



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Sofia Navarro
Interim Director, Economic
and Workforce
Development Department

SUBJECT: George P. Scotlan Convention
Center Operations

DATE: March 25, 2024

City Administrator Approval


Jestin Johnson (Apr 11, 2024 14:31 PDT)

Date: Apr 11, 2024

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator To Execute A Second Amendment To An Amended And Restated Management Agreement With Integrative Services Corporation For The Management And Operation Of The George P. Scotlan Memorial Convention Center, Authorizing The Use Of Capital Reserves, In An Amount Not To Exceed \$350,000, For The Payment Of Operating Expenses

EXECUTIVE SUMMARY

Staff is recommending that the City Council authorize the City Administrator to execute a second amendment (Second Amendment) to the Amended And Restated Management Agreement (Management Agreement) with Integrative Services Corporation (ISC) for the management and operation of the George P. Scotlan Memorial Convention Center (Convention Center), authorizing the use of capital reserves in an amount not to exceed \$350,000 for the payment of operating expenses. This action will provide short-term necessary funding to cover growing operating losses at the Convention Center resulting from the effects of the Covid-19 pandemic on the convention and the parking industry.

BACKGROUND/LEGISLATIVE HISTORY

The Scotlan Convention Center/Marriott/Warriors Practice Facility Complex

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 500-room Oakland Marriott City Center hotel (Marriott), located at 1001 Broadway. In 1997, the Golden State Warriors, pursuant

Item: _____
CED Committee
April 23, 2024

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., dated December 13, 2016, the City entered into the Management Agreement with ISC.

On April 30, 2021, pursuant to Resolution No. [88560](#) C.M.S., dated 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 percent to 8 percent for 4 years or until April 2025.

In February 2024, ISC requested \$1,755,345 from the City as part of the mid-cycle budget to cover operating shortfalls incurred in 2023 (\$1,153,345) and projected for the first half of 2024 (\$602,000). In fiscal year (FY) 2022/23, the City funded \$200,000 into an operating reserve. ISC is obligated to pay out of the operating reserve the negative difference between operating revenue and operating expenses, if any. To date, ISC has exhausted the \$200,000 operating reserve and pursuant to Section 3.7 of the Management Agreement, ISC has requested additional funds from the City to cover operating shortfalls. Any such allocation of additional funds is subject to approval by the City Council in its sole and absolute discretion. ISC's request made in February 2024 is being evaluated for inclusion in the mid-cycle budget, which will be considered this spring and summer.

Given the timing of the mid-cycle budget deliberations and urgent shortfalls that exist today at the Convention Center, on March 20, 2024, ISC requested this Second Amendment to allow the use of capital reserves in an amount not to exceed \$350,000 for the payment of operating expenses. This will allow ISC to cover its operating expenses until July, while its larger funding request is considered by the City.

Although economic trends are looking positive, it is not certain at this time when the Convention Center will reach financial self-sufficiency, and ISC anticipates additional operating shortfalls in FY 2024/25, and likely for FY 2025/26.

ANALYSIS AND POLICY ALTERNATIVES

Convention Center Operating Cost Deficit

Since 2020, the Convention Center has accrued significant annual operating deficits as event bookings decreased and the Garage lost many of its parkers. **Table 1** below compares the Convention Center's financial performance in FY 2022/23 with FY 2018/19.

Item: _____
CED Committee
April 23, 2024

Table 1
Operating Comparison FY 2018/19 vs FY 2022/23

Revenues	Pre-Covid-19		FY 2022/23 vs. FY 2018/19 (\$)	FY 2022/23 vs. FY 2018/19 (%)
	FY 2022/23	FY 2018/19		
Convention Center	\$1,754,755	\$2,099,590	-\$344,835	-16%
Garage Parking	\$1,643,694	\$2,504,818	-\$861,124	-34%
Total Revenues	\$3,398,449	\$4,604,408	-\$1,205,959	-26%
Operating Costs	\$4,484,526	\$3,954,967	\$529,559	13%
Transient Occupancy Taxes	\$3,513,049	\$4,750,940	-\$1,237,891	-26%

In general, revenues from the operation of the Convention Center are still 16 percent less in FY 2022/23 than FY 2018/19, while parking revenues from the Garage, the other major source of income for the Convention Center, have decreased by \$861,124 or 34 percent since FY 2018/19. The Garage not only serves guests of the Marriott and patrons of the Convention Center, but also provides contract parking to several large employers in downtown Oakland, like Blue Shield. The large decrease in parking income is partially attributable to a significant shift in downtown parking demand, which is a result of changing work patterns. In Oakland, like in other cities throughout the country, many large downtown employers have moved to a hybrid work model that combines remote and in-office work. As employees no longer require parking for a 5-day work week, parking revenues from this group of users have declined substantially. In addition, the Marriott's occupancy rate has not returned to FY 2022/23 levels and fewer hotel guests also reduce daily parking demand. These trends, in addition to the rise of ride-hailing, have been fiscally challenging for the Convention Center as revenue from the Garage subsidized Convention Center operations for many years.

Since April of 2021, the City, based on requests from ISC, has provided \$2,607,080 in operating subsidies to the Convention Center, pursuant to the processes set forth in the Management Agreement. In February, ISC requested another \$1,755,345 from the City as part of the mid-cycle budget to cover operating shortfalls incurred in 2023 (\$1,153,345) and projected for the first half of 2024 (\$602,000).

While ISC is contractually obligated to pay all operating expenses at the Convention Center, ISC does not have sufficient funds to continue Convention Center operations through the rest of this fiscal year. As described above, staff is evaluating ISC's request for funding assistance for inclusion in the mid-cycle budget. In the meantime, ISC, in order to have sufficient funds on hand to ensure the continuous operation of the Convention Center until the summer, have made a request for immediate financial assistance from the City and proposed to move \$350,000 from

Item: _____
 CED Committee
 April 23, 2024

the capital reserve to the operating reserve. The City Council, at its sole and absolute discretion, may allocate additional funds to the operating reserve to cover operating shortfalls. The Convention Center's capital reserve currently has an unallocated balance of approximately \$500,000. ISC's proposed reallocation of \$350,000 to cover operating expenses would still leave approximately \$150,000 in the capital reserve for any repairs that might be necessary during the coming months. ISC would replenish the capital reserve with \$350,000 from that portion of its operating deficit funding request of \$1,755,345 that is designated to cover the projected shortfall for the first 6 months of 2024 (\$602,000), if approved as part of the mid-cycle budget process. Pursuant to the First Amendment, the annual set-aside for capital reserves is 8 percent of operating revenue until April 2025 and will revert to the original 6 percent set aside thereafter.

FISCAL IMPACT

The proposed use of capital reserves held by ISC of up to \$350,000 for operating expenses will not impact the City's General Fund or any other City Fund. The remaining balance of \$150,000 in the capital reserve fund will suffice to cover capital repairs for the rest of the fiscal year. Currently, the annual set-aside from Convention Center revenue for capital reserves is 8 percent. ISC will replenish the capital reserve with \$350,000 from that portion of its operating deficit funding request of \$1,755,345 that is designated to cover the projected shortfall for the first 6 months of 2024 (\$602,000), if approved as part of the mid-cycle budget process.

PUBLIC OUTREACH / INTEREST

No public outreach or coordination is required for this legislation other than the posting of the staff report on the City's website.

COORDINATION

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

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic sustainable opportunities associated with the proposed Second Amendment. However, ISC is required to comply with the City's local business and employment participation requirements.

Item: _____
CED Committee
April 23, 2024

Environmental: There are no environmentally sustainable opportunities associated with the proposed Second Amendment.

Race & Equity: There are no race & equity-related opportunities associated with the proposed Second Amendment. However, as stated above, ISC is required to comply with the City's local business and employment participation requirements, which will create business opportunities.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) EVALUATION

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

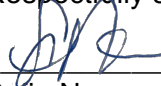
ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council adopt the following:

A Resolution Authorizing The City Administrator To Execute A Second Amendment To An Amended And Restated Management Agreement With Integrative Services Corporation For The Management And Operation Of The George P. Scotlan Memorial Convention Center, Authorizing The Use Of Capital Reserves, In An Amount Not To Exceed \$350,000, For The Payment Of Operating Expenses.

For questions regarding this report, please contact Tracy Irvin, Real Estate Agent, Supervising, at (510) 238-6357.

Respectfully submitted,



Sofia Navarro, Interim Director
Economic & Workforce Development Department

Reviewed by:
Kelley Kahn, Assistant Director
Economic & Workforce Development Department

Prepared by:
Jens Hillmer, Exempt Limited Duration Employee
Public/Private Development
Economic & Workforce Development Department

Item: _____
CED Committee
April 23, 2024