

Memorandum

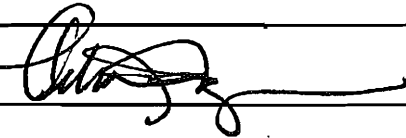
TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko
Jennifer A. Maguire

**SUBJECT: CONVENTION AND CULTURAL
AFFAIRS BUDGET UPDATE**

DATE: May 22, 2009

Approved



Date

5/22/09

RECOMMENDATION

- A) It is recommended that the City Council consider the following amendments to the 2009-2010 Proposed Operating Budget in the Convention and Cultural Affairs Fund (Attachment A):
- 1) Decrease the estimate for Operating Revenue by \$250,000;
 - 2) Decrease the transfer from the General Purpose Parking Fund to the Convention and Cultural Affairs Fund by \$75,000;
 - 3) Decrease the Non-Personal/Equipment appropriation by \$1,450,000;
 - 4) Decrease the Workers Compensation Claims appropriation by \$50,000;
 - 5) Decrease the Miscellaneous Capital Improvements appropriation by \$300,000; and
 - 6) Increase the Unrestricted Ending Fund Balance by \$1,475,000.
- B) It is recommended that the City Council consider the following amendments to the 2009-2010 Proposed Operating Budget in the General Purpose Parking Fund:
- 1) Decrease the estimate for Revenue from Parking Lots by \$100,000
 - 2) Decrease the transfer to the Convention and Cultural Affairs Fund by \$75,000
 - 3) Decrease the Non-Personal/Equipment appropriation by \$25,000
- C) Accept the proposed revisions to the Convention and Cultural Affairs Fund Source and Use through the proposed Convention Center Expansion Project, originally presented to the City Council on January 13, 2009 (Attachment A)

BACKGROUND

The Convention and Cultural Affairs Fund accounts for all revenues and operating expenses related to the City's convention and cultural facilities, which are managed by Team San José. Approximately thirty percent (30%) of total Transient Occupancy Tax receipts are transferred to the Convention and Cultural Affairs Fund to support these facilities. The Convention and Cultural Affairs Fund plays an important role in the proposed expansion of the Convention Center. Accumulated fund balances in this fund will serve as a cushion to protect the General

Fund during the construction period of the proposed Convention Center expansion project from future TOT/operating revenue declines or increases to Team San José operating expenses.

The 2008-2009 Adopted Budget estimate for TOT collections (\$14,909,440) was based on an assumed 4% growth rate. As a result of the severe economic recession, TOT revenues have instead declined at an accelerating rate and revised projections now indicate that the amount of funding available for the Convention and Cultural Affairs Fund will be \$1.5 million less than previously assumed, with further declines in 2009-2010.

At the time the 2009-2010 Proposed Operating Budget was released, the budget for the Convention and Cultural Affairs Fund was still under development, as the City and Team San José had only recently received revised Transient Occupancy Tax revenue estimates from an independent consultant (Horwath HTL). While significant reductions to Team San José expenses were included in the budget, additional reductions are still required in order to bring revenues and expenditures closer into alignment.

It is anticipated that operating revenues will decline during the construction due to space limitations and the perceived negative impacts on customers resulting from the construction. The budget that was included in the 2009-2010 Proposed Operating Budget represents a departure from the previously estimated usage of Convention and Cultural Affairs fund balances through the expansion period, as it was short by at least \$1.5 million. This memorandum serves to adjust the 2009-2010 operating budget and presents an update to the Convention and Cultural Affairs Fund Source and Use of Funds Statement through the proposed expansion period, consistent with that originally presented to the City Council on January 13, 2009 with the Plan of Finance for expanding the Convention Center.

The City has actively sought input from Team San José on how the reduction should be implemented, however the City and Team San José have yet to reach agreement on these reductions. The recommendations included in this memo, therefore, are subject to change should the City and Team San José mutually decide that the areas recommended for reduction are not the optimal areas. The City will continue to engage Team San José in discussions, and may bring forward alternative reductions for City Council consideration if appropriate.

ANALYSIS

2009-2010 Budget

Several adjustments to the 2009-2010 Proposed Budget for the Convention and Cultural Affairs Fund are recommended in this document. These adjustments would serve to bring the 2009-2010 Budget for the Convention and Cultural Affairs Fund into alignment with assumptions included in the January 2009 Plan of Finance, which assumed that at the end of 2009-2010 the Convention and Cultural Affairs Fund would have an Unrestricted Ending Fund Balance of \$5.6 million. The budget included in the 2009-2010 Proposed Operating Budget included an Unrestricted Ending Fund Balance of \$4.1 million. The actions recommended in this document would restore the projected 2009-2010 Unrestricted Ending Fund to \$5.6 million. In addition, several clean-up adjustments are recommended to the budget to more accurately account for

projected revenues and expenditures. A brief overview of the proposed actions in the Convention and Cultural Affairs Fund is included below:

1. Reduce the Estimate for Operating Revenues by \$250,000: The 2009-2010 Proposed Operating Budget included a revenue estimate of \$17,270,831. This figure is recommended to be reduced by \$250,000 to account for bad debt, which may again be experienced in 2009-2010. In 2008-2009, the revenue collected in the Convention and Cultural Affairs Fund is likely to be \$900,000 lower than it otherwise would have been as a result of bad debt, largely due to the bankruptcy of the American Musical Theatre. The revenue estimate included in the 2009-2010 Proposed Operating Budget had not yet accounted for bad debt. There was, however, an initial "reserve" for bad debt of \$105,658 built into the Non-Personal/Equipment allocation. This recommendation would increase the bad debt estimate to \$250,000 to account for bad debt which may be experienced in 2009-2010. A reduction to the Non-Personal/Equipment appropriation is included in this document as discussed below to remove the bad debt from this line item and record it as reduced revenue.
2. Reduce the Transfer from the General Purpose Parking Fund by \$75,000: The transfer from the General Purpose Parking Fund to the Convention and Cultural Affairs Fund was set at \$525,000 in the Proposed Operating Budget. With this action, the transfer would be reduced to \$450,000. Parking revenue first flows into the General Purpose Parking Fund, and then the net difference between gross profits from the Convention Center Garage and associated operating and capital expenses is transferred to the Convention and Cultural Affairs Fund to support the convention and cultural facilities.

At the May 6, 2009 City Council Study Session on the Community and Economic Development CSA, Councilmember Constant inquired about the parking assumptions for Team San José included in the budget, specifically inquiring why the City's parking revenue assumption was different from Team San José's. The transfer from the General Purpose Parking Fund to the Convention and Cultural Affairs Fund included in the Proposed Operating Budget was built on an assumption that the parking revenue generated by Team San José would be approximately \$2.0 million. Team San José had estimated revenue levels to be approximately \$1.8 million. In the time since the budget was released, City staff from the Department of Transportation have met with Team San José staff, and have come to agreement upon a parking revenue estimate of \$1,900,000 for the Convention Center Garage. The agreement was based upon updated information from both parties regarding activity level, construction schedule and parking rate adjustments, causing Team San José to slightly increase their estimate and City staff to slightly decrease their estimate. The action recommended in this document reflects the effect of decreasing the City's revenue estimate from \$2.0 million, upon which the \$525,000 transfer was based, to \$1.9 million. The impact to the Convention and Cultural Affairs fund is partially mitigated by a \$25,000 reduction in the General Purpose Parking Fund maintenance budget. Painting which had been planned for the Convention Center Garage will be deferred to 2010-2011.

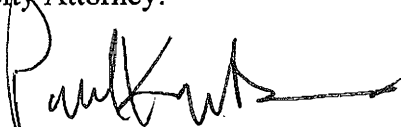
3. Decrease Non-Personal/Equipment by \$1,450,000: This recommendation would decrease the Non-Personal/Equipment allocation by a net \$1,450,000. A portion of this reduction is related to the reduction of the \$105,658 “reserve” for bad debt which was included in the 2009-2010 Proposed Budget. The other reductions (\$1,344,342) necessary to generate these savings are still to be determined by Team San José, and will be detailed for the City Council in the 2008-2009 Annual Report, scheduled for release in fall 2009.
4. Decrease Workers Compensation Claims by \$50,000: This recommendation would decrease the funding for Workers Compensation Claims by \$50,000 (from \$200,000 to \$150,000). Given the proposed reduction in City positions managed by Team San José (29.75 positions), it is anticipated that this reduction will better align the budget for this category with the anticipated expenditure level.
5. Decrease the Miscellaneous Improvements appropriation by \$300,000: The 2009-2010 Proposed Operating Budget included a \$500,000 allocation for miscellaneous capital improvements at the various cultural facilities. This recommendation would reduce the allocation for this purpose to \$200,000. This reduction would limit the ability of Team San José to provide proactive capital maintenance on the cultural facilities, likely limiting improvements to an “as needed” basis, and possibly increasing the capital infrastructure maintenance backlog.
6. Increase the Unrestricted Ending Fund Balance by \$1,475,000: The combined impact of the adjustments to revenues and expenditures would increase the projected 2009-2010 Unrestricted Ending Fund Balance by \$1,475,000.


Convention and Cultural Affairs Fund Usage Through the Proposed Expansion Period

With the adjustments recommended in this document, the 2009-2010 projected Unrestricted Ending Fund Balance would be increased by \$1,475,000, bringing the balance to \$5,583,076. This is roughly equivalent to the projected Unrestricted Ending Fund Balance included in the January 2009 Convention and Cultural Affairs Fund Source and Use through the Convention Center Expansion Plan of Finance (\$5,571,926) that was approved by City Council. With the recommended changes to the 2009-2010 budget, the projected Ending Fund Balance at the end of 2011-2012, when the expansion project is expected to be complete, is \$1,401,256. While the 2011-2012 estimated ending fund balance does not equal the balance assumed in January when the Council considered the Plan of Finance (\$1,822,227), it is City staff’s opinion that this balance, in conjunction with the \$1.0 million Sinking Fund balance, provides a sufficient cushion to protect the General Fund from further declines in revenue or increases in expenses through the expansion period. The City, in conjunction with Team San José, will continue to actively monitor revenue and expenditure performance to ensure that any actions necessary to maintain essential fund balances are brought forward for City Council consideration on a timely basis.

COORDINATION

This memo was coordinated with the Departments of Transportation and Finance, and the Office of the City Attorney.


Paul Krutko
Chief Development Officer


Jennifer A. Maguire
Budget Director

CONVENTION AND CULTURAL AFFAIRS FUND (536)
STATEMENT OF SOURCE AND USE OF FUNDS

	2007-2008 Actual	2008-2009 Estimate	2009-2010 Prop. Budget	2009-2010 Revised	2010-2011 Projection	2011-2012 Projection
SOURCE OF FUNDS						
Beginning Fund Balance						
Reserve for Encumbrances	338,432	689,485	689,485	689,485	689,485	689,485
Retirement Pre-Pay Reserve	0	0	45,818	45,818	45,818	45,818
Unrestricted	4,080,356	7,106,113	7,708,700	7,708,700	5,583,076	2,652,482
Sinking Fund	0	500,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Beginning Fund Balance	4,418,788	8,295,598	9,444,003	9,444,003	7,318,379	4,387,785
Revenue						
Operating Revenues	11,544,681	10,832,829	17,270,831	17,020,831	16,729,877	17,578,793
Interest	0	5,000	5,000	5,000	5,000	5,000
Total Revenue	11,544,681	10,837,829	17,275,831	17,025,831	16,734,877	17,583,793
Transfers						
Transient Occupancy Tax	7,213,565	6,732,085	4,062,900	4,062,900	4,550,937	4,874,052
General Purpose Parking	1,249,973	875,000	525,000	450,000	550,000	550,000
Total Transfers	8,463,538	7,607,085	4,587,900	4,512,900	5,100,937	5,424,052
TOTAL SOURCE OF FUNDS	24,427,007	26,740,512	31,307,734	30,982,734	29,154,193	27,395,630
USE OF FUNDS						
Expenditures						
Operating Expenses						
Personal Services	6,750,021	6,840,594	5,151,173	5,151,173	5,214,216	5,422,784
Non-Personal/Equipment	6,357,988	8,194,835	16,751,134	15,301,134	15,913,577	15,117,898
Total Operating Expenditures	13,108,009	15,035,429	21,902,307	20,452,307	21,127,793	20,540,682
Wkr Comp Claims Payments	112,629	150,000	200,000	150,000	200,000	200,000
Operating Contingency	0	0	200,000	200,000	200,000	200,000
Human Resources Operations	51,407	53,485	0	0	0	0
Overhead Reimb to Gen Fund	911,940	883,727	824,996	824,996	857,996	892,316
OCA Improvement	2,900	380,000	0	0	0	0
TSJ Executive Management Fee	0	0	663,321	663,321	689,854	717,448
Retiree Healthcare	0	0	21,766	21,766	22,637	23,542
OED Personal Services	0	0	45,319	45,319	47,132	49,017
TSJ Mgmt Fee for Performance	150,000	150,000	403,623	403,623	403,623	403,623
Insurance Expenses	145,441	200,000	200,000	200,000	200,000	200,000
Capital Improvements	1,134,974	0	0	0	0	0
ADA Study	0	30,000	0	0	0	0
Convention Center Free Use	0	0	216,000	216,000	216,000	216,000
Miscellaneous Improvements	265,737	170,000	500,000	200,000	500,000	500,000
Total Expenditures	15,883,037	17,052,641	25,177,332	23,377,332	24,465,034	23,942,628
Transfers						
Trsfr to General Fund - Retirement	0	23,094	0	0	0	0
Trsfr to General Fund	248,372	220,774	287,023	287,023	301,374	316,443
Total Transfers	248,372	243,868	287,023	287,023	301,374	316,443
Ending Fund Balance						
Reserve for Encumbrances	689,485	689,485	689,485	689,485	689,485	689,485
Retirement Pre-Pay Reserve	0	45,818	45,818	45,818	45,818	45,818
Unrestricted	7,106,113	7,708,700	4,108,076	5,583,076	2,652,482	1,401,256
Sinking Fund	500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Ending Fund Balance	8,295,598	9,444,003	5,843,379	7,318,379	4,387,785	3,136,559
TOTAL USE OF FUNDS	24,427,007	26,740,512	31,307,734	30,982,734	29,154,193	27,395,630