



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Kim Walesh

**SUBJECT:** TEAM SAN JOSE 2019-2020  
PERFORMANCE MEASURES

**DATE:** May 30, 2019

Approved

Date

5/31/19

## RECOMMENDATION

Approve the Team San Jose performance and incentive measures for Fiscal Year 2019-2020.

## 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.<sup>1</sup>

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 Revenue 40%, Theatre Performance 10%, and Customer Service Survey Results 10%. Based on TSJ's achievement of separate but related incentive fee measures, consistent with the City Auditor's analysis, TSJ will receive an Incentive Fee in 2019-2020. Per contract, the annual Incentive Fee will increase to \$250,000 for the next five-year term. 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.

In 2017, Council approved revisions to TSJ's performance measures to align with national best practices. This MBA reflects the revised measures.

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<sup>1</sup> The City's Convention Center and Cultural Facilities Management Agreement and Convention and Visitor Bureau Agreement with TSJ include two automatic five-year extensions that do not require Council action. The contracts will automatically extend beginning in 2019-2020 per the existing terms. However, the City and TSJ are currently negotiating specific terms for contract renewal, and the Administration will recommend amendments for Council approval when that process has completed.

**ANALYSIS**

The purpose of the performance measures is to provide a quantifiable way of evaluating TSJ's management of the convention facilities. The purpose of the incentive fee measures is to provide a quantifiable way of validating the Incentive Fee earned by TSJ, and paid from the Convention and Cultural Affairs Fund. The performance measures and incentive fee measures set forth by TSJ and reviewed by City staff are based on the 2019-2020 Proposed Operating Budget, and any Recommended Adjustments to the 2019-2020 Proposed Operating and Capital Budgets that are subject to City Council approval, including contributions from the Convention and Cultural Affairs Fund and Transient Occupancy Tax Fund to the Convention and Visitor's Bureau.

**Table 1-Team San Jose 2019-2020 Performance/Incentive Measures**

<b>Performance Measures</b>	<b>Target 2018-2019</b>	<b>Forecast 2018-2019</b>	<b>Proposed 2019-2020</b>
Hotel Room Nights	160,000	176,000	160,000
Estimated Economic Impact (EEI)	\$119,750,000	\$135,000,000	\$100,926,262
Gross Operating Revenue	\$44,029,413	\$53,290,115	\$52,245,505
Gross Operating Results	\$10,967,039	\$12,653,885	\$14,326,389
Theater Occupied Days	86%	90%	87%
Satisfaction Rate	95%	97%	95%

Convention industry business is forecasted to be strong again in 2019-2020; however, revenues are projected to be slightly lower than the current fiscal year, with Gross Operating Results forecasted to be slightly higher. Lower revenue is projected for 2019-2020, relative to 2018-2019 year-end estimates, due to the loss of a large weekend corporate group. Although TSJ anticipates replacement of this booking, revenue potential is comparatively limited. Visitor spending is also projected to drop due, in part, to the one-time impacts of several large-scale sporting events occurring during 2018-2019 - the College Football Playoff Championship and NHL All-Star Weekend.

Performance measure targets are collaboratively developed by TSJ and City staff and reviewed and approved by the TSJ Board of Directors, consistent with past practice. Although the performance measure targets presented in this memorandum reflect this collaboration, TSJ Board of Directors review is pending and anticipated at its next scheduled meeting in July 2019. Additionally, the forthcoming construction of the Museum Place development presents logistical challenges for access to the San José Civic Auditorium (Civic), and the City and TSJ are actively working together to address the impacts of this project to programming for the Civic. Staff may bring forward amendments to these performance targets and budgeted operating assistance for 2019-2020 to account for any significant negative impacts to the operational capacity at the

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Civic. Any potential changes brought forward would have the support of both City staff, and the approval of TSJ's Board of Directors.

In addition to the Proposed 2019-2020 Performance/Incentive Measures shown in the table above, this memorandum also includes: Attachment A, which reports historical performance data from TSJ; Attachment B, which includes Gross Operating Results methodology; and Attachment C, which includes TSJ's 2019-2020 Operating Budget for Convention and Cultural Facilities.

### **COORDINATION**

This memorandum has been coordinated with Team San Jose 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: Gross Operating Results methodology

Attachment C: Team San Jose 2019-2020 Operating Budget

**ATTACHMENT A**  
**Team San Jose Performance / Incentive Measures Data**

**Proposed Performance Measures for 2019-2020 compared to prior years**

<i>Year-Over-Year Performance Measures</i> <sup>1</sup>	Actual 2014-2015	Actual 2015-2016	Actual 2016-2017	Actual 2017-2018	Goal 2018-2019	Forecast 2018-2019	Proposed 2019-2020
Hotel Room Nights	213,000	186,136	186,592	176,522	160,000	176,000	160,000
Event Attendance	1,400,000	1,572,038	1,356,745	N/A	N/A	N/A	N/A
Estimated Economic Impact (EEI)	\$ 124,100,000	\$ 118,641,223	\$ 105,163,222	\$ 115,264,223	\$ 119,750,000	\$ 135,000,000	\$ 100,926,262
Return on Investment	\$2.82	\$2.49	\$2.05	N/A	N/A	N/A	N/A
Gross Operating Revenue	\$ 37,300,000	\$ 45,485,590	\$ 53,417,646	\$ 54,796,428	\$ 44,029,413	\$ 53,290,115	\$ 52,245,505
Gross Operating Profit - Results	\$ 9,200,000	\$ 13,568,640	\$ 15,860,432	\$ 15,182,261	\$ 10,967,039	\$ 12,653,885	\$ 14,326,389
# of Performances/Available Use Days	104%	106%	103%	N/A	N/A	N/A	N/A
# Special Events/Available Use Days	8%	7%	11%	N/A	N/A	N/A	N/A
Theater Occupied Days	-	-	99%	89%	87%	90%	87%
Satisfaction Rate	100%	100%	97%	100%	95%	97%	95%

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

# ATTACHMENT B

## Details for 2019-2020 Gross Operating Results Performance Measure

<b>Gross Operating Results</b>	<b>2018-19 Budget</b>	<b>2019-20 Proposed</b>
Convention and Cultural Facilities Revenue	44,029,413	52,245,505
Transient Occupancy Tax	14,391,365	17,742,865
Parking Garage Revenue	3,612,000	3,744,000
<b>Total Revenue</b>	<b>\$62,032,780</b>	<b>\$73,732,370</b>
Operating Expenses	48,953,969	57,241,681
Parking Expenses	1,336,772	1,389,300
Convention and Visitors Bureau Marketing Expense	500,000	500,000
Convention Center Free Use	275,000	275,000
<b>Total Expense</b>	<b>\$51,065,741</b>	<b>\$59,405,981</b>
<b>Gross Operating Results</b>	<b>\$10,967,039</b>	<b>\$14,326,389</b>

# ATTACHMENT C

## Team San Jose/TSJ Events. LLC Convention & Cultural Facilities Division (CCF) 2019-2020 Proposed Operating Budget <sup>1</sup>

<b>REVENUE:</b>	<b>\$ TOTAL <sup>2</sup></b>
Building Rental Revenue	7,598,111
Food & Beverage Services	25,048,078
Personnel Service Revenue	14,495,298
Electricity/Utility Revenue	300,000
Commission Revenue	1,212,145
Telecommunications/Audio Visual/Networking	2,547,388
Other Revenue	1,044,484
<i>External Ticketing Revenue</i>	-
<i>Ticketing Revenue</i>	533,000
<i>Rigging Assessment Fee</i>	650,526
<i>Other Revenue</i>	160,958
<i>Event Discount</i>	(250,000)
<i>Bad Debt Expense/Settlement</i>	(50,000)
<b>TOTAL REVENUE:</b>	<b>52,245,505</b>
<b>VARIABLE EXPENSES:</b>	
Food & Beverage Cost of Sales	3,800,379
Labor Cost of Sales	12,382,937
Variable Labor	19,972,175
Other Operating Cost	1,882,477
Repairs & Maintenance	2,910,250
Utilities	3,776,851
<b>TOTAL VARIABLE EXPENSES:</b>	<b>44,725,070</b>
<b>FIXED EXPENSES:</b>	
Salaries & Benefits	10,737,421
Insurance	-
Operational Insurance	295,800
Professional Fees (Audit/Legal/Consulting)	340,000
<i>Professional Fees Accg/Audit</i>	60,000
<i>Professional Fees Legal</i>	180,000
<i>Professional Fees Consulting</i>	100,000
Office (Equipment/Software/Supplies/Print)	434,514
<i>Office Equipment</i>	130,000
<i>Comp Software/Lic &amp; Equip</i>	191,753
<i>Office Expenses &amp; Supplies</i>	76,886
<i>Office Print/Signage</i>	35,875
Telephone	276,781

Uniforms	88,000
Bank Charges	250,000
Other Fixed	244,095
<i>Dues &amp; Subscriptions</i>	31,415
<i>Parking Validation</i>	30,000
<i>Postage</i>	11,922
<i>Office Repair &amp; Maint</i>	-
<i>Pest Control</i>	22,177
<i>Cash Over/Short</i>	1,300
<i>Personnel Processing Fees</i>	108,350
<i>Office Equip Lease</i>	38,932
<i>Employee Event</i>	-
<i>Tax License Fees</i>	-
<i>Donations</i>	-
Misc Expense	50,000
Capital Outlay - CCF Funded	-
Parking Expense Reimbursement	(200,000)
<b>TOTAL FIXED EXPENSES:</b>	<b>12,516,611</b>
<b>REQUIRED CITY COSTS:</b>	
City Oversight	278,080
Audit Expense Reimbursement	(55,000)
<b>TOTAL REQUIRED CITY COSTS</b>	<b>498,080</b>
<b>Net Facility Operating Subsidy</b>	<b>(5,219,624)</b>

<sup>1</sup> 2019-2020 Proposed Operating Budget, including recommended adjustments as detailed in the Recommended Amendments to the 2019-2020 Proposed Operating and Capital Budgets City Manager's Budget Addendum.

<sup>2</sup> Subtotals may vary due to rounding.