mondavi Facility instead.

A regional arts planning effort is underway in Sacramento. A recently commissioned market study indicates that the arts currently capture a small share of the potential audience for arts in Sacramento. Efforts are underway to strengthen the marketing efforts of local performing arts groups. The report indicates that the availability of suitable venues, rather than audience support, is the primary constraint. A stronger overall theater presence can expand the audience base and therefore, support the recent expansion in theaters

### **Projection of Future Events**

The challenge in projecting the performing arts segment is in projecting revenue per event rather than the number of events. Given the nature of the events and the organizations sponsoring them, CCG projects that the number of events may initially decline, but other organizations will eventually replace the UCD events.

## D. ENTERTAINMENT/CONCERTS

### Current Performance

Entertainment and Concert-type events use the Memorial Auditorium, the Community Center Theater, Exhibit Halls and, since 2000, the Little Theater. Rock and contemporary concerts, family shows, comedians, the circus and various sporting events make up this segment.

Private promoters book the Center's facilities for concert and entertainment events. These are typically touring shows that require a venue of a certain size. Concerts and entertainment events book the 4,000 seat Memorial Auditorium as well as the 2,452 seat Community Center Theater. Concert promoters using the SCC include Clear Channel/Bill Graham Presents, Abstract Entertainment, Fahn & Company, and Concerts West. The entertainment segment includes events like comedians, Shrine Circus, variety shows, Sesame Street, Gospel shows, and radio station sponsored events.

The Memorial Auditorium is an appropriate venue for a concert audience. However, use of the auditorium for graduations between mid-May and mid-June precludes concert use during that time period. The exhibit hall has also been used for concert events. The Little Theater host's entertainment events and accounts for recent growth in the number of events.

This segment included 39 events in FY00/01 with total revenue of \$458,000. To date in 01/02, there has been an increase in usage for the Little Theater for entertainment events. This utilization trend is expected to continue, with modest growth.

Entertainment/Concert-type events are booked by the Convention Center and are typically booked four to eight weeks in advance. Often Sacramento concerts are booked in a mid-week slot in transit between performances in the Bay Area and Reno. This placement creates competition for acts, and for concert-goers, from both the east and the west. Casino/resort venues can draw acts from the Sacramento market – limiting the number of events in Sacramento as a whole. Lost bookings typically go to the larger competitive facilities. The summer months have been historically light for concert performances at the SCC facilities due in part to competition of outdoor venues and events. Outdoor events were previously held at the CalExpo Amphitheater and are now held both at the Autowest Amphitheater and Raley Field.

As discussed previously, the Sacramento Region has added several new larger concert venues, as described below:

- **Autowest Amphitheater** Bill Graham Presents developed this large-scale (20,000 seat) amphitheater in Wheatland. It opened in 1999 and in its first year surpassed the now closed, 14,500-seat, Cal Expo Main Amphitheater's best year attendance by 25%, due in part to additional capacity. Given national

consolidation trends in the music industry, as discussed below, this facility has substantial market power to capture performance events.

- **Raley Field** The new multi-use stadium opened recently and held four concerts in 2001. It can accommodate up to 18,000 but works well for audiences of 6,000 to 10,000.
- **The Cove at Cal Expo** This new out-door amphitheater is a permanent structure located in the heart of Cal Expo's fairgrounds. With seating for 3000+, Bill Graham Presents has scheduled multiple concerts during the summer of 2002 and has released all holds for potential events at Memorial Auditorium during that same time period.
- **Discovery Park** Bill Graham Presents (BGP) may return to Sacramento with a series of "upscale" summer concerts in Discovery Park. BGP is seeking an agreement with Sacramento County parks officials to produce 20 to 30 shows per season on weeknights.

These new, larger facilities are not likely to directly compete with the Community Center Theater and Memorial Auditorium since they are both outdoor venues that accommodate significantly larger audiences than the SCC. However, concerts in Discovery Park could have an impact on Convention Center events and revenue at Memorial Auditorium. The Discovery Park project is a potential competitor that the SCC needs to monitor particularly with regard to the revenue impacts of potential lost concert business at Memorial Auditorium if this venue secures support from the Sacramento County Parks officials.

Nationally, there has been a consolidation in the number of event promoters. Locally, this is evidenced by SFX's purchase of Bill Graham Presents. SFX and Clear Channel then merged in 2000. The combined organization now dominates the concert industry. The changing result is that smaller promoters – who would put acts into smaller markets such as Sacramento – are either being acquired or pushed out of the industry.

Concert pricing trends are changing as well – from 1998 to 1999 national average concert ticket prices increased by 30%, and the overall attendance for live concerts has decreased.

Concerts have historically been a volatile market – demonstrated in part by the short booking cycle. Concert attendance has also been responsive to economic cycle, with attendance rising steadily despite higher ticket prices in boom times, and falling rapidly in lean times. The consolidation of the industry may lead to increased predictability, but will primarily benefit those venues controlled by the industry leaders. Discussions with the promoters who have previously held events at the Memorial Auditorium and Community Theater suggest that there are not likely to be significant changes in the recent trends.

## **5 year Projection of Events**

Discussions with concert promoters indicate that there should be no significant change in the number of events booked into the Convention Center Complex. Although fewer acts may tour in 2002, conservatism may lead acts to book smaller venues like the Memorial Auditorium rather than the 10,000+ seat venues. By 2000, the impacts of the new venues on the concert market have stabilized, therefore historical data is a reliable means of forecasting future numbers of events – assuming that the Discovery Park Project does not move forward quickly. Note that the research for the concerts segment was completed prior to the announcement of the possible Discovery Park concert venue.

For the projection horizon, concerts and entertainment are generally expected to remain consistent with historical trends, with the exception of a continuation of the trend for increasing utilization of the Little Theater.

## **E. SMALL TRADE AND CONSUMER SHOWS**

### **Current Performance**

Trade shows are open to business users and require registration for entry. Examples of events in this segment include California Job Journal, and Sacramento Nail Expo. For this segment, 80% are local bookings and 20% are State bookings.

Consumer shows differ from trade shows in that they are open to the general public. Examples include Home Show, Coin-a-Rama, RV show, Reptile Shows and Art Shows. The season for these shows is typically August thru February. Consumer shows generally run from Thursday through Sunday. These events use the Exhibit Hall and Meeting Spaces. Approximately 77% of the total rent for Small Trade Shows is from the Exhibition Hall, and almost 22% is from Meeting Space. Over 95% of the total rent for Consumer Shows is for the Exhibition Hall, and the balance of 5% is from Meeting Space.

The Convention Center is responsible for a 100% of the bookings in these categories. Small tradeshow events are generally booked within 18 months of the event. If and when a booking is lost for tradeshow, it is typically lost to hotels. For consumer shows, the SCC typically loses events to Cal Expo. Events are lost predominately either due to a lack of space at the SCC, lack of more convenient, on-site parking, or the event is better suited to another sized venue. The addition of new hotels with meeting rooms has expanded the number of competitive sites for smaller trade shows.

Over the past few years, 3-5 consumer shows at the SCC have attracted more than 5,000-10,000 attendees each and generated 50% of the total revenue from this sub-segment. The remaining events generated average revenues of less than \$5,000 per



event. Targeting these larger consumer shows for active marketing efforts would be a sound strategy for increasing SCC revenues, however, this is difficult, as larger consumer shows need to book several years in advance. This timing conflicts with the SCVB priority booking status beyond 18 months.

Consumer shows are not a priority user segment for the SCC, given the primary role of the Cal Expo facility for hosting these events for the region. The Center's booking policy, therefore, gives priority to other events.

### **Five-year Projection of Events**

National trends suggest that with careful marketing the SCC should retain its market share for these events. Following discussion with the SCC staff, the number of events is projected to be level for this segment.

## **F. RECEPTIONS AND FOOD FUNCTIONS**

### **Current Performance**

The users in this segment are sponsors of social events, holiday parties, and commercial/small business-type receptions involving meal service. Food functions can be in conjunction with meetings. All bookings through Classique Catering are included in this segment. Events in this segment happen throughout the year with December being busiest and August being slower.

Rent for Receptions and Food Functions is derived primarily from the Meeting Space, including the Ballroom, (almost 65%), and the Exhibition Hall (34%). Occasionally, these events use the Little Theater or Memorial Auditorium as well.

Catering and facility rental revenue, each account for 39% of the FY00/01 revenue from food functions. The remaining 22% of the total revenue comes from equipment rental, labor, box office, and concessions.

In FY00/01, there were 168 receptions and food functions, generating \$556,000 in revenue to the SCC. The average revenue from these events has increased from \$2,089 in 96/97 to \$3,310 in 00/01, a 58% increase. However, the majority of events are low revenue generating. In 2000/01, only 14 of the 168 events generated more than \$1,000 in revenues. In 1999/00 high revenue events amounted to 8 of the 141 events, and in 1998/99 nine of the 138 events generated over \$1000, in revenues. Note that in 1998 the Convention Center improved its event tracking practices, eliminating non-revenue generating activities such as food tastings from the record.

Approximately 80% of the Reception/Food Function events are booked through and by the Center, while the remaining 20% are landed through Classique Catering's sales team. Reception/Food function events are booked less than 18 months in advance. Competitive venues for these events are: Hyatt Regency, Sheraton, Grand Ballroom, J. Street Ballroom, Radisson, Library Galleria, Crocker Museum, and the Railroad

Museum. Lost events generally result from the facility rental fees being perceived as too expensive compared to complimentary space at hotels.

It is important to note that while the addition of new hotels greatly enhances the SCC's competitive position for Group A events, it has also increased competition for Group B events such as receptions, food functions, and meetings.

Compared to FY00/01, the Center expects to host 27 fewer receptions and food functions in FY01/02. The decline reflects the fallen consumer confidence following the September 11<sup>th</sup> tragedy, a slowing economy, and the increased competition from the newly opened Sheraton Grand. Additionally, the Center has traditionally served as a meeting point and banquet facility for an array of government associations, who are now subject to an Executive Order by the state Governor, "...canceling or postponing any non-essential trips such as seminars, conferences, or training" issued on October 23, 2001 and in force through June 2003.

### **Five-year Projection of Events**

In FY01/02, the projected 134 receptions and food function events are at a 17% decline from the previous year for the reasons explained above. With the economic recovery, this event segment is expected to build gradually back to previous levels. It is uncertain as to whether this segment has much growth potential beyond the levels achieved prior to the recent economic slow down. Further, in the in long term, space availability may become an issue as Group A business continues to grow.

## **G. MEETINGS**

### **Current Performance**

The users in this segment include corporate meetings, government meetings, and association business meetings. The users for meetings are predominately local or regional groups/organizations. The Convention Center is responsible for a 100% of the bookings. Meeting events are booked less than 18 months in advance. Meetings are generally weekday events and occur throughout the year, but less often in July and August. Primarily, the ballroom and the activity rooms are facilities used for meetings.

This segment represents the largest share of events at the Center with 54% all events. There were 399 meeting events in FY01, generating over a million dollars in revenue. The average revenue was about \$2,500 per event, a 62% increase since FY96/97. The number of meetings declined from 497 in FY98/99 to 429 in FY00/01 likely reflecting the competition from the new Sheraton hotel.

The table below summarizes the revenue distribution from the meeting segment. Note that 5% of the meetings account for 37% of the revenues. These 18 large meetings in FY00/01 averaged close to \$10,000 in revenue per event – similar in magnitude to the concert or sports events.

### Summary of Rental Income Meetings, FY00/01

Rent Range	Number	Share	Revenue	Share	Average Rent
Over \$5000 in Rent	18	5%	\$179,410	30%	\$9,967
\$500 to \$5000	262	66%	395,815	67%	1,511
Less than \$5000	71	18%	18,164	3%	256
No Rent	48	12%	-	0%	-
Total	399	100%	\$593,389	100%	\$1,487

Note that this table only includes meetings. Other tables in this report have grouped meetings with graduations and other functions. FY00/01

Source: Event Management System Report, Conley Consulting Group

Since FY96/97 the number of meetings has increased from 341 to 399. Meeting event totals are distorted by events that don't generate any revenue – in FY95/96, 34% of meetings paid no rent to the Center. When just rent paying events are considered, the meetings increased from 224 in FY96/97 to 351 in FY00/01.

Meetings are booked by the Convention Center staff. Marketing efforts include building relationships and awareness in the local business community. Efforts are underway to increase the use of the Memorial Auditorium and Little Theater for meeting use.

The competitive venues for these events are hotels, predominately the Hyatt and Sheraton. Hotels often offer enticements such as free room rental, which results in lower costs for meetings. This additional competition for meetings may explain the reduction from 432 paying meetings in FY98/99 to 399 in FY00/01.

In FY01/02, 134 reception and food function events are projected at a 17% decline from the previous year for the reasons explained above. With the economic recovery, this event segment is expected to build gradually back to previous levels. It is uncertain as to whether this segment has much growth potential beyond the levels achieved prior to the recent economic slow down. Further, in the in long term, space availability may become an issue as Group A business continues to grow.

### Five-year Projection of Events

The highest revenue generating events are tests such as bar exams. It is unlikely that there will be a significant increase in the number of these events. Further more, as the SCC becomes more booked with Group A events, the smaller meetings are likely to be displaced. Such displacement should not have a significant revenue impact as most of the meetings do not generate significant revenue.

Like Food Functions, the number of meetings has also declined substantially due in part to reaction to terrorist attacks on September 11<sup>th</sup>, slowing economy, and the newly opened Sheraton Grand. Additionally, the Center has traditionally served as a meeting point and banquet facility for an array of government associations, who have recently been subject to travel limitations by the state Governor.

In FY01/02, 270 Meeting events are projected at a 32% decline from the previous year for the reasons explained above. In the future, events in this segment are expected to partially recover to as many as 335 events by FY05/06. However, the impact of the competition for events in this segment by new hotels, coupled with reduced facility availability due to the projected growth of Group A business, indicate that the number of events will not likely return to the FY00/01 levels.

#### **H. OTHER/GRADUATIONS**

##### **Current Performance**

The Memorial Auditorium hosts high school graduations in May and June of each year. These events are generally on weeknights. This is an important civic benefit of the auditorium. There have been 27 graduations/other events for the last few years. In FY01/02, this number increased to 31 events.

These events are booked by SCC staff exclusively. Schools are contacted annually 10-12 months in advance of graduations to schedule dates.

##### **Five-year Projection of Events and Revenues**

Approximately 28% of the total rent for Graduations/Other events is for the Exhibition Hall, and about 3% is from Meeting Space. The average rent per Graduations/Other event is therefore projected to increase 4.25% in FY 2002 and 3.0% in 2004.

The number of graduations is expected to hold constant at 31 annually throughout the projection period.

#### **I. GROUP B ROOM NIGHTS**

By definition, Group B events are serving the regional Sacramento market so that most attendees do not require hotel rooms. However some, hotel room nights are created by Group B events (such as rooms required for the cast of performances, and out-of-town attendees at meetings, etc.) While generating Room Nights of Demand (RND) is not a primary goal of Group B events, these events do provide an additional TOT revenue enhancement. Given the limited changes projected in Group B events, the number of room nights is projected to remain constant at 10,000 per year based on historical experience.

## VIII. BACKGROUND - Comparison to the Last 5-Year Business Plan

### A. PREVIOUS BUSINESS PLAN

The last business plan was prepared in 1996, as the Convention Center completed the second of a three-phase expansion plan. The third and final phase of the expansion program was completed in November 1996.

Goal Actual	FY97	FY98	FY99	FY00	FY01
Number of Events	634 667	709 787	751 820	788 737	820 763
User Revenue	\$3,251 \$3,318	\$3,892 \$4,278	\$4,248 \$4,759	\$4,588 \$5,255	\$5,023 \$5,717
TOT Revenue	\$10,723 \$10,169	\$11,268 \$11,090	\$11,704 \$11,518	\$12,161 \$12,310	\$13,015 \$14,120

The major findings of that plan were as follows:

#### Events and Revenues

To permit more accurate evaluation of current and future performance the business of the Convention Center should be divided into eight separate categories, or event segments. These event segments are further defined into Group A and B categories. Group A events are the prime targets of Convention Center business, and generate room nights of hotel demand by attracting out of area attendees. These events have primary booking priority, and are generally booked eighteen months in advance, by the SCVB. Group B events are typically patronized by local residents, have secondary booking priority, and are typically booked less than eighteen months in advance, by the SCC.

#### 1. Projected Group A Events and Revenues

- The analysis of the market opportunity for Group A supported a projection of growth in both the number of and the revenues generated by Group A events. At the time of the business plan, these events included major conventions; conventions, conferences, and seminars; and trade shows. The ability to increase bookings and revenues from Group A events was linked to the supply of first class hotel rooms adjacent to the Convention Center.

- With new additions to the hotel supply the Business Plan projected an increase of an additional 47 events over the 5-year period, to a total of 159 events.
- With new hotels, Group A event-generated or user fee revenues were projected to grow from \$1.4 million to \$2.1 million over the five-year projection period.

## **2. Projected Group B Events and Revenues**

The analysis of Group B market opportunities supported a projection of growth of 129 events above a base of 522, and an additional \$1 million in user fees to a total of \$2.8 million. The analysis of Group B event market potential was not dependent on expansion of the local hotel room inventory

## **3. Transient Occupancy Tax**

At the time of the last five-year business plan, projected increases in hotel room night demand were expected to lead to growth in Transient Occupancy Tax (TOT) revenues. Based on an assumption of growth in the hotel room inventory, TOT revenues were projected to increase by nearly \$2.3 Million on a base of \$10.7 Million over the five-year period.

## **Other Findings and Recommendations**

- Growth in the hotel room inventory should be supported by the City to fulfill the Convention Center's market opportunity.
- Development of improved Financial Management and Management Information Systems should be added to aid the SCC staff in identifying and maximizing operational efficiencies.
- Marketing and Booking practices should be monitored to optimize the opportunities afforded by the strong market and by the planned opening of the Sacramento Memorial Auditorium in the 1st year of the business plan, (1996).

## **B. COMPARISON BETWEEN OPERATING PROJECTIONS AND RESULTS**

### **1. Group A Events**

The total number of Group A events has increased at a far slower pace than projected in the Business Plan. Growth in events was projected at 47 new events reaching 159 events per year by 2000/2001. In contrast the actual number of Group A events has remained roughly level, with 94 events in 1996/7 and 95 events in 2000/2001.

However, part of the difference between the number of events booked versus projected is a result of improved management at the Center. In 1998/9 the Convention Center management recognized that some trade show events did not fit the key definition for Group A events—since they were primarily attended by local residents and thus did not generate significant room nights. Therefore, these events were re-categorized into Group B events.

## **2. Group B Events**

The number of Group B events has increased at a faster rate than projected in the Business Plan, even after the SCC management adopted stricter event tracking procedures. The number of events was projected to grow from 522 events in 1996/97 to 661 in 2000/01. By 2000/01 the actual number of events had exceeded projections, rising to 695 events.

## **3. User Fee Revenues**

The Business Plan projected revenues to increase to roughly \$4.3 million in FY 1998/99, \$4.6 million in 1999/0 and \$5.0 million in 2000/01. Group A events were projected to comprise 43% of projected revenues with the remaining income from Group B.

The projections for 1998/99 and 1999/00 were close to actual totals of \$4.2 million and \$4.5 million, respectively. However, revenues from Group A events did not meet projections, while revenues from Group B events exceeded projections. Actual total revenues including non-event revenue in 2000/01 (\$5.2 million) exceeded projected revenues of \$5 million.

## **4. Average User Fee Revenues per Event**

The Business Plan projected that Group A events would generate \$13,200 per event in 1998/99 increasing to \$13,700 per event in 2000/01. The projected per revenues for Group B was projected at \$4,000 in 1998/99, increasing to \$4,300 in 2000/01.

Actual user fees per event in FY 2000/01 was \$17,600 for Group A events and \$4,300 for Group B events, thereby surpassing the projections of the Business Plan.

## **5. Historical Transient Occupancy Tax (TOT) Revenues**

The Business Plan assumed one 300-room hotel addition occurring between 1997/98 and 2000/01. TOT revenues were projected at \$10.7 million in 1996/97, increasing to \$12.16 million in 1999/00 and \$13.0 million in 2000/01.

Actual TOT collections exceeded the projections due to the addition of hotel rooms outside of the Central Business District (CBD) (a total of 593 rooms were added between 1996/97 and 1999/00) and the strong demand growth from the commercial sectors due to the robust economy. Year 2000/01 TOT revenues were projected to total \$15.0 million (based on ten month's collections) well in excess of projections.

## **6. Operating Expenses**

Actual operating expenditures have exceeded projections since 1996/97. Actual expenditures of \$7.65 million in 1996/97 were 7 % over projections, which in 1997/98 increased to 9 % over projections. In 2000/01, total estimated expenditures of \$9.6 million are approximately 18 % higher than projections of \$8.1 million. As described in detail in Section III, Financial Analysis, F; these projections and expenditures not only include the actual operating expenses for the facilities, but also include General Fund, CC & L Department, and other agency expenses. Although expenditures exceeded projections, these differences were a result of the business plan being prepared as a five year general plan. This general plan was used as guide to set the SCC budget each year. However, modifications were made, as the community center annually proposed changes to Council which were approved with the operating budget and with midyear. Such changes included additional positions and increased budgets for items like utilities as a result of the energy crisis.

## **C. OPERATIONAL ANALYSIS**

In January 1998, the City engaged in the services of Conventions, Sports and Leisure Inc. to conduct an audit of the resources and organization presently available to implement the Sacramento Convention Center 1996-2001 Business Plan.

The purpose of the study was to evaluate the operations and organization structures of the Sacramento Convention Center facilities and to identify specific opportunities for improvement. The specific objectives of the study included:

- To identify improvements to the Convention Center organizational structure and staffing levels,
- To recommend changes to operational policies that could improve SCC operations,
- To analyze the level of financial support and allocation of resources at the SCC,
- To analyze SCC/Visitors Bureau coordination, and
- To analyze convention Center management systems common in the industry.

On May 12, 1998, CSL presented their report to Council. The Council accepted the report with the understanding that a staff recommendation would be forthcoming for implementation. CSL benchmarked comparable and competitive Convention Center facilities focusing on key organizational elements, operational procedures, and physical plant as well as the technological resources used for financial reporting at the Sacramento Convention Center. Also included in CSL comparisons was a brief review of the marketing and structural relationships between the SCVB and the Convention Center for marketing effectiveness.



The process by which CSL reached its conclusions involved intensive interviews with clients, hoteliers, restaurateurs, food service providers and other private sector visitor representatives, to determine the impact of and general level of satisfaction with Convention Center operations. Interviews were also conducted with representatives of the Sacramento Convention & Visitors Bureau, marketing, event services, box office, and building operations divisions of the Convention Center management and staff.

In January 2000 Conventions Sports and Leisure, Inc. prepared an analysis of Key Operating Policies evaluating the current SCC revenues and operating policies as compared to other similar convention centers around the country. The study focused on five specific revenue sources: Rental revenue, Audio/visual, Telecommunications, Electric, and Food services.

Within this section, comparable industry data has been presented related to several key-operating characteristics that impact the financial performance of the Sacramento Convention Center. The key findings regarding these characteristics are as follows:

### **Rental Rates**

- 1993 last increase in rate at SCC.
- Prior to 1993 the SCC had not increased rental rate for 10 years.
- No increase proposed for groups at Community Center Theater and Memorial Auditorium

### **Exhibit Hall:**

- Used primarily for regional and national conventions and tradeshow.
- The rates for exhibit space at the SCC are significantly below industry averages.
- The current rate of \$0.14 per net square foot per day at the SCC is 36 percent below the average of comparable convention centers.
- Recommend an immediate 20 percent increase (from \$0.14 to \$0.17) to be implemented.
- Recommend in year three (2002) a 15 percent increase (from \$0.17 to \$0.19) to be implemented.
- Recommend in year five (2004) a 10 percent increase (from \$0.19 to \$0.21) to be implemented.

Rate increased approved by City Council per plan – March 2000.

### **Meeting Space:**

- The SCC's average meeting room rate of \$0.20 per square foot per day is comparable to many of the Convention Centers reviewed, and slightly lower than Centers in Portland, San Jose and Seattle.
- Recommend a plan to increase the SCC meeting room rates for 2000, 2002 and 2004 of 5%.

Rate increased approved by City Council per plan – March 2000.

### **Electrical Services**

Electrical services are for clients connecting to SCC utilities for tradeshow.

- Currently open vendor policy resulting in limited control and revenue sharing.
- SCC receives 18 % or a minimum of \$12.50 per booth generated by vendors. Vendors set rates.
- Alternatives of open vendor policy: Exclusive arrangement, Preferred arrangement, or In-house services
- Recommend an exclusive arrangement because of life safety issues, customer service, image/reputation, accountability and additional revenue to the SCC.
- Recommendation to issue an RFP for the selection of an exclusive electrical vendor for the SCC, and negotiating an appropriate percentage of gross revenues.
- Anticipated commission of 20-25% with mutually agreed rate structure.

Recommendation **not** approved by City Council per plan – March 2000

### **Telecommunications Service**

Telecommunication services comprise traditional telephone service, data transfer/access services such as internet service, local/wide area networks and digital information transfer.

- With the increasing costs of maintaining a state of the art telecommunications infrastructure, and customer service most Centers reviewed are using an exclusive vendor for event telecommunications for conventions and tradeshow.
- Recommendation to issue an RFP for the selection of an exclusive telecommunication vendor for the SCC, and negotiating an appropriate percentage of gross revenues.
- Currently open vendor policy resulting in limited control and revenue sharing.
- SCC receives limited revenue sharing of 10% based on a six-month temporary arrangement. Vendors set rates.
- Anticipate commission of 20% with mutually agreed rate structure.

Recommendation approved by City Council per plan – March 2000

Exclusive Service Provider Agreement entered with WOMBO, Inc.- January 2001

### **Audiovisual Services**

Audiovisual services are provided in a variety of ways by the Centers reviewed, such as in-house, preferred or exclusive vendor arrangements.

- Most Convention Centers have some form of a preferred vendor or in-house service, while allowing customers to use outside vendors if they choose. This

- policy allows for customers to maintain long term relationships with a vendor that has an in-depth knowledge of the shows needs.
- Currently SCC has an open vendor policy resulting in limited control and revenue sharing.
- SCC receives limited revenue sharing of 15% based on a six-month temporary arrangement. Vendors set rates.
- Recommendation to issue an RFP for the selection of a preferred audiovisual vendor for the SCC, and negotiating an appropriate percentage of gross revenues, continuing to allow customers to use outside vendors if they so choose.
- Anticipate commission of 30-35% with mutually agreed rate structure.

Recommendation approved by City Council per plan – March 2000  
Preferred Provider Agreement entered with Projection Presentation Technology-  
October 2001.

### **Food Service**

- The current arrangements at the SCC are not significantly different from common industry practices. No change to current policy is recommended.

For all new contracts entered into by the SCC for services listed above, a minimum period of five years should be established.

### **Staffing Levels (current)**

City Council adopted the CSL/staff recommendations on June 23, 1998. Summaries of recommendations from both the 1998 and 2000 CSL Studies are attached at the end of this document (Attachment A & B).

The Sacramento Convention Center staff is divided into five divisions, which includes 78.15 Full-Time Employees (FTE's) equivalents. Each division has distinct duties. The staff was reorganized in October 2002, separating the management staff by creating a division specifically to over-see The Community Center Theater and Memorial Auditorium. The following are the current organizational division responsibilities and staffing levels:

- **Administration (6)**  
Accounting Technician (1)  
Administrative Officer (1)  
General Manager (1)  
Office Supervisor (1)  
Typist Clerk III (1)  
Typist Clerk II (1)

- **Box Office (10.8)**
  - Account Clerk II (1)
  - Assistant Box Office Supervisor (1.5)
  - Box Office Manager (1)
  - Ticket Seller (7.3)
- **Operations (33.1)**
  - Community Center Attendant I (16.10)
  - Community Center Attendant II (7)
  - Operations Manager (1)
  - Sr. Stationary Engineer (1)
  - Stationary Engineer (5)
  - Supervising Community Center Attendant (3)
- **Sales, Marketing and Event Services – Convention Center (9)**
  - Sales and Marketing Director (1)
  - Event Manager (3)
  - Booking Coordinator (2)
  - Events Duty Person (2)
  - Typist Clerk II (1)
- **Theater and Auditorium Event Services (19.25)**
  - Event Services Manager (1)
  - Events Coordinator (1.25)
  - Events Usher (12)
  - Stagehand I (4)
  - Stagehand II (1)

An organizational chart, identifying the various levels of responsibility is included as Attachment C.

## ATTACHMENTS

**CSL Study, 1998**  
**Organizational and Operational Study of the Sacramento**  
**Convention Center**  
**Summary of Recommendations**

Recommendation	Status	Next Step
<b>Organizational Structure/Staffing levels</b>		
<ul style="list-style-type: none"> <li>Hire Director of Sales and marketing</li> <li>Event coordinators – staff with</li> <li>Increase finance staff by adding a manager</li> <li>Fill vacant Stationary Engineers position</li> </ul>	<p>Completed May 1999</p> <p>ASO position created and filled Complete</p>	
<ul style="list-style-type: none"> <li>Event set up-staff to equal 16-18</li> <li>Stagehands – fill two positions</li> </ul>	<p>Several vacancies filled</p> <p>One vacancy filled</p>	<p>On going recruitment full-time positions Second position on hold Due to AV contract 7</p>
<b>Event Coordination</b>		
<ul style="list-style-type: none"> <li>Fully trained staff</li> <li>Assign Event Coordinator from start to finish for large events</li> <li>Assignment of events and client contact</li> </ul>	<p>Complete</p> <p>Complete</p> <p>Improving in meeting clients 'needs in advance and excellent at staff visibility</p>	<p>Continue to provide on going training</p> <p>Continue to improve</p>
<b>Local Price Discounting</b>		
<ul style="list-style-type: none"> <li>Develop guidelines for discounting</li> <li>Limit discounting to local events</li> </ul>	<p>Have always been in effect but not always followed Recommendation met</p>	<p>Continue being consistent</p> <p>Continue to hold the line</p>
<b>Manifest System</b>		
<ul style="list-style-type: none"> <li>Provide staff with Manifest at least one week in advance of event (if possible)</li> <li>Use CAD drawings</li> </ul>	<p>Complete</p> <p>Complete</p>	<p>Continue to meet goal</p> <p>Currently Use Room Viewer System</p>
<b>Policy Manuals/Staff training/Education</b>		
<ul style="list-style-type: none"> <li>Develop policy manual with Downtown Department</li> <li>Provide staff training in industry</li> </ul>	<p>On going with CCL department Staff should attend seminars and industry related education</p>	<p>Implement On going</p>
<b>Salaries, Wages and Benefits</b>		

## Attachment A

- Increase staffing. Low expenditures  
(Above reflective of low staffing levels)

Increases approved  
and implemented

### **Maintenance, Supplies and Equipment**

- Increase expenditures

Increases approved  
and implemented

Monitor

### **Marketing and Advertising**

No recommendation

### **Public Sector Charges**

Higher than National Average – No Recommendation

### **Ungerboeck System (Event Business Management System)**

- Provide training

Complete

On going

### **Convention Center /SCVB Coordination**

- Jointly develop convention  
center sales plans
- Jointly develop booking policies
- Hold regular scheduled staff meetings
- Jointly develop center marketing materials
- Center GM on SCVB Board
- Common technology for booking

Complete

On going

Complete

Annually review

Complete

Continue

Complete

Annually review

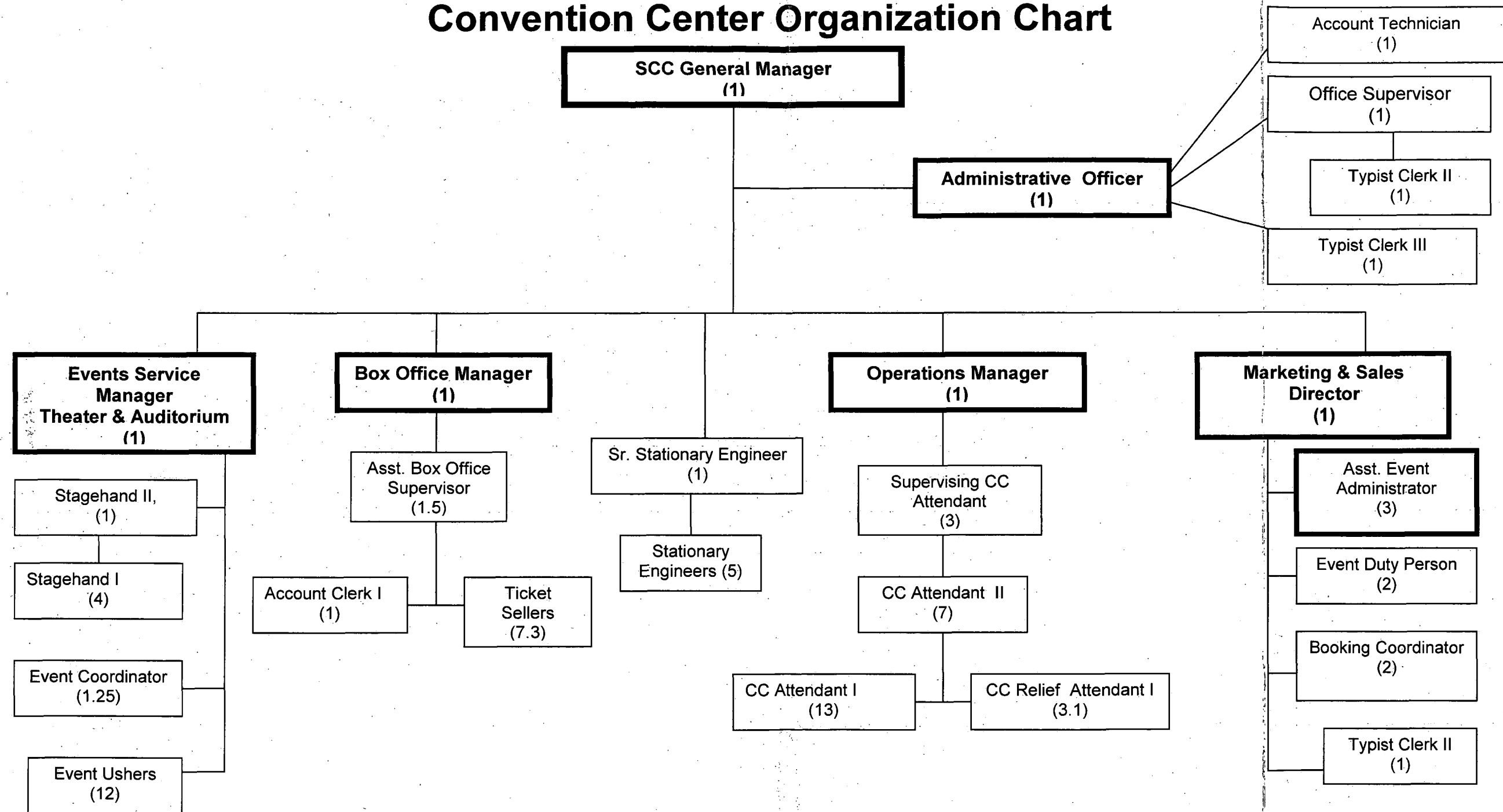
Complete

On going training

**CSL Operational Study, 2000**  
**Analysis of Key Operating Policies for the Sacramento Convention Center**

<b>Recommendation</b>	<b>Status</b>	<b>Next Step</b>
<b>Rental Rate Increase</b>		
Immediate 20% increase (\$0.14 to \$0.17) for Exhibit space and 5% increase for Meeting space	Implemented July 2000	Next increase 2002 & 2004 (see Executive Summary)
<b>Audiovisual Services</b>		
Issue RFP for the selection of a preferred audiovisual vendor negotiating appropriate percentage of gross revenues, continuing to allow customers to use outside vendors	Council Adopted, March 2000 Vendor selected	Start Date Oct. 2000
<b>Communications Services</b>		
Recommendation to Issue RFP for an exclusive telecommunication vendor negotiating an appropriate percentage of gross revenues.	Council Adopted, March 2000 Vendor selected	Start Date Jan. 2001
<b>Electrical Services</b>		
Recommendation to Issue RFP for an exclusive Electrical services vendor, negotiating an appropriate percentage of gross revenues	Not adopted by Council	Continue as is (see recommendation Executive Summary)
<b>Food Service</b>		
No Change	Same	Contract up 2005

# Convention Center Organization Chart



-Exempt Manager

**BOLD Type-** Sr. Management



OPTION CRITERIA

**SACRAMENTO CONVENTION & VISITOR'S BUREAU SALES DEPARTMENT  
GUIDELINES FOR FIRST, SECOND AND THIRD OPTION CENTER HOLDS**

The first, second, and third option criteria was developed by the Sacramento Convention and Visitors Bureau in cooperation with the Sacramento Convention Center as a tool to attract large city-wide conventions that generate hotel room usage. The financing of the Center is tied directly to the transient and occupancy tax (TOT) charged for hotel rooms in Sacramento. Therefore, the Sacramento Convention and Visitors Bureau has been allowed to establish the following criteria, which ensures the merchandising of the Center to the maximum production of hotel room nights.

Before any group can be provided a definite set of dates in the Center (beyond the current 18 months booked directly by the Center), the Sacramento Convention and Visitors Bureau must first agree and verify that the organization has a history of producing a minimum number of hotel room nights as described below. The Sacramento Convention and Visitors Bureau will utilize the data bank of the International Association of Convention and Visitors Bureaus and other data sources for actual history and verification.

Tentative dates may be noted for Center use, which do not meet the criteria, but only with the understanding that they may be altered to accommodate the convention business, which more accurately meets the criteria.

Furthermore, even with respect to conventions and trade shows that produce hotel occupancy, the following criteria will serve as policy guidelines before a contract can be executed:

**FIRST OPTION**

(Can be contracted two years and out)

- A. A citywide convention blocking three or more hotels with a minimum of 1,000+rooms on two (2) consecutive nights.
- B. Two separate pieces of business that co-exists in the Center (dual usage) and together have sufficient room nights to qualify as a first option as described above.

**SECOND OPTION**

(Will become a first option 18 months and in)

- A. Conventions, which block and verifiably use 525+rooms on two (2) consecutive nights.
- B. Consumer/Trade Shows that use 50,000+sq.ft of exhibit space or more and can verify the usage of 250+rooms per night.

**NOTE:** Housing for the first and second options must be coordinated through the Sacramento Convention and Visitors Bureau Sales and Housing Departments.

**THIRD OPTION**

- A. Tentative holds that do not meet the first or second option criteria.

**FIRST OPTION - MEETING ROOM USAGE**

Depending upon availability, conventions that meet the First Option Criteria will be granted meeting space proportional to hotel room usage for up to four (4) event days at no charge. Meeting space required for more than four (4) days will be charged at the current per room, per day charge.

The Sacramento Convention Center offers the following blocks of meeting space:

Block #1      Rooms 100-105, 201-205

Block#2      Rooms 301-319

Groups, who verifiably use 1,000+hotel rooms on two (2) consecutive nights, will be entitled to both blocks of meeting rooms listed above.

In all cases, blocks will be assigned by the Center depending upon availability.

All other meeting rooms required by conventions which fall outside of the blocks mentioned above will be charged on the current per room, per day basis.

Exhibit halls required for exhibits will be held according to the group's historical usage and will be charged at the prevailing per hall, per day rate.

**The Center Manager reserves the right to negotiate these guidelines for the Sacramento Convention Center and the City of Sacramento.**