



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Kim Walesh

**SUBJECT:** SEE BELOW

**DATE:** May 27, 2015

Approved

Date

5-27-15

**SUBJECT: TEAM SAN JOSE 2015-2016 PERFORMANCE MEASURES**

## RECOMMENDATION

Approve the Team San Jose performance and incentive measures for Fiscal Year 2015-2016.

## BACKGROUND

In 2014, the City of San José and Team San Jose (TSJ), which manages the City's Convention and 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 Management Fee (Incentive Fee), set at \$200,000 for the first five years, is set each fiscal year based on TSJ's achievement of separate, but related incentive fee 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 calculating the Incentive Fee earned by TSJ, and paid from the Convention and Cultural Affairs Fund. In recent years the performance measures for Team San Jose have been brought forward through the Manager's Budget Addendum (MBA) process and ultimately approved as part of the Mayor's June Budget Message.

The performance measures and incentive fee measures set forth by City staff are based on the 2015-2016 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).

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**Table 1 – Team San Jose 2015-2016 Performance/Incentive Measures**

Performance Measures	Target 2014-2015	Forecast 2014-2015	Proposed 2015-2016
Hotel Room Nights	200,000	200,000	<b>180,000</b>
Event Attendance	1,035,000	1,223,093	<b>1,254,000</b>
Est Economic Impact	\$91,120,000	\$109,172,465	<b>\$102,000,000</b>
Return on Investment	\$2.45	\$2.55	<b>\$2.40</b>
Gross Operating Revenue	\$25,939,000	\$35,000,000	<b>\$31,257,000</b>
Gross Operating Profit	\$7,002,684	\$8,179,864	<b>\$9,228,073</b>
# of Performances – Total	86%	100%	<b>90%</b>
Special Events Days – Total	6%	8%	<b>7%</b>
Customer Satisfaction	95%	100%	<b>95%</b>

While the hospitality industry in San José is currently experiencing strong growth due to the activity local technology companies and the economy in general, the high level of hotel occupancy has hindered the ability of Team San Jose to book “room blocks” from the hotels. As a result, some of the Proposed 2015-2016 Performance Measures are slightly lower than those forecasted for 2014-2015. With Team San Jose continuing to work with our hotel industry on this issue, staff have been working with the City’s hospitality industry advisor, Convention, Sports & Leisure (CSL), to study the potential to build additional hotel capacity in the Downtown. This information will be available and reported to the City Council in Fall of 2015.

When compared to the forecast for 2014-2015, the Gross Operating Revenue target for 2015-2016 is lower. This is in part due to the restricted ability to book room blocks as discussed above, and to account for activity in 2014-2015 related to several larger one-time corporate clients and several groups booking for the first time that would typically repeat on a three to four year cycle. The drop in Return on Investment is primarily due to the \$6.4 million capital investment anticipated in 2015-2016, including \$2.5 million for heating, ventilation and air conditioning replacement at the Civic Auditorium.

In addition to the Proposed 2015-2016 Performance/Incentive Measures shown above, Attachment A includes historical proposed and achieved performance data from Team San Jose as well as Attachment B that includes the methodology used to calculate Gross Operating Project and Return on Investment, while Attachment C includes Team San Jose’s 2015-2016 Operating Budget for Convention and Cultural Facilities.

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**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 Lee Wilcox, Assistant to the City Manager, at 408-535-8172.

Attachment A: Team San Jose Performance / Incentive Measures Data

Attachment B: Details for TSJ's 2015-2016 Return on Investment and Gross Operating Profit Performance Measures

Attachment C: Team San Jose 2015-2016 Operating Budget

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

<b>YOY Performance Measures</b>	<b>Actual FY 2010-2011</b>	<b>Actual FY 2011-2012</b>	<b>Actual FY 2012-2013</b>	<b>Actual FY 2013-2014</b>	<b>Target FY 2014-2015</b>	<b>Forecast FY 2014-2015</b>	<b>Proposed FY 2015-2016</b>
Hotel Room Nights	200,139	239,848	247,711	255,803	200,000	200,000	180,000
Event Attendance	975,550	968,704	1,103,490	1,274,016	1,035,000	1,223,093	1,254,000
Estimated Impact (EEl)	77,763,878	85,480,564	87,061,604	91,215,395	91,120,000	109,172,465	102,000,000
Return on Investment	\$ 2.68	\$ 2.63	\$ 2.48	\$ 2.38	\$ 2.45	\$ 2.55	\$ 2.40
Gross Operating Revenue	18,803,258	19,423,392	23,823,218	28,430,047	25,939,000	35,000,000	31,257,000
Gross Operating Profit	4,272,472	4,556,997	5,257,453	5,738,929	7,002,864	8,179,864	9,228,073
# of Performances/Available Use Days *					86%	100%	90%
# Special Events/Available Use Days *					6%	8%	7%
Satisfaction Rate	98%	98%	98%	97%	95%	100%	95%

\* Previously the City measured the number of performance days and occupied days. 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 2015-2016 Return on Investment and**  
**Gross Operating Profit Performance Measures**

<b>Return on Investment (ROI)</b>	
<b>Numerator</b>	
Estimated Economic Impact (EEI)	102,000,000
Convention and Cultural Facilities (CCF) Operating Revenue	31,257,000
Transfer from the Transient Occupancy Tax Fund	12,699,864
Parking Garage Revenue	3,100,000
<b>Total Numerator</b>	<b>149,056,864</b>
<b>Denominator</b>	
CCF Operating Expenses	35,553,791
Convention Center Refunding Debt Service	15,280,000
Commercial Paper Payment made from the Convention Center Facilities District Revenue Fund (Expansion/Renovation, HVAC/Kitchen)	1,758,000
City Oversight Expense	538,462
CVB Marketing Services	500,000
Other S&U Expenses	60,000
Parking Expenses	1,300,000
Fire Insurance	245,000
Convention Center Free Use	200,000
Civic Auditorium Temp Cooling	275,000
<i>Total Capital Investment</i>	<i>6,380,000</i>
<b>Total Denominator</b>	<b>62,090,253</b>
<b>ROI</b>	<b>\$2.40</b>

<b>Gross Operating Profit (GOP)</b>	
Convention and Cultural Facilities	
Operating Revenue	31,257,000
TOT Collections	12,699,864
Parking Garage Revenue	3,100,000
<b>Total Revenue</b>	<b>47,056,864</b>
Operating Expenses	
Operating Expenses	35,553,791
Parking Expenses	1,300,000
Convention and Visitors Bureau Marketing Expense	500,000
Convention Center Free Use	200,000
Civic Auditorium Temp Cooling	275,000
<b>Total Expenses</b>	<b>37,828,791</b>
<b>GOP</b>	<b>9,228,073</b>

# ATTACHMENT C

## Team San Jose 2015-2016 Operating Budget

### REVENUE

TOT Revenue	12,699,875
Parking Revenue	3,100,000
<b>Subtotal TOT and Parking</b>	<b>15,799,875</b>

Building Rental Revenue	5,653,600
Food & Beverage Services	14,926,835
Personnel Service Revenue	7,588,032
Commission Revenue	1,860,400
Other Revenue	1,228,546
<b>Subtotal Convention and Cultural Facilities Revenue</b>	<b>31,257,413</b>
<b>Total Revenue</b>	<b>47,057,288</b>

### VARIABLE EXPENSES

Food & Beverage Cost of Sales	2,865,160
Labor Cost of Sales	6,648,342
Other Cost of Sales	5,800
Variable Labor - Food & Beverages	5,569,401
Variable Labor - Maintenance & Temporary Other	3,540,771
Variable Labor - Other	3,400,449
Other Operating Cost	1,512,720
Repairs & Maintenance	1,395,239
Utilities	2,741,470
<b>TOTAL VARIABLE EXPENSES</b>	<b>27,679,351</b>

### FIXED EXPENSES

Salaries & Benefits	5,895,760
Insurance	267,434
Professional Fees Audit/Legal/Consult	345,000
Parking Validation	55,000
Telephone	206,300
Computer Software/License	45,000
Bank Charges	174,136
Other Fixed	995,810
Parking Expense Reimbursement	(110,000)
<b>TOTAL FIXED EXPENSES</b>	<b>7,874,440</b>
<b>Total Expenses</b>	<b>35,553,791</b>

**Total Convention and Cultural Facilities Operating Net Need (4,296,378)**