



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Kim Walesh

**SUBJECT:** TEAM SAN JOSE 2018-2019  
PERFORMANCE MEASURES

**DATE:** May 24, 2018

Approved

Date

5.24.18

## RECOMMENDATION

Approve the Team San Jose performance and incentive measures for Fiscal Year 2018-2019.

## 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 Results 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.

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 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 2018-2019 Proposed Operating Budget, 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 2018-2019 Performance/Incentive Measures**

Performance Measures	Target 2017-2018	Forecast 2017-2018	Proposed 2018-2019
Hotel Room Nights	160,000	176,000	160,000
Event Attendance <sup>1</sup>	1,113,212	1,302,509	N/A
Estimated Economic Impact (EEI)	\$ 111,738,615	\$ 111,865,917	\$ 119,750,000
Return on Investment (ROI) <sup>1</sup>	\$2.18	\$2.18	N/A
Gross Operating Revenue	\$ 38,962,888	\$ 44,082,388	\$ 44,092,415
Gross Operating Results (GOR) <sup>2</sup>	\$ 10,467,487	\$ 11,286,177	\$ 10,967,039
# of Performances/Available Use Days <sup>1</sup>	99% (499/505)	98%	N/A
# Special Events/Available Use Days <sup>1</sup>	10% (50/505)	10%	N/A
Theater Occupied Days <sup>3</sup>	N/A	N/A	87%
Satisfaction Rate	95%	100%	95%

<sup>1</sup> Measure is eliminated for 2018-2019, per City Council approval.

<sup>2</sup> Measure title revised from “Gross Operating Profit (GOP)”, per City Council approval.

<sup>3</sup> Revised measures approved by City Council based on occupancy.

Convention industry business is forecasted to be strong in 2018-2019. Revenue is projected to be stable, aligning with current fiscal year performance. While the Convention Center Exhibit Hall Lighting and Ceiling Upgrades, San José Civic Auditorium HVAC Rehabilitation, and Montgomery Theater Restroom Remodel projects limited availability in the first quarter of 2017-2018, projections for 2018-2019 are relatively flat to account for the expected fluctuation in contracted and repeat business, and the anticipated impacts from rescheduling events to accommodate the forthcoming College Football Championship Playoffs and NHL All-Star Game, which are expected to yield larger general attendance but with reduced revenue potential. Hotel Room Nights performance is also expected to be stable, although favorable economic conditions and increased transient bookings limit room availability for larger events. Gross Operating Results are forecasted slightly lower than for 2017-2018 due to the addition of managerial positions to maintain high-quality standards and internal controls as activation levels at the convention center and theaters increase. As the mix of business has transitioned to local corporate clients over the past years, TSJ has increased staffing levels to provide the service level demanded from this market segment.

In addition to the Proposed 2018-2019 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 2018-2019 Proposed Operating Budget for Convention and Cultural Facilities.

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**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: Details for the 2018-2019 Gross Operating Results Performance Measure

Attachment C: Team San Jose 2018-2019 Proposed Operating Budget

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

**Proposed Performance Measures for 2018-2019 compared to prior years**

<b><i>Year-Over-Year Performance Measures</i></b>	<b>Actual 2013-2014</b>	<b>Actual 2014-2015</b>	<b>Actual 2015-2016</b>	<b>Actual 2016-2017</b>	<b>Goal 2017-2018</b>	<b>Forecast 2017-2018<sup>3</sup></b>	<b>Proposed 2018-2019</b>
Hotel Room Nights	255,803	213,000	186,136	186,592	160,000	176,000	160,000
Event Attendance	1,274,016	1,400,000	1,572,038	1,356,745	1,133,212	1,302,509	N/A
Estimated Economic Impact (EEI)	\$ 91,215,395	\$ 124,100,000	\$ 118,641,223	\$ 105,163,222	\$ 111,738,615	\$ 111,865,917	\$ 119,750,000
Return on Investment	\$ 2.38	\$ 2.82	\$ 2.49	\$ 2.05	\$ 2.18	\$ 2.18	N/A
Gross Operating Revenue	\$ 28,430,047	\$ 37,300,000	\$ 45,485,590	\$ 53,417,646	\$ 38,962,888	\$ 44,082,388	\$ 44,029,415
Gross Operating Profit/Results	\$ 5,738,929	\$ 9,200,000	\$ 13,568,640	\$ 15,860,432	\$ 10,467,487	\$ 11,286,177	\$ 10,967,039
# of Performances/Available Use Days <sup>1</sup>	N/A	104%	106%	103%	90%	98%	N/A
# Special Events/Available Use Days <sup>1</sup>	N/A	8%	7%	11%	10%	10%	N/A
Theater Occupied Days <sup>2</sup>	-	-	-	-	-	86%	87%
Satisfaction Rate	97%	100%	100%	97%	95%	100%	95%

<sup>1</sup> Based on theater activation as a percentage of sellable days.

<sup>2</sup> Revised measures approved by City Council based on occupancy.

<sup>3</sup> Forecast financial performance is adjusted monthly.

## ATTACHMENT B

### Details for 2018-2019 Gross Operating Results Performance Measure

<b>Gross Operating Results</b>	
Convention and Cultural Facilities Revenue	\$ 44,029,415
Transient Occupancy Tax	\$ 14,391,365
Parking Garage Revenue	\$ 3,612,000
<b>Total Revenue</b>	<b>\$ 62,032,780</b>
Operating Expenses	\$ 48,953,969
Parking Expenses	\$ 1,336,772
Convention and Visitors Bureau Marketing Expense	\$ 500,000
Convention Center Free Use	\$ 275,000
<b>Total Expense</b>	<b>\$ 51,065,741</b>
<b>Gross Operating Results</b>	<b>\$ 10,967,039</b>

## ATTACHMENT C

### Team San Jose 2018-2019 Proposed Operating Budget

#### REVENUE:

Building Rental Revenue	7,149,611
Food & Beverage Services	20,611,435
Personnel Service Revenue	11,203,110
Electricity/Utility Revenue	424,498
Commission Revenue	1,326,102
Telecommunications/Audio Visual/Networking	2,404,344
Other Revenue	910,315

**TOTAL REVENUE:** \$ 44,029,415

#### VARIABLE EXPENSES:

Food & Beverage Cost of Sales	3,319,709
Labor Cost of Sales	9,530,284
Variable Labor	17,076,705
Other Operating Cost	1,700,500
Repairs & Maintenance	2,663,250
Utilities	3,205,610

**TOTAL VARIABLE EXPENSES:** \$ 37,496,058

#### FIXED EXPENSES:

Salaries & Benefits	9,836,661
Insurance	290,000
Professional Fees (Audit/Legal/Consulting)	310,000
Office (Equipment/Software/Supplies/Print)	379,750
Telephone	269,750
Uniforms	88,000
Bank Charges	235,000
Other Fixed	232,500
Parking Expense Reimbursement	(183,750)

**TOTAL FIXED EXPENSES:** \$ 11,457,911

#### REQUIRED CITY COSTS:

City Oversight	278,080
Audit Expense Reimbursement	(60,000)

**TOTAL REQUIRED CITY COSTS** \$ 218,080

**Net Facility Operating Subsidy** \$ (5,142,634)