



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Walesh

SUBJECT: TEAM SAN JOSE 2016-2017
PERFORMANCE MEASURES

DATE: June 9, 2016

Approved

Date

6-9-16

REPLACEMENT

RECOMMENDATION

Approve the Team San Jose performance and incentive measures for Fiscal Year 2016-2017.

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.

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 calculating 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 City staff are based on the 2016-2017 Proposed Operating Budget, including contributions from the Convention and Cultural Affairs Fund and Transient Occupancy Tax Fund to the Convention and Visitor's Bureau. City staff worked with TSJ to develop the performance measures and incentive

measures and they were reviewed by the City's hospitality industry advisor, Conventions, Sports & Leisure (CSL).

Table 1-Team San Jose 2016-2017 Performance/Incentive Measures

Performance Measures	Target 2015-2016	Forecast 2015-2016	Proposed 2016-2017
Hotel Room Nights	180,000	180,000	160,000
Event Attendance	1,254,000	1,549,500	1,075,000
Estimated Economic Impact (EEI)	102,000,000	113,650,000	104,312,000
Return on Investment (ROI)	\$2.40	\$2.38	\$2.05
Gross Operating Revenue	31,257,000	41,300,000	39,706,000
Gross Operating Profit	9,228,073	11,001,090	11,722,000
# of Performances/Available Use Days	90% (493/549)	91% (502/549)	95% (523/549)
# Special Events/Available Use Days	7% (40/549)	7% (39/549)	8% (44/549)
Satisfaction Rate	95%	97%	95%

Hotel Room Nights are convention-related hotel bookings. These bookings are lower in 2016-2017, and have been trending lower for the past several years due to a robust hotel market that limits the ability to reserve large blocks of rooms for conference and convention attendees. Team San Jose has continued to attract a greater number of corporate and exhibition related business, which help drive Estimated Economic Impact, Gross Operating Revenue and Gross Operating Profit; this leaves less room for associations and non-corporate sector events, which contributes to lower overall estimated event attendance in 2016-2017.

The lower 2016-2017 target for ROI is primarily a reflection of a substantial suite of capital improvement projects, such as the \$4.4 million to rehabilitate the Civic Auditorium's HVAC to support greater activation and the \$6.0 million to renovate the Exhibit Hall's lighting and ceiling to support more events. Overall, approximately \$16 million is scheduled to be invested in the facilities managed by Team San Jose in 2016-2017 to address deferred maintenance and position the facilities for future growth.

In addition to the Proposed 2016-2017 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 Revenue and Return on Investment; and Attachment C, which includes Team San Jose's 2016-2017 Operating Budget for Convention and Cultural Facilities.

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At City Council's direction, staff and TSJ will come forward to the Community and Economic Development Committee on June 27, 2016 to discuss the methodology behind these performance measures in more depth, with the goal of developing new measures going forward for 2017-2018. Additionally, in response to a City Auditor's recommendation, the Administration anticipates bringing forward a recommendation by fall 2016 for the City Council's consideration regarding the collection and use of Theater Preservation Fund proceeds.

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 2016-2017 Return on Investment and Gross Operating Profit Performance Measures

Attachment C: Team San Jose 2016-2017 Operating Budget

ATTACHMENT A
Team San Jose Performance / Incentive Measures Data

<i>Year-Over-Year Performance Measures</i>	Actual 2011-2012	Actual 2012-2013	Actual 2013-2014	Actual 2014-2015	Target 2015-2016	Forecast 2015-2016	Proposed 2016-2017
Hotel Room Nights	239,848	247,711	255,803	213,000	180,000	180,000	160,000
Event Attendance	968,704	1,103,490	1,274,016	1,400,000	1,254,000	1,549,500	1,075,000
Estimated Economic Impact (EEI)	85,480,564	87,061,604	91,215,395	124,100,000	102,000,000	113,650,000	104,312,000
Return on Investment	\$ 2.63	\$ 2.48	\$ 2.38	\$ 2.82	\$ 2.40	\$ 2.38	\$ 2.05
Gross Operating Revenue	19,423,392	23,823,218	28,430,047	37,300,000	31,257,000	41,300,000	39,706,000
Gross Operating Profit	4,556,997	5,257,453	5,738,929	9,200,000	9,228,073	11,001,090	11,722,214
# of Performances/Available Use Days *				104% (579/559)	90% (493/549)	91% (502/549)	95% (523/549)
# Special Events/Available Use Days *				8% (45/559)	7% (40/549)	7% (39/549)	8% (44/549)
Satisfaction Rate	98%	98%	97%	100%	95%	97%	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 2016-2017 Return on Investment and Gross Operating Profit Performance Measures

Attachment B

Details for TSJ's 2016-2017 ROI and GOP Performance Measures

Return on Investment (ROI)	
Numerator	
Estimated Economic Impact (EEI)	104,312,000
Convention and Cultural Facilities (CCF)	
Operating Revenue	39,706,180
Transfer from the Transient Occupancy Tax Fund	13,658,865
Parking Garage Revenue	3,450,000
Total Numerator	161,127,045
Denominator	
CCF Operating Expenses	42,596,014
Convention Center Refunding Debt Service	15,261,000
Convention Center Expansion Commercial Paper	
Debt Service	1,501,000
City Oversight Expense	555,802
CVB Marketing Services	750,000
Parking Expenses	1,171,839
Broadway San Jose Payments	75,000
Fire Insurance	245,000
Convention Center Free Use	275,000
Civic Auditorium Temp Cooling	300,000
<i>Total Capital Investment</i>	<i>16,028,000</i>
Total Denominator	78,758,655
ROI	\$2.05

Gross Operating Profit (GOP)	
Convention and Cultural	
Facilities Operating Revenue	39,706,179
TOT Collections	13,658,865
Parking Garage Revenue	3,450,000
Total Revenue	56,815,044
Operating Expenses	42,596,014
Parking Expenses	1,171,839
Convention and Visitors Bureau	
Marketing Expense	750,000
Convention Center Free Use	275,000
Civic Auditorium Temp Cooling	300,000
Total Expenses	45,092,853
GOP	11,722,191

ATTACHMENT C

Team San Jose 2016-2017 Operating Budget

REVENUE

Building Rental Revenue	7,294,792
Food & Beverage Services	19,111,865
Personnel Service Revenue	9,391,626
Electricity/Utility Revenue	483,092
Commission Revenue	1,244,716
Telecommunications/Audio Visual/Networking	1,724,460
Other Revenue	455,628
Total Revenue	39,706,179

VARIABLE EXPENSES

Food & Beverage Cost of Sales	3,716,206
Labor Cost of Sales	8,670,974
Other Cost of Sales	(1,439)
Variable Labor - Food & Beverages	6,361,807
Variable Labor - Maintenance & Temporary Other	4,387,986
Variable Labor - Other	2,461,895
Variable Workers' Comp	671,683
Temp Labor - Security	763,635
Other Labor	256,548
Other Operating Cost	1,485,572
Repairs & Maintenance	1,684,512
Utilities	3,104,779
TOTAL VARIABLE EXPENSES	33,564,158

FIXED EXPENSES

Salaries & Benefits	7,318,573
Insurance	257,800
Professional Fees Audit/Legal/Consult	254,200
Payroll Processing Fees	101,280
Telephone	205,000
Uniforms	71,700
Bank Charges	184,529
Other Fixed	797,774
Parking Expense Reimbursement	(159,000)
TOTAL FIXED EXPENSES	9,031,856

REQUIRED CITY COSTS

City Free Use	275,000
City Oversight	227,000
Audit Expense	(50,000)
TOTAL REQUIRED CITY COSTS	452,000

Total Expenses 43,048,014

Total Convention and Cultural Facilities Operating Subsidy (3,341,835)