



CITY OF OAKLAND

# AGENDA REPORT

**TO:** Jestin D. Johnson  
City Administrator


**FROM:** Ashleigh Kanat  
Director, EWDD

**SUBJECT:** Operating Funds For George P.  
Scotlan Convention Center

**DATE:** September 3, 2024

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City Administrator Approval

  
Jestin Johnson (Sep 11, 2024 13:33 PDT)

Date: Sep 11, 2024

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## **RECOMMENDATION**

**Staff Recommends That The City Council Adopt A Resolution (1) Authorizing The City Administrator To: (A) Execute A Third Amendment To An Amended And Restated Management Agreement With Integrated Services Corporation (ISC) For The Management And Operation Of The George P. Scotlan Memorial Convention Center (Convention Center), Authorizing During Fiscal Year 2024-25 With Two 1-year Options To Extend Without Returning To Council The Following Actions: (i) Re-allocate Capital Reserves, In An Amount Not To Exceed \$150,000, For The Payment Of Operating Expenses; (ii) suspend ISC's Annual 6-8% Deposit For Capital Reserves; (iii) Postpone The Repayment Of \$350,000 Towards Capital Reserves; And (iv) Re-allocate The City's Continuing Building Costs Reserve In An Amount Not To Exceed \$168,750 Quarterly Or \$675,000 Annually For The Payment Of Operating Expenses; (B) Re-allocate Redevelopment Bond Funds In An Amount Not To Exceed \$550,000 Of Redevelopment Funds For The Convention Center's Capital Reserves; (C) Accept And Appropriate An Amount Not To Exceed \$750,000 In Rent From A New Telecommunications Lease At The Convention Center For Operating Expenses; And (2) Adopting Appropriate California Environmental Quality Act (CEQA) Exemption Findings**

## **EXECUTIVE SUMMARY**

Staff is recommending that the City Council authorize the City Administrator to execute a third amendment (Third Amendment) to the Amended And Restated Management Agreement (Management Agreement) with Integrated Services Corporation (ISC) for the management and operation of the George P. Scotlan Memorial Convention Center and Garage (Convention Center) to provide necessary short-term funding to cover continued operating losses at the Convention Center resulting from the effects of the COVID-19 pandemic. The recommended action would authorize the use of certain flexible capital reserve funds and telecommunications lease revenue to pay for operating expenses and the replacement of those capital reserve funds with redevelopment bond funds to ensure ongoing availability of funding for the Convention Center's capital needs. This action would help ensure the Convention Center remains open and

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functioning until more structural solutions to recurring operating deficits are identified and in place.

## **BACKGROUND/LEGISLATIVE HISTORY**

The Convention Center, which first opened in 1983, is located at 550 10th Street and owned by the City of Oakland (City). The Convention Center includes a garage with 585 parking spaces (Garage) and is attached to and functionally integrated with the privately-owned and -operated, 500-room Oakland Marriott City Center hotel (Hotel), located at 1001 Broadway. In 1997, the Golden State Warriors, pursuant to the terms of a lease with the City, constructed a practice facility and corporate offices on the top deck of the Garage.

On January 26, 2017, pursuant to [Resolution No. 86525 C.M.S.](#) adopted on December 13, 2016, the City entered into the Management Agreement with ISC pursuant to which ISC manages the Convention Center on behalf of the City.

On April 30, 2021, pursuant to [Resolution No. 88560 C.M.S.](#) adopted on March 16, 2021, the City and ISC entered into a first amendment (First Amendment) to the Management Agreement. The First Amendment authorized (1) the use of capital reserves, in an amount not to exceed \$160,000, for the payment of operating expenses during Fiscal Year 2020-21, and (2) an increase in the annual set-aside for capital reserves from 6% to 8% for four years or until April 2025.

On May 17, 2022, the City Council authorized the appropriation of additional funds in the amount of Two Hundred Thousand Dollars (\$200,000) for ISC to restore its operating reserve for on-going operating deficits at the Convention and assure the uninterrupted and efficient operation of the Convention Center, pursuant to [Resolution No. 89179 C.M.S.](#)

On May 9, 2024, pursuant to [Resolution No. 90219 C.M.S.](#) adopted on May 7, 2024, the City and ISC entered into a second amendment (Second Amendment) to the Management Agreement. The Second Amendment authorized the use of capital reserves, in the amount not to exceed \$350,000, for the payment of operating expenses.

Pursuant to Section 3.7 of the Management Agreement, ISC requested additional funds from the City to cover operating shortfalls incurred in 2023 (\$1,153,345) and projected for the first half of 2024 (\$602,000). On July 2, 2024, pursuant to [Resolution No. 90326 C.M.S.](#), the City Council adopted a midcycle budget which included an appropriation of \$1.7 million from the General Fund for this purpose. The appropriation would be reduced to \$1.4 million if the City does not receive payments from the sale of the Oakland-Alameda County Coliseum Complex this fall.

ISC forecasts that the Convention Center will realize approximately \$1,207,000 in additional operating losses during the current Fiscal Year 2024-2025. City staff and ISC are implementing

strategies for addressing this anticipated deficit, including immediate expense reductions and introducing the recommended action herein.

In addition, ISC and City staff are analyzing potential structural changes to the Convention Center's financial model to address these ongoing operating deficits, such as potential new dedicated sources of revenue, and anticipate returning to City Council with a recommendation later this fiscal year.

## **ANALYSIS AND POLICY ALTERNATIVES**

### ***Economic Benefits of the Convention Center***

Convention centers are often supported by public financing because of their contributions to local economies. In Oakland, the Convention Center is a significant driver of economic activity in downtown Oakland. According to an economic study commissioned by Visit Oakland, each visitor to the Convention Center spends \$180 per stay at Oakland businesses; in 2023, the Convention Center hosted 54 conferences bringing in 42,209 people to downtown Oakland, resulting in \$7.6 million in visitor spending in Oakland. Additionally, the Convention Center is a major driver of Transient Occupancy Tax (TOT) for the City. In 2023, the Convention Center was responsible for approximately \$1.4 million in TOT collected by the City. In 2019, pre-pandemic, the Convention Center was responsible for approximately \$1.9 million in TOT for the City. The Convention Center and Marriot Hotel also support nearly 270 jobs, including high quality union jobs.

### ***Convention Center Operating Deficit***

Since FY 2019-2020, the Convention Center has accrued significant annual operating deficits as event bookings and paid parking utilization have yet to return to pre-COVID levels. Revenues from operation of the Convention Center and from paid parking in the Garage fell 16% and 34%, respectively, from Fiscal Year 2018-2019 to Fiscal Year 2022-2023. This is more thoroughly discussed in the staff report for Resolution No. 90219 C.M.S.

ISC now forecasts that the Convention Center will see approximately \$1,207,000 in operating losses during the current Fiscal Year 2024-2025. The recommended action would provide short-term financial support to the Convention Center to help address this forecasted deficit by authorizing the following actions for a period of one year with two options to extend at the City's discretion:

1. Authorize ISC to make a one-time withdrawal of \$150,000 from the Convention Center's existing capital reserve (most of the current balance) for the payment of operating expenses;
2. Suspend the requirement that ISC direct 6-8% of revenues to the Convention Center's capital reserve, as is otherwise required by the Management Agreement;

3. Delay the requirement that ISC repay \$350,000 to the Convention Center's capital reserve, as is otherwise required by Resolution No. 90219 C.M.S;
4. Temporarily re-allocate the City's Continuing Building Costs Reserve payments of \$168,750 per quarter for payment of operating expenses, which are otherwise intended to pay for the City's proportional share of certain costs related to the operation and maintenance of the chilled and hot water central facility that provides heating and cooling to the Convention Center and Hotel, pursuant to the Management Agreement; and
5. Accept and appropriate up to \$750,000 in new telecommunications lease revenue for payment of operating expenses, from one-time, up-front payment of rent associated with an anticipated new lease for telecommunications infrastructure to be placed on the roof of the Convention Center.

In addition, the recommended action would backfill the Convention Center's capital reserve with \$550,000 in restricted Central District Redevelopment Bond funds so that there are funds available to the Convention Center for ongoing and urgent capital needs as they arise. Due to bond restrictions, these funds are restricted to City-approved capital improvement projects in the Central District Redevelopment Area only and cannot be converted in the future to operating funds, but they can support the capital needs of the Convention Center.

The recommended action would advance the Citywide priority of housing, economic, and cultural security by supporting a significant driver of economic activity in downtown Oakland.

### ***Structural Solutions***

Although economic trends are looking positive for the convention business in Oakland and the larger Bay Area, it is not certain at this time when the Convention Center will return to financial self-sufficiency. Permanent, structural changes, such as reduced expenditures and/or a new, dedicated funding source, will be necessary to address this recurring issue. City staff and ISC are actively analyzing potential structural solutions and anticipate returning to City Council with a recommendation later this fiscal year.

### ***Alternatives***

The recommended action would help to close the Convention Center's forecasted operating deficit for Fiscal Year 2024-2025 and thereby provide a bridge to identifying and implementing a structural solution to these ongoing deficits.

Alternatively, City Council could not approve this recommendation. In that event, the Convention Center would very likely close by the end of the current calendar year, the City would forego the TOT receipts attributable to the Convention Center, high quality jobs would be lost, and Oakland's downtown economy would lose significant local spending from Convention Center guests.

### **FISCAL IMPACT**

The recommended action would reallocate funds that are already dedicated to the Convention Center from capital to operating purposes and would transfer \$550,000 in redevelopment bond funds from the following sources: \$500,000 from Central District TA Bonds Series 2005 Fund (5612), CIP Central District Organization (94889), Contract Service Expenditures Budget Carry Forward Account (54999), Central District Public Facilities Project (1001539), Downtown Redevelopment Program (SC13); and \$50,000 from Central District TA Bonds Series 2005 Fund (5612), CIP Central District Organization (94889), Capital Acquisitions Budget Carry Forward Account (57899), Central District Projects (1004359), Downtown Redevelopment Program (SC13) to the Convention Center's capital reserve in Central District TA Bonds Series 2005 Fund (5612), CIP Central District Organization (94889), in a Project to be created or determined (TBD).

Additionally, the recommended action would accept and appropriate up to \$750,000 in telecommunications lease revenue in the Telecommunications Land Use Fund (1770), Real Estate Organization (85231), in a Project to be created or determined (TBD) for support of operating expenditures at the Convention Center.

The recommended action would have no impact on the City's General Fund.

### **PUBLIC OUTREACH / INTEREST**

The fiscal challenges facing the Convention Center were discussed at the April 23, 2024 meeting of the Community & Economic Development Committee and as part of City Council's deliberation over the 2024-2025 midcycle budget update.

### **COORDINATION**

This report and legislation have been reviewed by the Office of the City Attorney and the Budget Bureau.

### **SUSTAINABLE OPPORTUNITIES**

**Economic:** As discussed above the Convention Center is a significant driver of economic activity in downtown Oakland, generating approximately \$7.6 million in local spending and approximately \$1.4 million in TOT receipts annually. Closure of the Convention Center would have a significant impact on the downtown economy and high-quality jobs would be lost.

**Environmental:** There are no substantial environmental sustainability opportunities associated with the recommended action.

**Race & Equity:** Closure of the Convention Center would eliminate nearly 270 jobs from both the Convention Center and the adjacent Marriott Hotel. More than 75 percent of those jobs are held by people of color. The Convention Center partners with a number of local, non-profit employment training organizations, such as Lao Family Community Development and Oakland Unified School District's Ralph J. Bunche Academy to support job placement at the Convention Center for a diverse population of jobseekers.

### **CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) EVALUATION**

The City has determined, after independent review and consideration, that the recommended action is exempt from CEQA pursuant to Section 15061(b)(3) (common sense exemption) of the CEQA guidelines.

### **ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Adopt A Resolution (1) Authorizing The City Administrator To: (A) Execute A Third Amendment To An Amended And Restated Management Agreement With Integrated Services Corporation (ISC) For The Management And Operation Of The George P. Scotlan Memorial Convention Center (Convention Center), Authorizing During Fiscal Year 2024-25 With Two 1-year Options To Extend Without Returning To Council The Following Actions: (i) Re-allocate Capital Reserves, In An Amount Not To Exceed \$150,000, For The Payment Of Operating Expenses; (ii) suspend ISC's Annual 6-8% Deposit For Capital Reserves; (iii) Postpone The Repayment Of \$350,000 Towards Capital Reserves; And (iv) Re-allocate The City's Continuing Building Costs Reserve In An Amount Not To Exceed \$168,750 Quarterly Or \$675,000 Annually For The Payment Of Operating Expenses; (B) Re-allocate Redevelopment Bond Funds In An Amount Not To Exceed \$550,000 Of Redevelopment Funds For The Convention Center's Capital Reserves; (C) Accept And Appropriate An Amount Not To Exceed \$750,000 In Rent From A New Telecommunications Lease At The Convention Center For Operating Expenses; And (2) Adopting Appropriate California Environmental Quality Act (CEQA) Exemption Findings

For questions regarding this report, please contact Tracy Irvin, Supervising Real Estate Agent, at [TIrvin@oaklandca.gov](mailto:TIrvin@oaklandca.gov) or (510) 238-6357.

Respectfully submitted,



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CED Committee  
September 24, 2024

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