



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kim Welsh

SUBJECT: TEAM SAN JOSE 2020-2021
PERFORMANCE MEASURES

DATE: June 7, 2020

Approved

Date: 6/7/2020

RECOMMENDATION

Approve the Team San Jose performance and incentive measures for Fiscal Year 2020-2021.

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 for the Management of the San Jose Convention Center and Cultural Facilities (Agreement) with two additional five-year options.¹

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%. The agreement also allows for the adjustment of annual performance measures as the result of variances equal to 15% of forecasted Transient Occupancy Tax (TOT) revenues, as an indicator of economic factors impacting facility use and financial implications that are outside of TSJ's control. Given the impacts of COVID-19 on TOT revenues, as well as the shelter-in-place requirements and corresponding facility closures, initial performance measure targets will be collaboratively revisited with TSJ as the current fiscal year of 2019-2020 concludes. Receipt of an Incentive Fee for 2020-2021 is contingent upon this collective analysis. Per the Agreement, the annual Incentive Fee equals \$250,000 for the current five-year term.

Per past practice, each year, annual performance measures for TSJ are brought forward through the Manager's Budget Addendum (MBA) process and ultimately approved as part of the Mayor's

¹ The City's Convention Center and Cultural Facilities Management Agreement and Convention and Visitor Bureau Agreement with TSJ is in its second of three five-year extensions that do not require Council action. The contracts are extended through 2024-2025 per the existing terms. The City and TSJ are negotiating specific terms of these contracts. However, this process has been paused due to the impacts of COVID-19. The Administration will recommend amendments for Council approval when that process has completed.

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.

ANALYSIS

The purpose of the performance measures is to provide a quantifiable way of evaluating TSJ's management of the convention and cultural facilities. These measures are a means to validate 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 2020-2021 Proposed Operating Budget, and any recommended adjustments to the 2020-2021 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 2020-2021 Performance/Incentive Measures

Performance Measures	Target 2019-2020	Forecast 2019-2020	Proposed 2020-2021
Hotel Room Nights	160,000	125,000	119,820
Estimated Economic Impact (EEI)	\$100,929,262	\$62,653,107	\$28,707,785
Gross Operating Revenue	\$52,245,505	\$34,018,171	\$29,979,348
Gross Operating Profit - Results	\$14,326,389	\$4,646,250	\$1,025,128
Theater Occupied Days ²	87%	86%	77%
Satisfaction Rate	95%	100%	95%

The disruption to the convention and travel industries caused by the COVID-19 pandemic and associated efforts to mitigate its effects have severely impacted the operations of San Jose’s Convention and Cultural Facilities and will continue to do so throughout 2020-2021, potentially extending into 2021-2022 and beyond. Continuation of shelter-in-place orders and restrictions on gatherings have effectively required closure of the venues for business, with unknown timelines for re-opening that make forecasting performance for 2020-2021 extremely difficult. Based on current knowledge, the recommended performance measures assume several activations within the San Jose Theaters occurring within the second quarter of 2020-2021, leading to slow but

² The current Agreement with Team San Jose stipulates that the number of available use days for a facility may be adjusted for the number of days a facility is unavailable due to unforeseeable events. Accordingly, the performance measures recommended in this memorandum reflect adjusted calculations for available use days based on shelter-in-place requirements and effective facility closures. The Forecast 2019-2020 figures reflect the impact of the shelter-in-place orders for 2019-2020, and the figure for Proposed 2020-2021 takes into account assumed social distancing restrictions that will reduce available the number of available days in 2020-2021.

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increasing activation over the latter half of the year. A few events are currently projected to be held at the San José McEnery Convention Center in November/December followed by a gradual increase of business volume. However, new guidelines for social distancing, a weakened economic landscape, and extremely constrained consumer willingness to travel will all combine to severely impact the size and scope of all events once business resumes. Accordingly, all performance measures are projected to decrease significantly. Changes to the factors within either the economy or the status of COVID-19 will impact these measures greatly, necessitating that the City and TSJ will remain in frequent communication around performance and the broader landscape of the conventions and events industry.

In addition to the proposed 2020-2021 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 Profit methodology; and Attachment C, which includes TSJ's 2020-2021 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, at 408-793-4333.

Attachment A: Team San Jose Performance / Incentive Measures Data

Attachment B: Gross Operating Profit Methodology

Attachment C: Team San Jose 2020-2021 Operating Budget

ATTACHMENT A
Team San Jose Performance / Incentive Measures Data

Proposed Performance Measures for 2020-2021 Compared to Prior Years

<i>Year-Over-Year Performance Measures ¹</i>	Actual 2015-2016	Actual 2016-2017	Actual 2017-2018	Actual 2018-2019	Goal 2019-2020	Forecast 2019-2020 ²	Proposed 2020-2021
Hotel Room Nights	186,136	186,592	176,522	177,039	160,000	125,000	119,820
Event Attendance	1,572,038	1,356,745	N/A	N/A	N/A	N/A	N/A
Estimated Economic Impact (EEI)	\$118,641,223	\$105,163,222	\$115,264,223	\$138,773,814	\$100,929,262	\$62,653,107	\$28,707,785
Return on Investment	\$2.49	\$2.05	N/A	N/A	N/A	N/A	N/A
Gross Operating Revenue	\$45,485,590	\$53,417,646	\$54,796,428	\$54,750,127	\$52,245,505	\$34,018,171	\$29,979,348
Gross Operating Profit - Results	\$13,568,640	\$15,860,432	\$15,182,261	\$14,183,201	\$14,326,389	\$4,646,250	\$1,025,128
# of Performances/Available Use Days	106%	103%	N/A	N/A	N/A	N/A	N/A
# Special Events/Available Use Days	7%	11%	N/A	N/A	N/A	N/A	N/A
Theater Occupied Days ³	-	99%	89%	97%	87%	86%	77%
Satisfaction Rate	100%	97%	100%	98%	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 Given the impacts of COVID-19 on TOT revenues, as well as the shelter-in-place requirements and corresponding facility closures, initial performance measure targets will be collaboratively revisited with TSJ as the fiscal year concludes. Receipt of an Incentive Fee for 2020-2021 is contingent upon this collective analysis.

³ The estimate for 2020-2021 assumes limited theater activation in the second quarter of 2020-2021, with slowly increasing activation across the four theaters toward the latter half of the fiscal year.

ATTACHMENT B

Details for 2020-2021 Gross Operating Results Performance Measure

Gross Operating Results	2019-2020 Budget	2020-2021 Proposed *
Convention and Cultural Facilities Revenue	52,245,505	29,979,348
Transient Occupancy Tax	17,742,865	6,494,865
Parking Garage Revenue	3,744,000	1,942,268
Total Revenue	\$73,732,370	\$38,261,616
Operating Expenses	57,241,681	36,346,889
Parking Expenses	1,389,300	969,464
Convention and Visitors Bureau Marketing Expense	500,000	-
Convention Center Free Use	275,000	75,000
Total Expense	\$59,405,981	\$37,391,353
Gross Operating Results	\$14,326,389	\$1,025,128

* Reflects recommended adjustments to forecasted revenues and anticipated expenditures outlined in Manager's Budget Addendum #4, General Fund Revenue Assumptions and Transient Occupancy Tax Amendments.

ATTACHMENT C

**Team San Jose/TSJ Events. LLC
Convention & Cultural Facilities Division (CCF)
2020-2021 Operating Budget**

REVENUE:

Building Rental Revenue	4,491,574
Food & Beverage Services	12,461,186
Personnel Service Revenue	9,586,711
Electricity/Utility Revenue	158,415
Commission Revenue	775,808
Telecommunications/Audio Visual/Networking	1,473,939
External Ticketing Revenue	-
Other Revenue	1,031,714
Ticketing Revenue	469,390
Rigging Assessment Fee	475,246
Other Revenue	232,532
Event Discount	(131,053)
Bad Debt Expense/Settlement	(14,401)
TOTAL REVENUE:	29,979,348

VARIABLE EXPENSES:

Food & Beverage Cost of Sales	1,914,967
Labor Cost of Sales	8,012,385
Variable Labor	11,116,418
Other Operating Cost	914,137
Repairs & Maintenance	1,629,263
Utilities	2,512,949
TOTAL VARIABLE EXPENSES:	26,100,119

FIXED EXPENSES:

Salaries & Benefits	8,720,629
Operational Insurance	436,118
Professional Fees (Audit/Legal/Consulting)	231,381
<i>Professional Fees Accg/Audit</i>	54,000
<i>Professional Fees Legal</i>	120,000
<i>Professional Fees Consulting</i>	57,381
Office (Equipment/Software/Supplies/Print)	480,927
<i>Office Equipment</i>	29,979
<i>Comp Software/Lic & Equip</i>	386,243
<i>Office Expenses & Supplies</i>	44,118
<i>Office Print/Signage</i>	20,587
Telephone	123,667

Uniforms	50,494
Bank Charges	83,619
Other Fixed	319,935
Dues & Subscriptions	18,027
Parking Validation	8,994
Postage	6,843
Office Repair & Maint	-
Pest Control	26,040
Cash Over/Short	746
Personnel Processing Fees	115,216
Office Equip Lease	115,380
Employee Event	-
Tax License Fees	-
Donations	-
Misc Expense	28,689
Capital Outlay - CCF Funded	
Parking Expense Reimbursement	(200,000)
TOTAL FIXED EXPENSES:	10,246,770
Subtotal Operating Expenses	36,346,889
REQUIRED CITY COSTS:	
City Oversight	290,410
Audit Expense Reimbursement	(54,000)
TOTAL REQUIRED CITY COSTS	236,410
<i>Net Facility Operating Subsidy</i>	(6,603,951)