



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Welsh

SUBJECT: TEAM SAN JOSE 2017-2018
PERFORMANCE MEASURES

DATE: May 25, 2017

Approved

Priscilla A. Maguire

Date

5-25-17

RECOMMENDATION

Approve the Team San Jose performance and incentive measures for Fiscal Year 2017-2018.

BACKGROUND

In 2014, the City of San José and Team San Jose (TSJ), which manages the City's convention facilities and four other cultural facilities, entered into a new five-year agreement with two additional five-year options.

The agreement requires TSJ to submit its annual targets for the following performance measures to be weighted as follows: Economic Impact Measures 40%, Gross Operating Profit 40%, Theatre Performance 10%, and Customer Service Survey Results 10%. In addition, the level of Incentive Fee, set at \$200,000 for the first five years, is based on TSJ's achievement of separate, but related incentive fee measures. In recent years, the performance measures for TSJ have been brought forward through the Manager's Budget Addendum (MBA) process and ultimately approved as part of the Mayor's June Budget Message.

It is important to note that at its meeting on June 13, 2017, the City Council is scheduled to discuss recommended modifications to the City's management agreement with Team San Jose that would change the number and type of annual performance measures. However, the targets presented in this memorandum reflect the performance and incentive measures currently in place.

ANALYSIS

The purpose of the performance measures is to provide a quantifiable way of evaluating TSJ's management of the convention facilities. The purpose of the incentive fee measures is to provide a quantifiable way of validating the Incentive Fee earned by TSJ, and paid from the Convention and Cultural Affairs Fund.

The performance measures and incentive fee measures set forth by Team San Jose and reviewed by City staff are based on the 2017-2018 Proposed Operating Budget, including contributions from the Convention and Cultural Affairs Fund and Transient Occupancy Tax Fund to the Convention and Visitor's Bureau.

Table 1-Team San Jose 2017-2018 Performance/Incentive Measures

Performance Measures	Target 2016-2017	Forecast 2016-2017	Proposed 2017-2018
Hotel Room Nights	160,000	176,000	160,000
Event Attendance	1,075,000	1,269,721	1,113,212
Estimated Economic Impact (EEI)	104,312,000	104,439,123	111,738,615
Return on Investment (ROI)	\$2.05	\$2.11	\$2.18
Gross Operating Revenue	39,706,000	48,887,685	38,962,888
Gross Operating Profit	11,722,000	12,211,765	10,467,487
# of Performances/Available Use Days	95% (523/549)	98% (539/549)	99% (499/505)
# Special Events/Available Use Days	8% (44/559)	8% (48/549)	10% (50/505)
Satisfaction Rate	95%	95%	95%

While expectations for overall activity at the Convention Center and other cultural facilities remain historically strong, several facilities will be unavailable for events and performances while key capital improvement upgrades are completed. These rehabilitation efforts include the Convention Center Exhibit Hall Lighting and Ceiling Upgrades (90 dark days), the San José Civic Auditorium HVAC Rehabilitation (60 dark days), and a restroom remodel at the Montgomery Theater (45 dark days). The dark periods are estimated to have a downward impact on Gross Operating Revenue and Gross Operating Profit, and cause an increase in the activation percentage for performances and special events since a proportionally greater number of activities are estimated to occur within a smaller number of available days.

In addition to the Proposed 2017-2018 Performance/Incentive Measures shown in the table above, this memorandum also includes: Attachment A, which reports historical performance data from Team San Jose; Attachment B, which includes the methodology used to calculate Gross Operating Profit and Return on Investment; and Attachment C, which includes Team San Jose's 2017-2018 Operating Budget for Convention and Cultural Facilities.

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COORDINATION

This memorandum has been coordinated with Team San Jose, the City Attorney's Office, the Finance Department, and the City Manager's Budget Office.

/s/

KIM WALESH

Deputy City Manager

Director of Economic Development

For more information on this memorandum please contact Kerry Adams Hapner, Director of Cultural Affairs, 408-793-4333.

Attachment A: Team San Jose Performance / Incentive Measures Data

Attachment B: Details for TSJ's 2017-2018 Return on Investment and Gross Operating Profit Performance Measures

Attachment C: Team San Jose 2017-2018 Operating Budget

ATTACHMENT A
Team San Jose Performance / Incentive Measures Data

<i>Year-Over-Year Performance Measures</i>	Actual 2012-2013	Actual 2013-2014	Actual 2014-2015	Actual 2015-2016	Target 2016-2017	Forecast 2016-2017	Proposed 2017-2018
Hotel Room Nights	247,711	255,803	213,000	186,136	160,000	176,000	160,000
Event Attendance	1,103,490	1,274,016	1,400,000	1,572,038	1,075,000	1,269,721	1,133,212
Estimated Economic Impact (EEI)	87,061,604	91,215,395	124,100,000	118,641,223	104,312,000	104,439,123	111,738,615
Return on Investment	\$ 2.48	\$ 2.38	\$ 2.82	\$ 2.49	\$ 2.05	\$ 2.11	\$ 2.17
Gross Operating Revenue	23,823,218	28,430,047	37,300,000	45,485,590	39,706,000	48,887,685	38,962,888
Gross Operating Profit	5,257,453	5,738,929	9,200,000	13,568,640	11,722,214	12,211,765	10,467,487
# of Performances/Available Use Days *			104% (579/559)	106% (582/549)	95% (523/549)	98% (539/549)	99% (499/505)
# Special Events/Available Use Days *			8% (45/559)	7% (38/549)	8% (44/549)	9% (48/549)	10% (50/505)
Satisfaction Rate	98%	97%	100%	100%	95%	95%	95%

* Previously the City measured the number of performance days and occupied days. Beginning in 2014-2015, in an attempt to increase focus on theater activation, effective in the new agreement with TSJ, theater performance will be measured as the percentage of performances and special events compared to the number of available days.

ATTACHMENT B

Details for TSJ's 2017-2018 Return on Investment and Gross Operating Profit Performance Measures

Return on Investment (ROI)		
Numerator		
Estimated Economic Impact (EEI)		111,738,615
Convention and Cultural Facilities (CCF)		
Operating Revenue		38,962,888
Transfer from the Transient Occupancy Tax Fund		14,523,865
Parking Garage Revenue		3,250,000
Total Numerator		168,475,368
Denominator		
Operating Expenses		44,149,666
Convention Center Refunding Debt Service		15,240,000
Convention Center Expansion Commercial Paper Debt Service		1,431,000
City Oversight Expense		741,615
CVB Marketing Services		500,000
Parking Expenses		1,254,600
Broadway San Jose Payments		100,000
Fire Insurance		245,000
Convention Center Free Use		275,000
Civic Auditorium Temp Cooling		90,000
Capital Investment		13,502,150
Total Denominator		77,529,031
ROI		\$2.17

Gross Operating Profit (GOP)		
Convention and Cultural Facilities Operating Revenue		38,962,888
TOT Collections		14,523,865
Parking Garage Revenue		3,250,000
Total Revenue		56,736,753
Operating Expenses		44,149,666
Parking Expenses		1,254,600
Convention and Visitors Bureau Marketing Expense		500,000
Convention Center Free Use		275,000
Civic Auditorium Temp Cooling		90,000
Total Expenses		46,269,266
GOP		10,467,487

ATTACHMENT C

Team San Jose 2017-2018 Operating Budget

REVENUE

Building Rental Revenue	6,741,765
Food & Beverage Services	19,317,000
Personnel Service Revenue	9,037,900
Electricity/Utility Revenue	450,000
Commission Revenue	1,017,000
Telecommunications/Audio Visual/Networking	2,093,859
Other Revenue	305,364
Total Revenue	38,962,888

VARIABLE EXPENSES

Food & Beverage Cost of Sales	3,491,321
Labor Cost of Sales	7,941,643
Variable Labor	16,591,910
Other Operating Cost	1,355,524
Repairs & Maintenance	2,631,211
Utilities	2,998,023
TOTAL VARIABLE EXPENSES	35,009,632

FIXED EXPENSES

Salaries & Benefits	7,536,996
Insurance	290,089
Professional Fees Audit/Legal/Consult	313,563
Office	370,308
Telephone	229,921
Uniforms	103,844
Bank Charges	156,948
Other Fixed	313,366
Parking Expense Reimbursement	(175,000)
TOTAL FIXED EXPENSES	9,140,035

REQUIRED CITY COSTS

City Free Use	275,000
City Oversight	267,000
Audit Expense Reimbursement	(50,000)
TOTAL REQUIRED CITY COSTS	492,000

Total Expenses **44,641,667**

Total Convention and Cultural Facilities Operating Subsidy **(5,678,779)**