



Office of the City Auditor

**Report to the City Council
City of San José**

**2011-12 ANNUAL
PERFORMANCE AUDIT OF
TEAM SAN JOSE'S
MANAGEMENT OF THE
CITY'S CONVENTION AND
CULTURAL FACILITIES**

**Report 13-01
January 2013**

January 17, 2013

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

2011-12 Annual Performance Audit of Team San Jose's Management of the City's Convention and Cultural Facilities

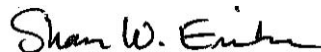
Since 2004, the San José McEnery Convention Center and several other facilities have been operated on the City's behalf by Team San Jose, Inc. Under the terms of the Management Agreement between Team San Jose (TSJ) and the City, the City Auditor annually audits TSJ's management of the facilities. Our objective is to determine whether, and how well, TSJ achieved its agreed-upon performance goals and incentive fee targets that are the basis for the City's incentive payments to TSJ.

Team San Jose Achieved a Weighted Incentive Fee Score of 137 Percent But Did Not Reach Every Performance Goal in 2011-12. In FY 2011-12, TSJ drew nearly 1 million people to events at the Facilities and booked nearly 240,000 future hotel room nights. It met all, and in many cases far exceeded, economic impact and fiscal performance targets. It achieved its customer service goal but fell short of theater performance goals for the second consecutive year, achieving on 84 percent of the target for performance days. In general, we confirmed that TSJ accurately reported its achievements in its year-end performance report.

TSJ achieved a weighted incentive fee score of nearly 137 percent, which would typically earn it the maximum incentive fee of \$350,000. However, the Management Agreement stipulates that TSJ must achieve at least 90 percent of each measure to receive the incentive fee. Thus, Team San Jose's performance in FY 2011-12 did not qualify it to receive an incentive fee.

We will present this report at the January 24, 2013 meeting of the Public Safety, Finance, and Strategic Support Committee. We would like to thank Team San Jose, the City Manager's Office, and the City Attorney's Office for their time and cooperation during the audit process. The City Administration and the Chief Executive Officer of Team San Jose have reviewed the information in this report and their response is shown on the attached yellow pages.

Respectfully submitted,



Sharon W. Erickson
City Auditor

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Introduction

In accordance with the City Auditor's fiscal year (FY) 2012-13 Audit Work Plan, we have completed an audit of Team San Jose, Inc.'s (TSJ) management of the City's convention and cultural facilities to determine whether TSJ met the performance measures specified in the Agreement for the Management of the San José Convention Center and Cultural Facilities Between the City of San José and Team San Jose, Inc. (Management Agreement) for FY 2011-12.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this audit report.

The City Auditor's Office thanks the management and staff of Team San Jose, Inc., the City Manager's Office, and the City Attorney's Office for their time, information, insight, and cooperation during the audit process.

Background

The San José Convention and Cultural Facilities (the Facilities) consist of the San José McEnergy Convention Center, San José Civic, Parkside Hall, South Hall, Center for the Performing Arts, California Theater, and Montgomery Theater. These seven venues offer space for trade show exhibits, conventions, corporate meetings, social events, consumer shows, and performing arts.

Team San José, Inc., a non-profit corporation, was formed in December 2003 in response to the City's request for proposals for the management and operations of the convention center, which was formerly managed by the City's Department of Convention, Arts, and Entertainment. The City entered into a Management Agreement with Team San Jose to operate and manage the Facilities for the five-year period from July 1, 2004 through June 30, 2009. On August 13, 2009, the City exercised its option to extend the original term for one additional five-year period through June 30, 2014. TSJ has a 15-member board of directors that includes representatives from local hotels, arts, business, and labor. It also includes a City Council liaison and an ex-officio member from the City Manager's Office.

TSJ's management agreement requires the City Auditor's Office to conduct an annual audit of the performance measures in the Management Agreement.

Recent Key Events

In August 2010, the City issued TSJ a notice of default because TSJ’s FY 2009-10 expenditures exceeded its operating budget by more than \$750,000, a violation of the terms of the Management Agreement. This resulted in a number of actions including an expanded performance audit by the City Auditor, and Council later directed the City Manager to begin development of an RFP for management of the Facilities and services provided under the Convention and Visitors Bureau.

In March 2011, the Council adopted a second amendment to the Management Agreement that reflected recommendations from the City Auditor’s FY 2009-10 Annual Performance Audit. As of June 30, 2011, Team San Jose was no longer in default of the Management Agreement, and in December 2011, the Council voted to discontinue work on the Request for Proposal for the management of the Facilities.

Finally, in September 2012, the Council adopted a third amendment to the Management Agreement, effective FY 2012-13, to clarify and redefine the methodology for the *gross operating profit* and *return on investment* performance measures.

Performance and Incentive Fee Measures

The June 2009 addendum to the Management Agreement clarified performance measures and incentive pay. It requires TSJ to submit annual targets for the following performance measures and incentive fee measures, used to determine incentive pay, for City review and joint agreement (under the prior agreement, targets were set during contract negotiations for the entire five-year term of the agreement). Exhibit I shows these measures and their weighting.

Exhibit I: Performance and Incentive Fee Measure Weighting

Performance Measures		Incentive Fee Measures	
Economic Impact	40%	Economic Impact	40%
Hotel Room Nights (10%)		Hotel Room Nights (15%)	
Attendance (10%)		Attendance (10%)	
Estimated Economic Impact (10%)		Estimated Economic Impact (15%)	
Return on Investment (10%)			
Gross Operating Profit	40%	Gross Revenue	40%
Theater Performance	10%	Theater Performance	10%
Performance Days (7%)		Performance Days (7%)	
Occupied Days (3%)		Occupied Days (3%)	
Customer Service Survey Results	10%	Customer Service Survey Results	10%
Total	100%	Total	100%

Source: Second Amendment to Management Agreement between Team San Jose and the City

The second and third amendments to the Management Agreement have clarified and redefined the weightings of and methodologies for calculating measures over time.¹ Because construction of the facilities managed by TSJ was financed through tax-exempt debt, the management contract cannot, according to the City Attorney's Office, have an incentive pay provision that is based on return on investment or net profit; hence, the incentive fee measures used to determine TSJ's incentive pay differ slightly from the general performance measures.

Performance-Based Contracting Requires Challenging Incentives

Incentive contracts, such as the City's Management Agreement with Team San Jose, have been common in government for several decades. In 1998 Best Practices for Performance-Based Contracting,² the White House Office of Management and Budget described performance-based contracts as follows:

Performance-based service contracting (PBSC) emphasizes that all aspects of an acquisition be structured around the purpose of the work to be performed as opposed to the manner in which the work is to be performed or broad, imprecise statements of work which preclude an objective assessment of contractor performance. It is designed to ensure that contractors are given freedom to determine how to meet the Government's performance objectives, that appropriate performance quality levels are achieved, and that payment is made only for services that meet these levels.

Concerning incentives, the best practices caution that:

Care must be taken to ensure that the incentive structure reflects both the value to the government of the various performance levels, and a meaningful incentive to the contractor. Performance incentives should be challenging yet reasonably attainable. The goal is to reward contractors for outstanding work, but not penalize them for fully satisfactorily but less than outstanding work.

It is critical that targets incent a challenging, yet attainable, level of performance on the part of Team San Jose and that they challenge TSJ to outperform prior successes (i.e., incentivize continual improvement).³

¹Appendix A describes the methodology for calculating each individual measure in detail.

²Although the Best Practices document was subsequently rescinded, its overall message is echoed in Federal Acquisition Regulation and in the National Institute of Government Purchasing's guidance on performance-based contracting.

³Modern literature on general management highlights the Toyota Motor Corporation, among others, for exemplifying the principle of continuous improvement (*kaizen* in Japanese). It is said that Toyota was able to reduce its costs and improve profits by being never satisfied: accomplished goals were an opportunity to raise the bar higher.

From FY 2009-10 to 2012-13, the City's setting of "challenging yet reasonably attainable" targets was impacted by external factors.⁴ During this period, the City generally lowered targets because of economic uncertainty and anticipated disruptions from the convention center's renovation and expansion. In hindsight, the City expected that construction would begin sooner than it did and may have overestimated its impact (or underestimated TSJ's ability to mitigate the impacts).

Convention Center Expansion

The Convention Center is currently undergoing renovation and expansion. Construction began in Summer 2011, though the most disruptive work began only in Summer 2012. The expansion will add an additional 125,000 square feet of flexible ballroom and meeting room space, increasing San José's convention center space to 550,000 square feet of usable space. The 125,000 total square feet of new, flexible space includes:

- 25,000 square feet of flexible meeting space
- 35,000 square feet of flexible ballroom space
- Renovation and integration with the existing structure
- A new footprint that expands the square footage with minimal impact to the current convention center.

In May 2011, TSJ began marketing the new expansion space with Convention and Visitors Bureau sales staff. The Convention Center is open during construction and plans to celebrate a grand re-opening in Fall 2013.

Audit Objective, Scope, and Methodology

The objective of our audit was to determine whether TSJ met its performance and incentive fee measures for FY 2011-12. To do so we:

- Obtained and reviewed relevant documents including: the Management Agreement and its addendum and amendments, Council-adopted performance targets for FY 2009-10 to 2012-13, TSJ's quarterly performance reports, the FY 2011-12 audited financial statement for the Facilities, the convention center debt service schedule, TSJ's attendance and theater records, the agreed-upon procedures for hotel-room night bookings performed by Petrinovich, Pugh and Company on TSJ's behalf, and TSJ's customer service surveys for the year
- Interviewed management and staff from TSJ, the City Manager's Office of Economic Development and Budget Office, and the City Attorney's Office about the performance measures and TSJ's accomplishments for the year

⁴Appendix B charts TSJ's targets and results for performance and incentive fee measures since FY 2004-05.

- Tested the accuracy and completeness of TSJ's recording of the number of occupied and performance days for theaters, and attendance at convention and cultural events during the year
- Tested the accuracy of TSJ's computation of gross revenue, gross operating profit, and return on investment using the audited financial statements and the Management Agreement's methodologies, and its estimation of economic impact using approved economic models
- Reviewed best practices for performance-based contracts.

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Finding I Team San Jose Achieved a Weighted Incentive Fee Score of 137 Percent But Did Not Reach Every Performance Goal in 2011-12

Summary

The Management Agreement requires Team San Jose to report annual performance compared to established targets. In FY 2011-12, TSJ drew nearly 1 million people to events at the Facilities and booked nearly 240,000 future hotel nights. In addition to surpassing fiscal targets for *gross revenue* and *gross operating profit*, TSJ met all four of its performance measures for economic impact—*hotel room nights*, *event attendance*, *estimated economic impact*, and *return on investment*. TSJ also met its performance target for *customer satisfaction* but fell short of its two theater performance targets for the second consecutive year, achieving 92 percent of the target for *occupied days* and 84 percent of the target for *performance days*. While we identified immaterial discrepancies, on the whole, we confirmed that TSJ accurately reported its achievements in its year-end performance report.

Although Team San Jose achieved a weighted incentive fee score that would typically earn it the maximum incentive fee of \$350,000, the Management Agreement does not allow payment of the incentive fee if TSJ does not achieve at least 90 percent for each measure. Thus, Team San Jose's performance in FY 2011-12 did not qualify it to receive the incentive fee.

Team San Jose Met Most Performance and Incentive Targets in FY 2011-12

In August 2012, Team San Jose presented its summary of performance results to the City Council. And in October 2012, the independent accounting firm of Macias, Gini, and O'Connell completed its audit of the City's Convention and Cultural Affairs Fund, issuing a clean opinion with no issues found.

Based on our review of these documents, third-party reviews of hotel room night bookings, and Team San Jose's attendance, customer satisfaction, and theater records, we found Team San Jose:

- Met targets for six of the eight performance measures
- Met targets for five of the seven incentive fee measures

TSJ's performance results against targets are shown below by measure. **Appendix A** describes the methodology for calculating each individual measure in detail. In addition, **Appendix B** charts TSJ's targets and results for performance and incentive fee measures since FY 2004-05.

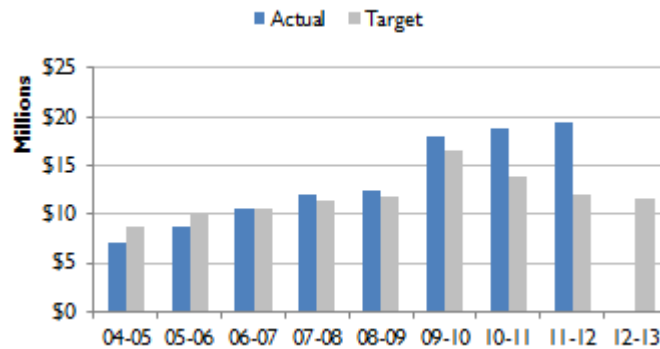
Financial Performance

In financial terms, FY 2011-12 was a successful year for Team San Jose. As shown in Exhibits 2 and 3, TSJ surpassed both its gross revenue and gross operating profit performance measures.

Gross Revenue (Incentive Fee Measure)

Gross revenue, as shown in Exhibit 2, is the revenue generated from operation of the Facilities.

Exhibit 2: Gross Revenue



Source: Auditor analysis of the Management Agreement and its second amendment, audited financial statements for the Convention and Cultural Affairs Fund, and our prior TSJ audits

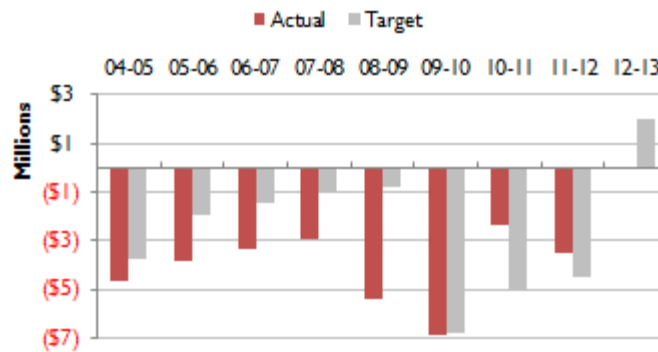
We confirmed that TSJ vastly exceeded its target of \$12.1 million by generating \$19.4 million in gross revenue, as reported in its year-end performance report. This performance was due in part to delayed convention center renovation in the fourth quarter of the year, when TSJ generated revenue of \$6.5 million while it expected only \$3.5 million.

TSJ's fourth quarter performance report said of this success: *"Team San Jose did not experience the anticipated 20% decline in event business, due to delay of the renovation schedule. Team San Jose's sales team was aggressive in landing short term bookings (90 to 120 days [in advance]), attracting several events to maximize the space that became available with the delay of renovation and construction."* It also should be noted that actual gross revenue was much higher from FY 2009-10 to 2011-12 than in prior years largely, but not entirely, as a result of TSJ bringing food and beverage services in-house.

Gross Operating Profit (Performance Measure)

Gross operating profit, as shown in Exhibit 3, is gross revenue (as described above) minus direct and indirect expenses related to the operation of the Facilities.

Exhibit 3: Gross Operating Profit



Source: Auditor analysis of the Management Agreement and its second amendment, audited financial statements for the Convention and Cultural Affairs Fund, and our prior TSJ audits

Another success for Team San Jose was its gross operating profit. FY 2011-12 was the second consecutive year (and second year overall in its eight year operation of the Facilities) that TSJ met its target for gross operating profit. The audited financial statements for the Convention and Cultural Facilities show a net operating loss of \$5.8 million calculated in accordance with Generally Accepted Accounting Principles. The loss calculated in accordance with the Management Agreement was \$3.5 million.⁵ Exhibit 4 reconciles the audited financial statements to the Management Agreement’s definitions of gross revenue and gross operating profit.

The FY 2011-12 operating loss of \$3.5 million was \$1 million less than the target of a \$4.5 million operating loss, but greater than the \$2.4 million operating loss that TSJ incurred in FY 2010-11. In accordance with the Management Agreement, the calculation does not include the City’s \$15.4 million payment in FY 2011-12 for the convention center’s debt service.

⁵Team San Jose’s FY 2011-12 year-end performance report showed a gross operating profit of (\$3.4) million, \$100,000 less (a smaller loss) than we report. As was the case in FY 2010-11, TSJ’s calculation follows a methodology that excludes management fees. Our FY 2010-11 performance audit noted that this methodology was inconsistent with some clauses in the Management Agreement. In response to our recommendation to clarify conflicting contract language for this measure, City and TSJ staff agreed to use the definition of gross operating profit that included the fixed management and incentive fees in the calculation until they amended the agreement.

Exhibit 4: Reconciliation of Revenue and Net Loss According to the Audited Financial Statements and the Management Agreement

	Audited Financial Statements	Adjustment for Performance Measure
Operating Revenues:		
Building rental	\$4,357,983	
Food and beverage services	8,145,217	
Commission revenue	879,959	
Event electrical/utility services	435,118	
Audio/visual services	261,605	
Ticketing services	496,792	
Telecommunications services	37,176	
Equipment rentals	65,203	
Event production labor revenues	4,760,959	
Other revenues	30,630	
Less: City of San José credits for facility usage	(35,210)	\$35,210 a
Less: CVB Rent Subsidy		(47,250) b
Total Operating Revenues	19,435,432	19,423,392
Operating Expenses:		
City of San José shared employees	1,075,599	
Administrative and general salaries - Team San Jose	8,008,563	
Cost of event production labor	4,501,016	
Utilities	2,337,604	
Food and beverage costs	1,542,198	
Overhead - City of San José	358,964	
Bad debt expense	15,047	
Contracted outside services	747,345	
Professional services	670,247	
Operating supplies	344,692	
Depreciation	378,771	(378,771) a
Repairs and maintenance	695,896	
Insurance	262,384	
City of San José oversight	400,000	(400,000) a
Ticketing costs	168,882	
Workers' compensation insurance premiums	596,183	
Fire insurance	93,850	(93,850) a
Management fee - Team San Jose	1,014,757	(864,757) a
Equipment rentals	231,850	
Repairs and maintenance - City funded	571,557	(571,557) a
Other expenses	1,227,378	
Total Operating Expenses	25,242,783	22,933,848
Gross Operating Profit/(Loss)	\$(5,807,351)	\$(3,510,456)

Source: Auditor's analysis of FY 2011-12 audited financial statements for the San José convention and cultural facilities, and the Management Agreement between Team San Jose and the City and its amendments

- Notes:
- (a) Change made to calculate gross revenue and gross operating profit in accordance with the Management Agreement and its amendments (i.e., reverse the revenue deduction for City of San José facility usage, and deduct from total expenses depreciation, City oversight, fire insurance, the fixed executive management fee, and City-funded repairs and maintenance)
 - (b) Change made to calculate gross revenue in accordance with recommendations in our FY 2009-10 audit (i.e., deduct CVB-funded rental subsidies from revenue).

As noted in prior reports, when TSJ trims its losses as it did in FY 2010-11 and FY 2011-12, it reduces its draw on Transient Occupancy Tax (TOT) revenues and further reduces the chance that reimbursements from the City's General Fund would be required.⁶ Indeed, the City has not made a significant transfer from the General Fund to the Convention and Cultural Affairs Fund since FY 2009-10, though the City paid the convention center's debt service payment of \$15.4 million in FY 2011-12.⁷

On a go-forward basis, the FY 2012-13 target for gross operating profit, shown above in Exhibit 3, will not be comparable to prior years because the Management Agreement's third amendment redefined the methodology for calculating gross operating profit effective FY 2012-13.⁸

Economic Impact

In the area of economic impact, TSJ met all four of its performance measures—hotel room nights, event attendance, estimated economic impact and return on investment.

Hotel Room Nights (Performance and Incentive Fee Measure)

Hotel room nights, as shown in Exhibit 5, is measured as the total number of hotel room nights booked by Team San Jose over the course of the fiscal year.

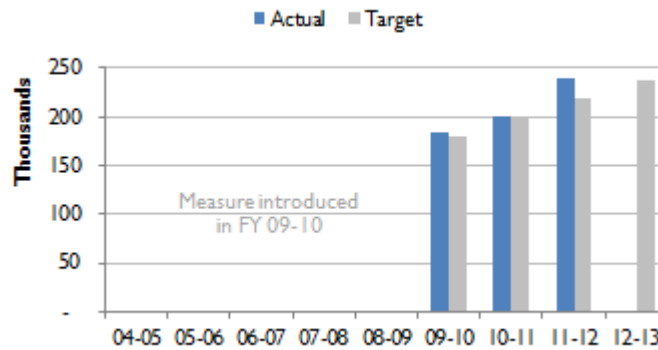
⁶The Facilities, under TSJ's management, generate revenues which help fund operations. However, to continue its operations, TSJ relies on operating transfers from the Transient Occupancy Tax Fund. Currently, approximately 30 percent of TOT collections are transferred to the Convention and Cultural Affairs Fund (Fund 536).

Approximately 30 percent are split between CVB and the Office of Cultural Affairs and the remaining 40 percent of TOT collections go to the City's General Fund. To the extent that TSJ's net operating loss is less than the TOT revenue transferred into the Convention and Cultural Affairs Fund, remaining TOT funds from the year fall to fund balance.

⁷The City has continued to make General Fund transfers of about \$50,000 to the Convention and Cultural Affairs Fund for retiree healthcare.

⁸Effective September 2012, the gross operating profit calculation will count as revenue TOT funds and convention center parking garage revenue transferred into the Convention and Cultural Affairs Fund, and count as expenses convention center parking garage expenses and CVB expenses supported by the Convention and Cultural Affairs Fund. The calculation of the gross revenue incentive fee measure does not change, however.

Exhibit 5: Hotel Room Nights



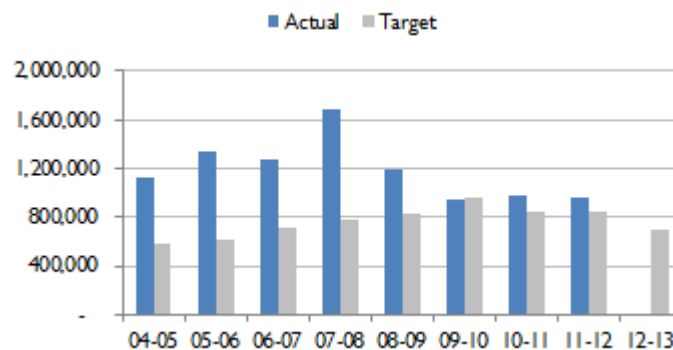
Source: Auditor analysis of the Management Agreement and its second amendment, TSJ’s hotel room nights production report, third-party reviews of TSJ’s hotel room night bookings, and our prior TSJ audits

TSJ met its hotel room night goal in each of the three years it has reported on the measure. We confirmed that TSJ exceeded its FY 2011-12 goal by 10 percent (239,848 hotel room nights, compared to a target of 218,000 hotel room nights). TSJ explained that it exceeded its FY 2011-12 goal for booking future hotel room nights by redeploying sales staff and enhancing business segmentation, increasing the number of opportunities to make sales due to greater awareness stimulated by positive public relations and expansion/renovation marketing, and taking advantage of a general uptick in economic outlook and corporate business bookings.

Event Attendance (Performance and Incentive Fee Measure)

Event attendance, as shown in Exhibit 6, is the number of local/social visitors, out of town visitors, and exhibitors who attend events at the convention and cultural facilities.

Exhibit 6: Event Attendance



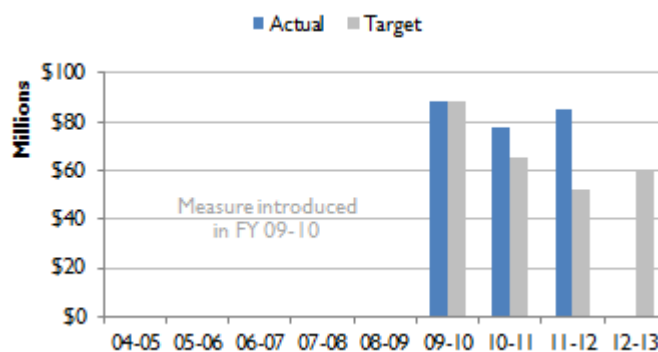
Source: Auditor analysis of the Management Agreement and its second amendment, TSJ event attendance reports, and our prior TSJ audits

Although attendance is down from a peak in FY 2007-08, TSJ has achieved its targets for attendance in seven of its eight years in charge of the Facilities. For FY 2011-12, it exceeded the goal by 14 percent (968,704 compared to a target of 848,114) as reported in TSJ’s year-end performance report. TSJ explained that attendance and estimated economic impact were greater than expected because construction delays resulted in unexpected capacity, and the uptick in the overall market boosted short-term bookings (90 to 120 days in advance of an event) and resulted in greater than expected attendance at planned events.

Estimated Economic Impact (Performance and Incentive Fee Measure)

Estimated economic impact, as shown in Exhibit 7, is the average daily spending rate multiplied by event attendance. Average daily spending rates vary depending on event type (i.e., conventions and meetings, spectator sports and demonstrations, and participant sports and competitions) and attendee type (i.e., local/social visitors, out of town visitors, and exhibitors).

Exhibit 7: Estimated Economic Impact



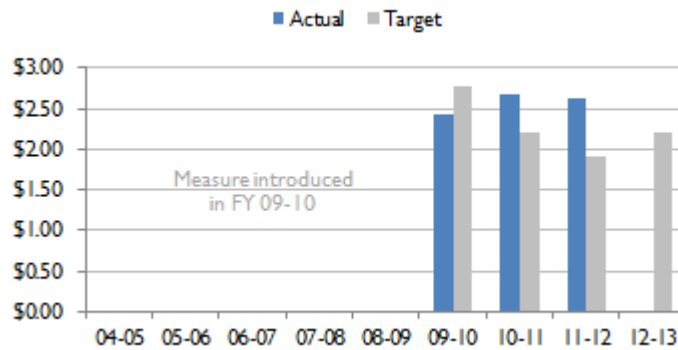
Source: Auditor analysis of the Management Agreement and its second amendment, TSJ event attendance reports, TSJ’s estimated economic impact calculations, and our prior TSJ audits

TSJ has met its estimated economic impact targets each of the three years it has reported on the measure. In fact, in FY 2010-11 and 2011-12, TSJ vastly outperformed its goals for estimated economic impact. Its economic impact results generally appear to track gross revenue and event attendance performance. For FY 2011-12, TSJ beat its target by 64 percent (\$85.5 million in estimated economic impact, compared to a target of \$52 million, which is about \$3.9 million less than TSJ projected in its year-end performance report).

Return on Investment (Performance Measure)

The City’s return on investment, as shown in Exhibit 8, is the sum of gross revenues from the operation of the Facilities plus estimated economic impact, divided by the sum of expenses paid for the operation of the Facilities plus Facilities debt service.

Exhibit 8: Return on Investment



Source: Auditor analysis of the Management Agreement and its second amendment, audited financial statements for the Convention and Cultural Affairs Fund, the convention center debt service schedule, TSJ’s estimated economic impact and return on investment calculations, and our prior TSJ audits

TSJ did not achieve its return on investment goal in FY 2009-10 but has since then. In FY 2010-11 and 2011-12, TSJ dramatically outperformed its goal for return on investment, with its return on investment generally tracking gross revenue, event attendance, and estimated economic impact performance. For FY 2011-12, TSJ achieved a return on investment of \$2.63, compared to a goal of \$1.91. Return on investment outperformed the target because it is a formula-driven measure that increases when its inputs, including estimated economic impact and gross revenue, increase. The calculated value of \$2.63 is less than the \$2.82 TSJ estimated in its year-end performance report.⁹

On a go-forward basis, TSJ’s FY 2012-13 target, as shown above in Exhibit 8, will not be comparable to prior years because the Management Agreement’s third amendment redefined the methodology for calculating return on investment.

Theater Performance

Team San Jose fell short of theater performance targets for both performance days and occupied days for the second consecutive year. According to TSJ staff, the failure to meet these goals in FY 2011-12 was the result of:

- Resident arts partners neither occupying the cultural facilities for as many days nor holding as many performances as they had planned.
- Construction delays at the San Jose Civic and the Center for the Performing Arts limiting TSJ’s ability to book performances at these venues.

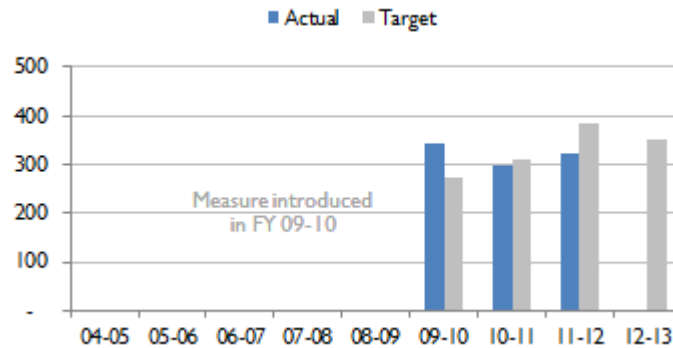
⁹City and TSJ staff agreed to amend the return on investment calculation for FY 2011-12. Had we used a methodology consistent with prior years, the value would have been \$2.74, which also would have comfortably exceeded the goal of \$1.91.

TSJ revamped the process for setting theater performance targets in FY 2012-13, waiting for resident arts partners to have more definite plans before agreeing with the City on the year’s goal.

Performance Days (Performance and Incentive Fee Measure)

Performance days, as shown in Exhibit 9, are the number of days on which a performance takes place at the cultural facilities.

Exhibit 9: Performance Days¹⁰



Source: Auditor analysis of the Management Agreement and its second amendment, TSJ’s theater records, and our prior TSJ audits

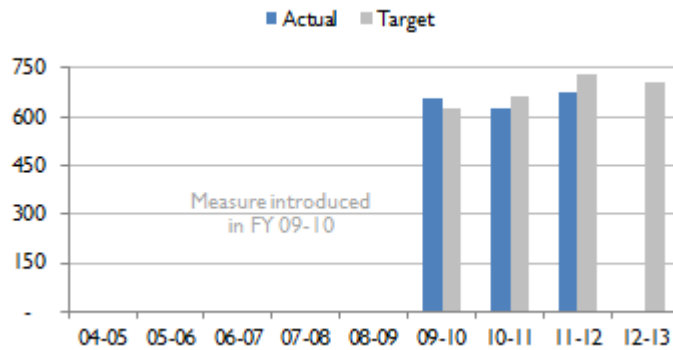
For FY 2011-12, TSJ reported and we confirmed that it achieved 84 percent of its performance days target (324 performance days, compared to its target of 386 performance days).

Occupied Days (Performance and Incentive Fee Measure)

Occupied days, as shown in Exhibit 10, are the number of days that a theater is utilized under contract and not available for booking for other events.

¹⁰During the course of audit fieldwork, we learned that one cultural facility can have multiple “performance days” on a single calendar day if the venue hosts unique performances (i.e., if the California Theater hosts a youth symphony performance in the afternoon and a choir performance in the evening, TSJ counts two performance days). Further, performance days may include days on which a cultural facility hosts private showings (i.e., if the California Theater hosts an invitation-only opera performance, the day counts as a performance day even though the show was not a public ticketed event). Because the goal of theater performance measures is to track “activation” of cultural facilities (in other words, the number of times these facilities drew people downtown), we did not deduct performance days in the event of private showings or multiple performance days on a calendar day.

Exhibit 10: Occupied Days



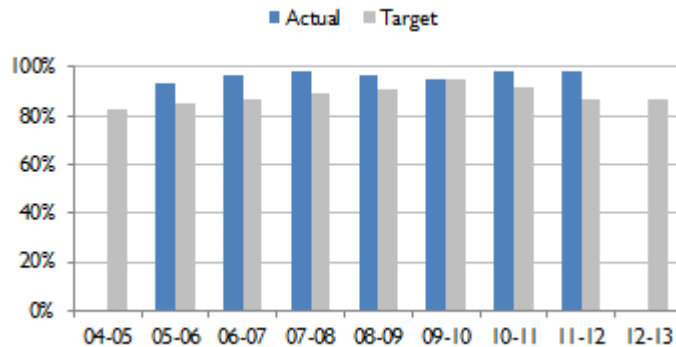
Source: Auditor analysis of the Management Agreement and its second amendment, TSJ's theater records, and our prior TSJ audits

TSJ achieved 92 percent of its occupied days target for FY 2011-12 (676 occupied days, compared to its target of 734), as reported in its year-end performance report.

Customer Satisfaction (Performance and Incentive Fee Measure)

Customer satisfaction, as shown in Exhibit 11, is the percent of event coordinators who respond to a customer survey with an overall satisfactory rating of the product and services provided. Satisfactory is considered "excellent," "very good," or "good."

Exhibit 11: Customer Satisfaction



Source: Auditor analysis of the Management Agreement and its second amendment, TSJ's customer service survey results, and our prior TSJ audits

For customer satisfaction, Team San Jose has met its targets for all but one of the past six years.¹¹ In FY 2011-12, a year in which TSJ staff had to mitigate construction impacts on events at the convention center, 98 percent of customers rated their overall satisfaction with the product and services provided as good or better (compared to a target of 87 percent), on a poor-fair-good-very good-excellent scale, as TSJ reported in its year-end performance report.¹²

Team San Jose Achieved Weighted Performance and Incentive Fee Scores of 124 and 137 Percent, Respectively

As shown above, Team San Jose met its targets for six of the eight performance measures. In accordance with the Management Agreement, this resulted in a total weighted performance score of 124.3 percent. TSJ also met its targets for five of the seven incentive fee measures, resulting in a total weighted incentive fee score of 136.7 percent. Exhibit 12 summarizes Team San Jose's performance against its goals, and calculates total weighted performance and incentive fee scores.

Exhibit 12: Team San Jose's FY 2011-12 Weighted Performance and Incentive Fee Scores

Measures	Target	Result	% of Goal	Performance		Incentive Fee	
				Weight	%	Weight	%
Economic Impact							
Hotel Room Nights	218,000	239,848	110%	10%	11.0%	15%	16.5%
Event Attendance	848,114	968,704	114%	10%	11.4%	10%	11.4%
Estimated Economic Impact	\$52,000,000	\$85,480,564	164%	10%	16.4%	15%	24.7%
Return on Investment	\$1.91	\$2.63	138%	10%	13.8%	n/a	n/a
Gross Revenue and Gross Operating Profit							
Gross Revenue	\$12,100,000	\$19,423,392	161%	n/a	n/a	40%	64.2%
Gross Operating Profit	(\$4,540,000)	(\$3,510,456)	129%	40%	51.7%	n/a	n/a
Theater Performance							
Occupied Days	734	676	92%	3%	2.8%	3%	2.8%
Performance Days	386	324	84%	7%	5.9%	7%	5.9%
Customer Service							
Satisfaction Rate	87%	98%	113%	10%	11.3%	10%	11.3%
Weighted Performance/Incentive Fee Score				124.3%		136.7%	

Source: Auditor analysis FY 2009-2014 Management Agreement and its addendum and amendments, FY 2011-12 audited financial statements, event attendance reports, and other Team San Jose records

Note: weighted percentages are the product of the measure weights listed in Exhibit 1 in the Background section of this report, and actual performance as a percentage of the goal. For instance, Event Attendance is given a weighted incentive fee score of 11.4 percent because the result of 968,704 was 114.2 percent of the target of 848,114, and the amended Management Agreement assigns Event Attendance a weight of 10 percent.

¹¹Insufficient customer responses were collected in FY 2004-05 to present a meaningful rating.

¹²To give the distribution of customer service scores proper context, it is important to note that the 120 survey responses received included 78 excellent, 34 very good, 6 good, 1 fair, and 1 poor scores. Had we assigned the scale numeric values of 1 to 5, instead of verbal ratings as described, TSJ's weighted-average service rating would have been 4.6 out of 5 (or about 91 percent).

Team San Jose Did Not Reach the 90 Percent Threshold Needed in Each Measure to Earn an Incentive Fee

As shown in Exhibit 4, Team San Jose received \$1,014,757 in management fees in FY 2011-12. This total includes an incentive fee of \$350,000 for its performance in the prior year (FY 2010-11), meaning the organization received \$664,757 as base payment for its management of the Facilities in FY 2011-12. In addition to base payments, the City makes incentive payments based on TSJ’s performance.

The Management Agreement includes incentive fee targets and a corresponding incentive fee structure, along with performance measures. The performance and incentive fee measures provide a quantifiable way of evaluating TSJ’s management of the convention and cultural facilities. In the FY 2009-10 performance audit, we recommended that the incentive fee payment structure be revised such that TSJ receives incentive payments only if it achieves a specified threshold. This was accomplished by separating what was previously known as the “incentive fee” into two components, the Fixed Minimum Management Fee and the incentive fee.¹³ In our prior analysis, we also found that the incentive fee was not structured to incentivize performance that exceeds expectations. The incentive fee schedule has since been revised and is shown in Exhibit 13.

Exhibit 13: Incentive Fee Payment Schedule

Weighted Incentive Fee Score	Incentive Fee Amount
Less than 100%	No incentive fee
At least 100% but less than 110%	\$200,000
At least 110% but less than 115%	\$300,000
115% or greater	\$350,000

Source: Second Amendment to Management Agreement between Team San Jose and the City

Team San Jose achieved a weighted incentive fee score of nearly 137 percent, which would typically mean that it earned the maximum incentive fee of \$350,000.

However, the Second Amendment to the Management Agreement stipulates that *“in no event shall the Incentive Fee be paid if Operator fails to achieve 90% of its performance measures for the fiscal year as to which the performance measures relate, or if Operator is in default of a material provision of this Agreement during the Fiscal Year to which the Performance Measures relate, which default is not cured prior to the end of such fiscal year.”*

¹³The Fixed Minimum Management Fee is \$150,000. TSJ also received a Fixed Executive Management Fee of \$514,757 to pay for a portion of executive salaries and benefits. Together these fees make up the City’s base payment of \$664,757 for Team San Jose’s management of the Facilities in FY 2011-12.

Further, this clause is clarified in the February 2011 memorandum to the City Council introducing the Second Amendment, which explained that “TSJ needs to meet at least 90% of all Incentive Measures to receive the Incentive Fee.” It appears that neither City staff nor TSJ noted that this provision of the Master Agreement would mean non-payment of the entire incentive fee in their performance reports to the City Council.

As noted above, Team San Jose achieved only 84 percent of its measure for theater performance days. Therefore, Team San Jose’s performance in FY 2011-12 did not qualify it to receive an incentive fee under the terms of the Management Agreement.

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Conclusion

In FY 2011-12, Team San Jose met six of eight performance and five of seven incentive fee targets. It met all, and in many cases far exceeded, its economic impact and fiscal performance targets. It achieved its customer service goal but fell short of two theater performance goals for the second consecutive year, achieving 84 percent of the target for performance days. On the whole, we confirmed that TSJ accurately reported its achievements in its year-end performance report.

Although TSJ achieved a weighted incentive fee score that would typically earn it the maximum incentive fee of \$350,000, the Management Agreement stipulates that TSJ must achieve at least 90 percent of each performance target to be eligible to receive the incentive fee. Thus, Team San Jose's FY 2011-12 performance did not qualify it to receive an incentive fee.

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APPENDIX A

Methodology for Calculating Performance and Incentive Fee Measures

Measure	Type of Measure	Methodology for Calculation
Gross Revenue and Gross Operating Profit		
Gross Revenue	Incentive only	<p>Those revenues from operation of the Facilities excluding revenue billed by TSJ on behalf of other vendors providing services to clients of the Facilities.</p> <p>In calculating gross operating revenue, and per Recommendation #4 in the FY 2009-10 performance audit of TSJ, we have excluded \$47,250 subsidized by CVB to sponsor events.</p>
Gross Operating Profit	Performance only	<p>Revenues (as described above) minus direct and indirect expenses related to the operation of the Facilities. Per the agreement and its second amendment, we did not include the following expenditures in calculating gross operating profit: the fixed executive management fee, depreciation expense, City contract oversight costs, fire insurance, City-funded repairs and maintenance, or the City's free use of the Convention Center.</p> <p>The third amendment to the Management Agreement, effective September 2012, changed the methodology for the gross operating profit calculation to include Transient Occupancy Tax revenue allocated to the Convention and Cultural Affairs Fund and net Convention Center parking garage revenue (i.e., the revenue received from parking garage operations less the City's cost to operate the garage).</p>
Economic Impact		
Hotel Room Nights	Performance and Incentive	The total number of hotel room nights booked by the CVB over the course of the Fiscal Year and the total number of hotel room nights booked that can be directly or indirectly attributed to activities at the Facilities.
Event Attendance	Performance and Incentive	Number of local/social visitors, out of town visitors, and exhibitors who attend events at the convention and cultural facilities.
Estimated Economic Impact	Performance and Incentive	Average daily spending rates multiplied by event attendance. Average daily spending rates vary depending on event type (i.e., conventions and meetings, spectator sports and demonstrations, and participant sports and competitions) and attendee type (i.e., local/social visitors, out of town visitors, and exhibitors). This methodology was mutually agreed upon by the City and TSJ as a means to estimate consumer spending related to events.
Return on Investment	Performance only	<p>The Management Agreement and its addendum and second amendment outline that the measure of the City's return on investment is based on a set formula. In May 2011, City staff and Team San Jose agreed to a slightly amended formula as follows:</p> $\frac{[\text{gross revenues from the operation of the Facilities}] + [\text{estimated economic impact}]}{[\text{total expenses from sources and uses for the Convention and Cultural Affairs Fund less Team San Jose's incentive fee}] + [\text{Facilities debt service}]}$ <p>As discussed above, had we used a methodology consistent with prior years, rather than the above formula, the value would have been \$2.74 instead of \$2.63. In either case, TSJ comfortably exceeded the goal of \$1.91.</p> <p>The third amendment to the Management Agreement, effective September 2012, again changed the methodology for calculating return on</p>

Measure	Type of Measure	Methodology for Calculation
		investment, commensurate with changes to the gross operating profit calculation.
Theater Performance		
Performance Days	Performance and Incentive	<p>All days that the City and the operator mutually agree are both available and suitable for performance of a scheduled performance or event, and on which a performance indeed takes place. Performance days are measured by the extent to which TSJ maintains or increases use of the theaters on performance days.</p> <p>As discussed above, one location may have multiple “performance days” on one calendar day if there are unique performances (i.e., not a matinee and regular performance of the same show). In addition, performance days may include private performances (i.e., performances of a show that is for select patrons and not open to the public).</p>
Occupied Days	Performance and Incentive	Days that a theater is utilized under contract and not available for booking for other events.
Customer Satisfaction		
Satisfaction Rate	Performance and Incentive	The results of the operator’s surveys that ask event coordinators to rate their overall satisfaction with the product and services provided on a poor-fair-good-very good-excellent scale. Satisfactory is considered “excellent,” “very good,” or “good.”

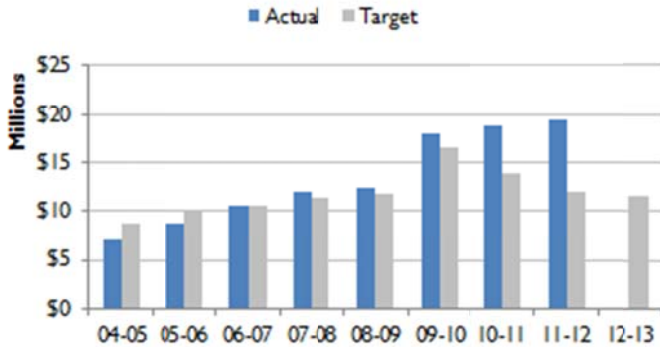
Source: Auditor summary of terms outlined in the Management Agreement, addendum, and amendments, and other issues identified during the course of audit work

APPENDIX B

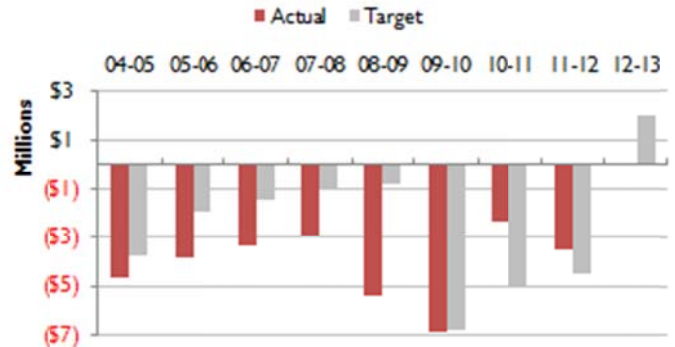
Team San Jose Targets and Results Since FY 2004-05

Measures Tracked Since FY 2004-05

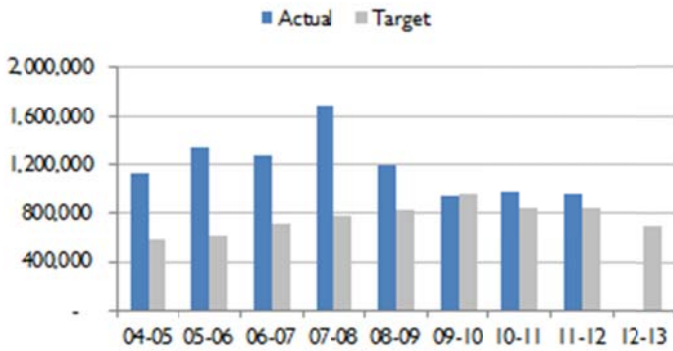
Gross Revenue



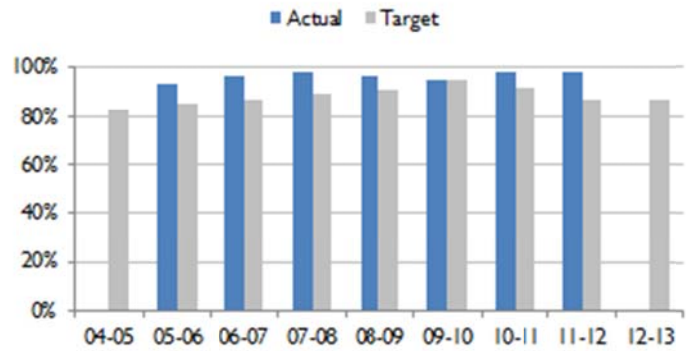
Gross Operating Profit*



Event Attendance

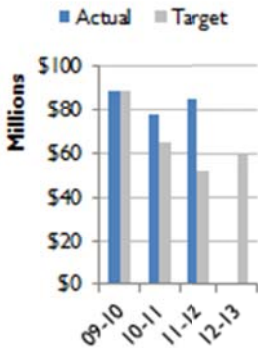


Customer Satisfaction**



Measures Tracked Since FY 2009-10

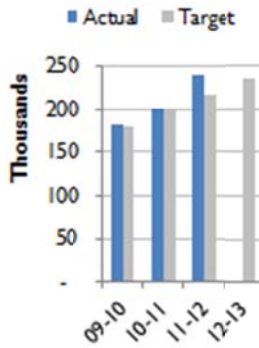
Est. Economic Impact



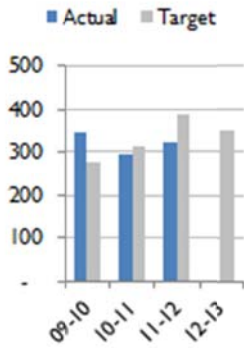
Return on Investment*



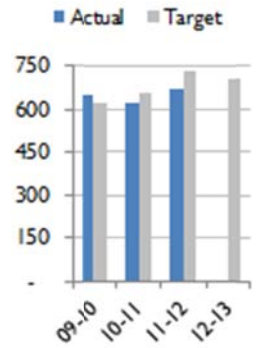
Hotel Room Nights



Performance Days



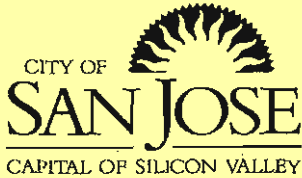
Occupied Days



Source: Auditor analysis of data from Exhibit 12 and our previous TSJ performance audits

Notes: * FY 2012-13 will not be comparable to prior years because the Management Agreement's third amendment redefined the methodologies for calculating gross operating profit and return on investment. City and TSJ staff agreed to amend the return on investment calculation for FY 2011-12. Had we presented return on investment using a methodology consistent with prior years, the value would have been \$2.74.

** Insufficient customer responses were collected in FY 2004-05 to present a meaningful rating.



Memorandum

TO: Sharon Erickson
City Auditor

FROM: Debra Figone

**SUBJECT: RESPONSE TO ANNUAL
PERFORMANCE AUDIT OF
TEAM SAN JOSE'S MANAGEMENT
AGREEMENT**

DATE: January 17, 2013

The City Manager's Office appreciates the efforts and comments made by the City Auditor in the completion of the audit.

The Administration agrees that Team San José (TSJ) achieved a Weighted Incentive Fee score of 137%, but did not reach 90% in every performance measure in 2011-12. The Second Amendment of the Management Agreement between the City of San José and TSJ required TSJ to achieve at least 90% of each performance measure to receive the incentive fee of \$350,000.

The purpose of this Memorandum is to (i) outline the factors that may have contributed to TSJ failing to reach at least 90% of their Theater Performance Measure; and (ii) the Administration's explanation on how the Incentive Fee would have been used to benefit the residents, and (iii) next steps the Administration intends to take regarding this issue.

Theater Performance

The City and TSJ adopt new annual performance measures on an annual basis that are approved by City Council through the annual operating budget process. In 2011, after the performance measures and budget were approved by the City Council, Ballet San José and Symphony Silicon Valley both eliminated performances.

In early September, Ballet San José communicated to TSJ that they had eliminated the Ballet's fall season. Due to the short notice provided by Ballet San José, TSJ was unable to reserve the Center for the Performing Arts during the time frame previously reserved for Ballet San José. Ballet San José's season performance within TSJ budget goal was 41 performance days and 71 occupied days. The cancellation of the fall season by Ballet San Jose impacted 23 Occupied Days and 8 Performance Days that were included in the budgeted goal.

In addition, Symphony Silicon Valley season performance within TSJ budgeted goal was estimated at 30 Performance Days and 70 Occupied Days. Symphony Silicon Valley reduced its season at the last minute, impacting 6 Performance Days and 7 Occupied Days at the California Theater.

HONORABLE MAYOR AND CITY COUNCIL

January 17, 2013

Subject: Response to Team San Jose Annual Performance Audit

Page 2

In addition to the cancelations, two other issues impacted TSJ's ability to reserve additional performance days to make up for these last minute cancelations. First, the former Redevelopment Agency fell behind schedule on the renovations at the San Jose Civic. It was anticipated that all renovations would be completed and that the venue would be turned over to TSJ in early 2011-2012; however, due to delays, the venue was not finished until later in the year. Second, the City Council directed TSJ renegotiate their agreement with Nederlander Concerts. The renegotiation took longer than anticipated and impacted TSJ's ability to rely on Nederlander Concerts to market and reserve additional days.

Next Steps

TSJ earned 137% of their Weighted Performance Measure and far exceeded other performance targets including Gross Operating Profit, which helped to increase the ending fund balance in the Convention and Cultural Affairs fund by nearly \$872,000. TSJ would have received an Incentive Fee of \$350,000 had they not fallen below 90% for the Theater Performance Measure. TSJ intended to use these funds for the current Chief Executive Officer search and incentive payments to TSJ staff for exceeding sales targets.

As directed by the City Council, the Administration is currently working with Convention, Sports and Leisure, LLC, (CSL) to develop a new five-year agreement that combines both the Management Agreement and Services Agreement related to the Convention and Visitors Bureau. The Administration has begun development of new draft performance measures that seek to better highlight the importance of theater performance, but also change the 90% requirement. While a minimum requirement is important, the Administration and CSL believe that 90% is high and that new performance measures should better reflect the value of the City's facilities and their importance to Downtown.

A comprehensive CEO search and the retention of existing sales staff are important to the success of the newly renovated and expanded Convention Center. The Administration believes there is a significant public benefit in the CEO search and retention of TSJ sales staff because the success of the Convention Center and Cultural Facilities is tied directly to the economic success of Downtown San Jose and is directly linked with the City's Economic Development Strategy (#10 – Continue to Position Downtown as Silicon Valley's City Center and #12 – Develop a Distinctive Set of Sports, Arts, and Entertainment Offerings, Aligned with San Jose's Diverse, Growing Population). The Administration is working with TSJ to ascertain if TSJ can absorb these costs. If warranted and appropriate, the Administration may bring forward recommendations as part of the mid-year budget process to appropriate the necessary funding to cover the costs specifically related to the CEO search and staff incentives and an amendment to the existing agreement between the City and TSJ for City Council review and consideration.



DEBRA FIGONE
City Manager

For questions please contact Lee Wilcox, Assistant to the City Manager, at 408-535-8172.

MEMORANDUM

TO: SHARON ERICKSON,
CITY AUDITOR

FROM: BILL SHERRY, CEO,
TEAM SAN JOSE

SUBJECT: FY 2011-2012 Performance Audit

DATE: January 16, 2013

EXECUTIVE SUMMARY

Team San Jose appreciates the opportunity to respond to the City Auditor's Performance Audit of Team San Jose's FY 2011-2012 performance.

For the reasons stated below, Team San Jose respectfully requests that the City adjust the established theater goals by removing those theater occupied and performance days that interfered with Team San Jose's ability to perform as these barriers were outside of Team San Jose's control and many driven by the City. Accordingly, Team San Jose requests that the City grant the annual incentive fee despite the Auditor's conclusion that Team San Jose failed to meet all provisions of its performance under the Management Agreement.

As the City Auditor noted in her report, Team San Jose earned an overall weighted performance score of 137 percent, which in prior years would have earned it the maximum incentive fee. However, the Auditor also noted that Team San Jose did not qualify this year to receive the incentive fee based on its singular failure to meet 90% of one performance measure.

Despite achieving an overall weighted score of 137 percent, Team San Jose scored 84 percent on one measure - Theatre Performance for performance days. Theater performance is the one and only performance measurement that Team San Jose does not completely control to achieve its goals. For FY 2011-2012 there was significant interference with Team San Jose's ability to perform, therefore, it is unfair to withhold an incentive payment the company, its employees and Board of Directors, worked so hard to achieve.

Factors that contributed to the lower theater performance score that were outside of Team San Jose's control include:

- **Resident arts partners scaled back on their seasons due to a depressed economy after Team San Jose's budget was approved by the Mayor and City Council.** These are City resident arts partners with agreements grandfathered in from when the City managed the theaters that Team San Jose does not control. Resident Art partners include Ballet San Jose, Opera San Jose, Symphony Silicon Valley, and the Children's Musical Theater.
- **Prolonged San Jose Redevelopment Agency construction at the San Jose Civic limiting Team San Jose's ability to book events.** The San Jose Redevelopment Agency embarked on a much needed renovation of the Civic Auditorium. Unfortunately, however, the construction project fell over a year behind schedule. Team San Jose had no control over the construction or the construction schedule, yet these construction delays impacted Team San Jose's ability to book the facility.
- **A city driven block out period for a fire system upgrade at the Center for the Performing Arts was planned limiting Team San Jose's ability to book events.** The construction block out period was established after Team San Jose's performance was approved by the City of San Jose limiting our ability to book events within the facility.
- **For valid reasons the City instructed Team San Jose to renegotiate its contract with Nederlander Concerts delaying activation of the San Jose Civic.** The renegotiation period was cumbersome and prolonged and during that period no events were booked by Nederlander Concerts.

If the City uses this basis for establishing Team San Jose performance achievement and eliminate certain days as barriers to achieve theater performance, Team San Jose would meet and achieve all provisions under its performance to receive its full incentive for FY 2011-2012. This would ensure that the City reward Team San Jose for its outstanding performance in a difficult economic environment.

The incentive fee is vital to Team San Jose. Team San Jose uses these funds to strengthen its own operations, providing much-needed resources to improve training, reward and hire talented managers and employees, to bolster the organization during times of economic duress. As you know, I am leaving the organization this fall and want to ensure a seamless transition so that the good work completed over the last two years continues and that my talented leadership team is rewarded for its stellar performance. It is important that the City send a signal of support in Team San Jose so that a new CEO understands that the City is a supportive and enthusiastic partner. As the City knows, this public-private partnership is a unique model that makes San Jose a successful and competitive meetings destination and spurs economic development.

Team San Jose’s Stellar Performance

According to the City Auditor, Team San Jose achieved 137 percent of its annual goal despite an incredibly challenging fiscal year in FY 2011-2012 and great uncertainty during the budgeting process, including:

- The country was still struggling through an economic downturn.
- The Convention Center expansion and renovation project schedule was still being determined and business impacts were unknown.
- Theaters were going through major transformations including:
 - A complete renovation of the San Jose Civic with tremendous delays by the San Jose Redevelopment Agency,
 - Closure of the Montgomery to add an elevator,
 - Fire system issues at the Center for the Performing Arts
 - All resident partners were facing challenging seasons due to the economic decline

Team San Jose’s Overall Performance is measured on the following metrics:

- Economic Factors 40%: Hotel Room Nights, Event Attendance, Estimated Economic Impact (visitor spending) and Return on Investment
- Financial Factors 40%: Gross Operating Profit
- Theater Performance 10%: Performance Days and Occupied Days
- Customer Satisfaction 10%: Satisfaction Rate

The chart below provides a quick view of TSJ performance achieved for FY 2011-2012:

Fiscal Year 2011-2012 Forecast				PERFORMANCE	INCENTIVE		
	Goal	Results	% ACHIEVED	WEIGH SCORE	WEIGHT	WEIGHT SCORE	
Economic Impact							
Hotel Room Nights	218,000	239,848	110.0%	10%	11.0%	15%	16.5%
Event Attendance	848,114	968,704	114.2%	10%	11.4%	15%	17.1%
Estimated Impact	52,000,000	85,480,564	164.4%	10%	16.4%	10%	16.4%
Return on Investment	\$ 1.91	\$ 2.21	115.7%	10%	11.6%		
Gross Operating Profit/Revenue							
Gross Operating Revenue	12,100,000	19,408,344	160.4%			40%	64.2%
Gross Operating Profit	(4,600,000)	(3,360,461)	136.9%	40%	54.8%		
Theatre Performance							
Occupied Days	734	676	92.1%	3%	2.8%	3%	2.8%
Performance Days	386	327	84.7%	7%	5.9%	7%	5.9%
Customer Satisfaction							
Satisfaction Rate	87%	98%	112.6%	10%	11.3%	10%	11.3%
				100%	125%	100%	134%*

*The incentive weighted score was adjusted by the audit as a result of the scoring for Return on Investment Goal, which adjusted the total incentive score to 137%.

BACKGROUND

The following background provides more information about Theater Performance and limitations to achieve performance outside of Team San Jose's control to help the City better understand our request for the full incentive fee.

THEATER PERFORMANCE: Issues beyond TSJ control

Team San Jose's inability to meet the Theater Performance measure occupied days, was due in large part to circumstances entirely out of its control.

Impacts on theater performance out of Team San Jose's control were a result of the following:

- 1) Reduced use of the theaters by the Ballet San Jose and the Symphony Silicon Valley (the "Resident Arts Partners") resulted in the loss of occupied days and performance days that were included in the budget.
- 2) Loss of booking days due to delays in RDA turning over the San Jose Civic to Team San Jose.
- 3) Actions of the City restricting booking of the Center for the Performing Arts.
- 4) Reduced use of the San Jose Civic due to the renegotiation of the Nederlander Concerts contract, which was a city mandate.

Team San Jose Theater Performance for FY 2011-2012 was established as:

- 386 Performance Days
- 734 Occupied Days

In light of the fact that the loss of occupied and performance days was (a) out of the control of Team San Jose and (b) due to the specific actions of the City because of City mandates, and (c) as a result of Resident Arts Partners, who all have city grants and other agreements established that limit Team San Jose's theater performance, it is appropriate to remove those days from the annual goal calculation.

If the City removes 42 Occupied Days from the annual Occupied Days goal of 734, the revised goal would be 692 Occupied Days. Likewise, if the City removes 24 days from the annual Performance Days goal of 386, the revised goal would be 362 Performance Days. As a result, if the City uses this basis for establishing Team San Jose performance achievement and eliminate the days as barriers to achieve theater performance, Team San Jose would achieve its full incentive for FY 2011-2012.

Fiscal Year 2011-2012			
	Revised Goal	Results	% ACHIEVED
Theatre Performance			
Occupied Days	692	692	100.0%
Performance Days	362	327	90.3%

RESIDENT ARTS PARTNERS REDUCED SEASONS

Team San Jose monthly and quarterly reports discussed theater related impacts specific to Resident Arts partners. The Resident Arts partners have come to expect the same discounts and ability to have first right to the best dates available at the venues they utilize as when the City was managing the venues.

- **Ballet and Symphony Silicon Valley reductions in their season performances combined reduced theater performance by 30 occupied days and 14 performance days.**

BALLET SAN JOSE

- After the performance measures and budget were approved by the City Council, Ballet San Jose eliminated its fall season in late August-early September 2011, eliminating any ability for Team San Jose to book the Center for the Performing Arts during the time frame reserved to Ballet San Jose.
- Ballet San Jose's season performance within TSJ budget approval was 41 performance days and 71 occupied days. Their cancellation of the fall season impacted 23 Occupied Days and 8 Performance Days that were accounted for in the budgeted.

SYMPHONY SILICON VALLEY

- Symphony Silicon Valley season performance within TSJ budget approval was estimated at 30 performance days and 70 occupied days.
- Symphony Silicon Valley reduced its season at the last minute impacting 6 Performance Days and 7 Occupied Days at the California Theater. Again, these scheduled Performance Days and Occupied Days were included in the annual budget.

SAN JOSE CIVIC CONSTRUCTION IMPACTS AND NEDERLANDER CONCERTS CONTRACT RENEGOTIATION

Managers Budget Addendum #23 assumed a San Jose Civic re-launch in the second half of the year with concert and special event bookings increasing during this time frame. In addition, TSJ's monthly reports from January through June 2011 highlighted impacts associated with the delay in NDL contract negotiations and renovations. The TSJ Quarterly reports also discussed these impacts to achieve performance.

- **TSJ estimated performance at the San Jose Civic at 54 performance days and 86 occupied days. TSJ estimates a loss 5 performance days and 5 occupied days due to construction and delay and delay in reactivating or launching the San Jose Civic.**
 - The former San Jose Redevelopment Agency led the renovations at the San Jose Civic. The venue was anticipated to be turned over to TSJ with all renovations complete in early FY 2011-2012. Due to delays, the venue was not turned over early in summer of 2011 as anticipated and when it was turned over, the renovations were not complete.
 - In addition, the City mandate to renegotiate the Nederlander Concerts agreement further delayed full activation of the San Jose Civic in FY 2011-2012. Performance measures were created based the venue being fully renovated and available to book beginning in July 2011, with an official launch of the venue scheduled for second quarter 2012. These actions did not occur and therefore theater performance suffered as a result.
 - Theater bookings have a lead time of up to 6 to 12 months so at least the first two Quarters of 2012 were impacted and quite possibly more.

CENTER FOR THE PERFORMING ARTS FIRE SYSTEM UPGRADE

Team San Jose's monthly reports from January 2011-June 2012 highlighted booking impacts associated with the assumed Fire System Upgrade.

- **TSJ estimated performance at the Center for the Performing Arts at 133 performance days and 188 occupied days. TSJ estimates a loss of 7 occupied days and 5 performance days at the CPA.**
 - The City of San Jose Public Works, General Services, Fire Marshall and City Attorney's office informed TSJ that due to a failing fire system that the venue would be closed if an upgrade was not completed immediately in FY 2011-2012.
 - As a result, the City requested that TSJ make time available within the venue in January through March 2012 for upgrades to take place. However, upgrades never took place and the City continued to delay the project and constructions holds created an inability to book the CPA as a result.

CONCLUSION

Team San Jose is proud of its new working partnership with the City. The Team San Jose Board and executive management have worked hard to rebuild its relationship with the City and to focus on performance. Accordingly and in light of the above information, I respectfully request that the City award Team San Jose its incentive payment for that hard work and positive progress made by recognizing the many barriers seen within FY 2011-2012 were beyond Team San Jose's control to achieve theater performance and adjust the performance goal as a result. I respectfully request that Team San Jose be awarded its incentive payment given the negative impacts that were clearly outside Team San Jose's control.