



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Nanci Klein

SUBJECT: TEAM SAN JOSE 2024-2025
PERFORMANCE MEASURES

DATE: May 30, 2024

Approved

Date: 5/30/24

RECOMMENDATION

Approve the Team San Jose performance measures for Fiscal Year 2024-2025.

BACKGROUND

Team San Jose (TSJ) is a nonprofit organization unifying the San Jose Convention and Visitors Bureau (CVB), hotels, arts, labor, and venues to deliver a high-quality visitor experience. TSJ manages the San Jose McEnery Convention Center, South Hall and four City-owned theater venues including the California Theatre, Center for the Performing Arts, Montgomery Theater, and the San Jose Civic Auditorium. Per the Municipal Code, the City provides 4.5% of the collected 10% Transient Occupancy Tax (TOT) to TSJ to operate the City-owned convention and cultural facilities venues and manage the CVB. The TOT is collected from visitors to San José hotels.

The agreement between the City of San José and TSJ requires TSJ to submit its annual targets for the following performance measures to be weighted as follows: Economic Impact Measures 40%, Gross Operating Results 40%, Theatre Performance 10%, and Customer Service Survey Results 10%. The level of the Performance-Based Fee, now set at \$300,000¹ for its third and final five-year term, is based on TSJ's achievement of these measures. The performance targets for TSJ are brought forward each year as a Manager's Budget Addendum (MBA) for approval as part of the Mayor's June Budget Message.

The recovery from the COVID-19 pandemic continues to impact TSJ's event operations and aspects of other sectors within convention center business. While the upcoming fiscal year looks to continue the process of recovery, most industry experts do not anticipate full recovery to pre-pandemic levels until 2026 or later.

¹ Increased from \$250,000 to \$300,000 for the 2024-2025 performance year, in accordance with the existing agreement, and payable in 2025-2026 based on the findings of the annual performance audit performed by the City Auditor's Office.

ANALYSIS

Performance Measures

The purpose of the performance measures is to provide a quantifiable way of evaluating TSJ's management of the convention and cultural facilities. The measures also provide a quantifiable way of validating the Performance Based Management Fee earned by TSJ and paid from the Convention and Cultural Affairs Fund. The performance measures set forth by TSJ and reviewed by City staff are based on the 2024-2025 Proposed Operating Budget, including contributions from the Convention and Cultural Affairs Fund and Transient Occupancy Tax (TOT) Fund to the CVB.

Table 1: Team San Jose 2024-2025 Performance Measures

Performance Measures	Target 2023-2024	Forecast 2023-2024	Proposed 2024-2025
Hotel Room Nights	112,000	120,000	117,000
Estimated Economic Impact (EEI)	\$ 55,108,300	\$76,000,000	\$ 78,150,000
Gross Operating Revenues	\$37,840,503	\$38,559,685	\$45,500,892
Gross Operating Results	\$ 1,539,363	\$5,414,437	\$2,047,535
Theater Occupied Days	91%	93%	93%
Satisfaction Rate	95%	100%	95%

In 2023-2024, TSJ experienced continued and improved recovery from the pandemic, including welcoming back NVIDIA, the largest conference in San José since 2019. Likewise, theater activity remained strong and continued to grow, surpassing pre-pandemic levels of attendance and matching pre-pandemic levels of occupancy. Despite these successes, the market remains significantly challenged in the post-COVID landscape. Transient business and international travel have been slow to rebound in the Western U.S., impacting San José and other major West Coast cities. Ongoing layoffs and changes to work patterns at Silicon Valley’s largest companies have also changed the economics for the larger tech events that previously bolstered convention center business and operating margins, as clients are hesitant to commit or are reconsidering their in-person meeting strategies altogether. Some clients are also reconsidering the frequency and type of convening, experimenting with smaller in-person events and with virtual events. And with recent changes to hotel room availability in the downtown area, the size and scope of meetings that San José can accommodate are shifting.

As the capacity for booking large-scale room blocks is challenged, TSJ sales staff are seeking out more groups to achieve comparable levels of hotel room night bookings. TSJ also continues to pursue high-tech clients, as that business yields the highest return to the City in terms of fiscal impact, visitor spending, and sustaining the operations of the convention facilities and the theaters, thereby ensuring continued access for non-profit arts organizations. Concurrently, TSJ sales efforts have re-focused to diversify the portfolio of San José meetings through initiatives aimed at alternative markets (like sports, e-sports, national and state associations) and emerging

sub-markets (like AI and biotech). TSJ is now building toward success around the major sporting events of 2026 - SuperBowl XL and the FIFA World Cup. TSJ surpassed its room night goal for 2023-2024 with initial room commitments for the World Cup arriving earlier than anticipated; however, the bulk of the hotel room nights for these sporting events will actualize in 2025-2026. TSJ will continue to build on these levels by growing sales for other events.

With the volatility of the corporate market and the low level of resources within the Convention and Cultural Affairs Fund, TSJ continues to forecast conservatively for convention and cultural facilities operating revenues across its five-year forecast through 2028-2029. Short-term gains are possible, but not guaranteed. As an example, Gross Operating Results for 2023-2024 were positively impacted by several unbudgeted tech events and the return of NVIDIA. While TSJ will aggressively pursue similar opportunities for 2024-2025, it will be difficult to replicate this past year's success.

The aforementioned challenges contribute to elevated forecast subsidy levels for convention and cultural facilities operations over the next five years, with the net subsidy potentially exceeding allocated TOT revenues beginning in 2025-2026, contingent on the success of TSJ sales efforts and broader economic conditions influencing the frequency and scale of events. The City Manager's Office will continue working closely with TSJ to chart a fiscally stable course for both the operation of the convention and cultural facilities and the CVB, aimed at achieving fiscal sustainability and furthering economic growth for all of San José.

Destination Marketing

In addition to the performance measures related to the management of the convention and cultural facilities, TSJ through its CVB activities, doing business as Visit San Jose, has invested resources to directly market San José to consumers through an innovative digital strategy with a direct capability to track spending and conversions. According to TSJ, this strategy has been significant in both generating economic impact for San José businesses (returning \$34.50 for every \$1 spent) and fiscal impact for the City of San José (returning \$4 in City taxes and fees for every \$1 spent). Because of this strong return and the role TSJ has played in stabilizing the hotel economy, the 2024-2025 Proposed Operating Budget recommends \$500,000 in one-time funding (\$400,000 from the General Fund and \$100,000 from Airport funds) to supplement the proportional allocation of TOT revenue to the CVB (\$6.1 million) to continue these strategies. This aligns with the direction included in the Mayor's March Budget Message for Fiscal Year 2024-2025, as approved by the City Council, to explore providing Team San José one-time funding for destination marketing and content creation to grow tourism.

This direction is timely, as the previously accumulated CVB reserves have largely been depleted given the sustained TOT revenue impacts since the pandemic. Absent this infusion of funds, the CVB would be unable to engage in targeted destination marketing work, as it would otherwise be forced to scale back existing operations and negatively affect the economic development typically generated by CVB activities.

The one-time Destination Marketing investment will allow current staff to continue efforts, albeit at lower levels compared to the previous year's campaign, to promote San José as a destination

to stimulate economic development and build awareness of San Jose as a safe, clean environment and encourage visitation. As part of this focused campaign, TSJ will continue to monitor both macro issues and granular level data to determine optimal opportunities to drive visitation. These factors include inflation, consumer sentiment, media consumption habits, social media monitoring, search trending, competition monitoring and planning and booking data. Markets of focus will be local, the wider Bay Area, in-California drive markets, and still allow national intent-based targeting to those showing a digital intent to travel to California. TSJ will use a mix of digital and traditional media, paid social, and paid search to maximize investment and reach. Success proof points across all campaign activities will be monitored and reported. Key Performance Indicators (KPIs) will be hotel searches and bookings generated, room nights generated, hotel revenue generated, and return on advertising spend.

TSJ's unique position as the official destination marketing organization for the City in tourism as well as the operator of the convention and cultural facilities means emphasis exists on both the economic impact of visitors to both the convention center and the theaters. As part of the recommended amendments to the agreement for the management of the convention and cultural facilities, subject to City Council consideration at a future meeting, TSJ will maintain a singular goal for estimated visitor spend, and will also report how that spend is distributed between convention center events and theater events in reporting to the City through its City Council Community and Economic Development Committee.

In addition to the Proposed 2024-2025 Performance/Incentive Measures shown in the Table 1, this memorandum also includes: Attachment A, which reports historical performance data from TSJ; Attachment B, which includes Gross Operating Profit methodology; and Attachment C, which includes TSJ's 2024-2025 Operating Budget for Convention and Cultural Facilities.

COORDINATION

This memorandum has been coordinated with TSJ, the City Attorney's Office, and the City Manager's Budget Office.

/s/
NANCI KLEIN
Director of Economic Development & Cultural Affairs

For more information, please contact Kerry Adams Hapner, Assistant Director of Economic Development and Cultural Affairs, at kerry.adams-hapner@sanjoseca.gov.

Attachment A: Team San Jose Performance / Incentive Measures Data
Attachment B: Gross Operating Profit Methodology
Attachment C: Team San Jose 2024-2025 Operating Budget

ATTACHMENT A

Team San Jose Performance Measure Data

Proposed Performance Measures for FY 2024-2025 Compared to Prior Years

<i>Year-Over-Year Performance Measures</i> ¹	Actual 2019-2020	Actual 2020-2021	Actual 2021-2022	Actual 2022-2023	Goal 2023-2024	Forecast 2023-2024	Proposed 2024-2025
Hotel Room Nights	105,975	82,953	101,839	111,486	112,000	120,000	117,000
Estimated Economic Impact (EEI) ²	\$ 62,653,106	\$0	\$34,183,087	\$ 52,002,824	\$ 55,108,300	\$76,000,000	\$ 78,150,000
Gross Operating Profit - Results	\$ 1,868,915	\$ 70,111	\$ 2,687,086	\$ 4,790,008	\$ 1,539,363	\$5,414,437	\$ 2,047,535
Theater Occupied Days	64%	0%	75%	90%	91%	93%	93%
Satisfaction Rate	98%	N/A	100%	100%	95%	100%	95%

¹ Actual performance measure data as reported by the City Auditor's Office analysis of audited financial statement, event attendance reports, and other Team San Jose records.

² Estimated Economic Impact for 2024-2025 is utilizing an updated methodology for calculating spending related to the Team San Jose managed theaters per the recommended amendments to the agreements between the City of San Jose and Team San Jose.

ATTACHMENT B

Details for Team San Jose's 2024-2025 Gross Operating Revenue Performance Measures

Gross Operating Results	2023-2024 Proposed Budget	2024-2025 Proposed Budget
Convention and Cultural Facilities Revenue	37,840,503	45,500,892
Transient Occupancy Tax	11,757,365	11,757,365
Parking Garage Revenue	3,503,959	3,652,043
Total Revenue	\$53,101,827	\$60,910,300
Operating Expenses	50,101,590	57,186,397
Parking Expenses	1,385,873	1,626,368
Convention and Visitors Bureau Marketing Expense	-	-
Convention Center Free Use	75,000	50,000
Total Expense	\$51,562,463	\$58,862,765
Gross Operating Results	\$1,539,364	\$2,047,535

ATTACHMENT C

**Team San Jose/TSJ Events. LLC
Convention & Cultural Facilities Division (CCF)
2024-2025 Operating Budget**

REVENUE:	2024-2025 Budget
Building Rental Revenue	7,027,798
Food & Beverage Services	20,852,485
Personnel Service Revenue	13,427,679
Electricity/Utility Revenue	772,730
Commission Revenue	529,637
Telecommunications/Audio Visual/Networking	1,774,655
External Ticketing Revenue	0
Other Revenue	1,115,908
Ticketing Revenue	1,074,122
Rigging Assessment Fee	302,851
Other Revenue	205,417
Event Discount	(466,483)
Bad Debt Expense/Settlement	0
TOTAL REVENUE:	45,500,892
VARIABLE EXPENSES:	
Food & Beverage Cost of Sales	3,100,012
Labor Cost of Sales	11,253,973
Variable Labor	13,890,169
Other Operating Cost	7,276,688
Repairs & Maintenance	1,891,611
Utilities	4,868,076
TOTAL VARIABLE EXPENSES:	42,290,529
FIXED EXPENSES:	
Salaries & Benefits	12,302,599
Insurance	688,782
Professional Fees (Audit/Legal/Consulting)	168,200
<i>Professional Fees Accg/Audit</i>	81,200
<i>Professional Fees Legal</i>	75,000
<i>Professional Fees Consulting</i>	12,000
Office (Equipment/Software/Supplies/Print)	525,871
<i>Office Equipment</i>	6,000
<i>Comp Software/Lic & Equip</i>	414,011
<i>Office Expenses & Supplies</i>	45,620
<i>Office Print/Signage</i>	60,240

Telephone	329,832
Uniforms	75,000
Bank Charges	277,023
Other Fixed	818,561
<i>Dues & Subscriptions</i>	32,140
<i>Parking Validation</i>	24,512
<i>Postage</i>	14,000
<i>Office Repair & Maint</i>	0
<i>Pest Control</i>	57,475
<i>Cash Over/Short</i>	0
<i>Personnel Processing Fees</i>	159,073
<i>Office Equip Lease</i>	62,656
<i>Employee Event</i>	58,000
<i>Tax License Fees</i>	50,503
<i>Donations</i>	0
<i>Misc. Expense</i>	10,000
<i>Capital Outlay - CCF Funded</i>	0
<i>Safety/Security Expense</i>	0
<i>EE First Aid</i>	0
<i>Safety Supplies</i>	26,851
<i>Security Supplies</i>	20,000
<i>EE Education & Training</i>	78,275
<i>Employee Cafeteria Meals</i>	90,196
<i>Local Meetings/Travel & Entertainment</i>	84,481
<i>Recruiting and Relocation</i>	50,400
Parking Expense Reimbursement	(290,000)
TOTAL FIXED EXPENSES:	14,895,868
Total Operating Expenses	57,186,397
REQUIRED CITY COSTS:	
City Free Use	50,000
City Oversight	198,159
Audit Expense Reimbursement	(55,000)
TOTAL REQUIRED CITY COSTS	193,159
Net Facility Operating Subsidy	(11,878,663)