



Agenda Report

20-691

Agenda Date: 9/1/2020

REPORT TO COUNCIL

SUBJECT

Action on the Santa Clara Convention Center FY 2019/20 4th Quarter Financial Status Report [Council Pillars: Promote and Enhance Economic, Housing and Transportation Development, Enhance Community Engagement and Transparency, and Promote Sustainability and Environmental Protection]

BACKGROUND

On February 5, 2019, the City approved an agreement with Global Spectrum L.P. dba Spectra Venue Management (Spectra) to operate the Santa Clara Convention Center (SCCC). Spectra began management of SCCC on March 18, 2019.

Staff is transmitting Spectra's SCCC status report to Council for compliance with agreement terms.

DISCUSSION

Submitted for Council information is the Financial Status Report for the 4th quarter ended June 30, 2020, as submitted by Spectra. This report is unaudited and, therefore, subject to change.

As Spectra's 4th quarter report indicates, there has been little to no event activity at the Convention Center since Santa Clara County Public Health and State orders placed indefinite restrictions on indoor gatherings in mid-March. It is no surprise that the level of demand for the Convention Center has decreased significantly and activity is expected to remain dormant through the first two quarters of FY 2020/21.

There were 95 events scheduled in the last quarter for FY 2019/20 and Spectra and Levy have been diligently working with clients to move events into 2021. Of the 95 events, 11 rebooked and have confirmed a new date, 20 are in the progress of re-booking a future date, and 64 cancelled and are considering a future date. Spectra estimates that 75% of the 64 will reschedule. As it remains uncertain when indoor meetings or large gatherings will resume, Spectra and Levy have also been proactively working to move 65 events, scheduled July 2020 through December 2020, into 2021. Of the 65 events, 11 rebooked, 27 are in progress, and 27 cancelled.

With the drastic reduced activity at the Convention Center, both Spectra and Levy have implemented strategies to minimize expenditures in an effort to mitigate financial losses. Both Spectra and Levy implemented significant staffing reductions. Pre-COVID, Spectra was at 45 employees (42 full-time, 3 part-time) and Levy was at 103 employees (17 full-time, 86 part-time seasonal). During the 4th quarter, Spectra issued furloughs and layoffs to 36 employees and Levy laid off 11 full-time employees. Levy's part-time seasonal employees are only scheduled to work as needed for events and with the current situation, there are no work hours to issue. As of the date this report was prepared, Spectra and Levy issued additional layoff notices and have reduced to four full-time

employees each. Spectra retained the general manager, assistant general manager, finance director, and sales manager (a fifth employee is on leave time to be placed on furlough at the end of September). Levy retained the general manager, director of sales, head chef, and controller.

With the Convention Center being closed to events, staff have also been working on advancing the budgeted capital improvement projects such as resealing/repairing the pyramid skylights glass, updating interior paint and carpet, and updating interior digital signage; developing future sales strategies and activities to identify and secure new clients/events to Santa Clara; and developing a plan to further modern food concepts for future public space activation.

As discussed in the attached Quarterly Report, budget to actual financial results are as follows:

Table 1 - 4th Quarter Summary Financial Summary

	Projected in Budget	Actual	Difference
Gross Revenue	\$3,930,568	\$500,999	(\$3,429,567)
Total Expenses	\$3,689,059	\$1,574,729	\$2,114,330
Net Income	\$241,508	(\$1,073,730)	(\$1,315,238)

As detailed in Table 1, gross event revenue came in under the budgeted projection largely due to cancellations or rebooking of nearly all April - June events due to the COVID-19 pandemic. Results came in as follows: revenue performance in food and beverage (-\$1,565,156 variance), lower rental (-\$1,219,434 variance), audio-visual (AV) rental needs (-\$499,480 variance) and IT (-\$448,749 variance). Remaining categories generated higher than budgeted net revenue proceeds (+\$303,251 variance).

Net expenses were under budget by \$2,114,330. This was primarily due to the cost of goods sold coming in under budget by \$1,503,926 and the implementation of cost cutting measures and staff furloughs/layoffs. The indirect expense came in under budget by \$610,405.

Net income actuals came in under the budgeted projection for the quarter by \$1,315,238 due to the revenue and expenditure performance described above, reflecting 645% below the original projected amount.

When comparing to last year, the net loss of \$1,073,730 in the fourth quarter of the current Fiscal Year, was less than the net income of \$831,803 in the fourth quarter of the prior Fiscal Year, reflecting 229% unfavorably when compared year to year.

It should be noted that without the ability to host events at the Convention Center due to COVID-19 and the Shelter in Place order, Spectra continues to evaluate the situation and is working on revising the Q1 FY 2020/21 forecast and the FY 2020/21 Operating Budget.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a

potential significant impact on the environment.

FISCAL IMPACT

The net operating loss incurred by the Convention Center for the 4th quarter of FY 2019/20 is \$1,073,730. This amount does not include any fiscal impact related to TOT, TID, and/or sales tax activity.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov.

RECOMMENDATION

Note and file the Santa Clara Convention Center Financial Status Report for the fourth quarter ended June 30, 2020, as submitted by Spectra.

Reviewed by: Kenn Lee, Director of Finance

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. SCCC Activity Report for Fourth Quarter FY 2019/20