



COUNCIL AGENDA: 5-9-06
ITEM: 3.5

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kay Winer
Larry Lisenbee

SUBJECT: TEAM SAN JOSE: YEAR-END
ADJUSTMENT AND INCREASE
IN APPROPRIATIONS

DATE: April 26, 2006

Approved

Date

4/27/06

Council District: CITY-WIDE

RECOMMENDATION

It is recommended that the City Council adopt the following Appropriation Ordinance amendments in the Convention and Cultural Affairs fund:

1. Increase Non-personal appropriation by \$950,000;
2. Decrease the Personal Services appropriation by \$450,000;
3. Decrease the Operating Contingency by \$187,229 for Insurance Expenses (Fire Insurance);
4. Establish an appropriation for Insurance Expenses in the amount of \$187,229;
5. Decrease the Unrestricted Fund Balance by \$500,000.

OUTCOME

Adoption of the resolution will allow for continued funding of Team San José (TSJ) to manage and operate the Convention Center and Cultural Facilities through June 30, 2006.

BACKGROUND

The City appropriated the following for TSJ's 2005-2006 budget: \$6.5 million for personal services (for City employees assigned to TSJ) and \$5.1 million for non-personal services. TSJ is projecting a savings in personal services expenses of \$450,000 at the end of fiscal year. The savings of \$450,000 is due to vacant positions that were not filled for some part of the year. TSJ continues to meet regularly with the City's Employee Services Department to gain a higher level of expertise with the civil service hiring processes. TSJ's governing board also formed a

Service, Visions and Values Committee to focus on employee relations and to find ways to expedite the current hiring process through the City. As a result, the hiring process has improved and TSJ has begun to fill vacant positions more quickly.

For non-personal services that include supplies, repairs and maintenance, utilities, salaries and benefits of non-city TSJ employees, and other outside services contracted by TSJ, there are insufficient funds for the remainder of the fiscal year through June 30. This is primarily the result of increased costs for outside services contracted by TSJ due to vacancies in City positions and other operating expenses. Additionally, a number of deferred maintenance items required immediate repair or replacement. These were unanticipated and exceeded the small amount budgeted for repairs and maintenance. This will be corrected in next year's budget with a more reasonable amount set aside for both planned and unplanned repairs and replacement of minor items.

TSJ's share of the City's fire insurance was also not included in the current budget. Under the management agreement between the City and TSJ, the City, as the landlord and owner, is required to provide fire insurance. The cost of fire insurance, which the City purchases on a master policy, is allocated to the Convention Center and Cultural Facilities based on the value of the buildings insured under the policy. For fiscal year 2005-2006, the Convention Center and Cultural Facilities' allocated share of fire insurance is \$187,229. This item was inadvertently omitted in TSJ's current budget; thus, the City needs to establish a separate appropriation for fire insurance expenditures. This item will be included in all future TSJ budgets.

From July 2005 to April 2006, TSJ has significantly increased the number of events and attendance. Total revenue has grown by 13% over last year. Despite this increase in use of the facilities, TSJ projects that it will be approximately \$200,000 or 2% below its budgeted revenues. A shortfall of \$950,000 has been forecasted in non-personal services, which can be covered in part by personal services savings of \$450,000. An additional appropriation of \$500,000 is required for TSJ to continue operations through June 30, 2006.

ANALYSIS

The cash requirement forecast submitted by TSJ in March 2006 for non-personal services through the end of the fiscal year is \$950,000 more than the appropriation. Major contributing factors are as follows:

- Increased activity at the Convention Center and Cultural Facilities required use of more outside services contracted by TSJ to offset the vacant positions;
- The state of some facilities required immediate attention, and emergency deferred maintenance expenses were incurred for items such as boiler and sewage drain repair to ensure the safety of all visitors and staff coming through the City's venues.
- Per direction from the City Fire Department, TSJ hired contract employees to maintain 24-hour monitoring of the convention center's outdated fire alarm system. The antiquated lifesaving alarm system was installed in 1989 and is no longer supported by its manufacturer. Some corrective actions have already been taken. TSJ

has identified a permanent solution for the system and the budget appropriation will be submitted to Council later this fiscal year to fund the long-term solution.

- TSJ incurred costs for settlement of workers compensation claims filed prior to TSJ taking over management of the Convention and Cultural Facilities. TSJ has taken a proactive role in managing outstanding and recently filed claims and formed a Safety Committee focusing on improving the safety of its employees and providing education and training.
- TSJ incurred additional capital item expenses that were necessary for equipping the South Hall with full networking capabilities to make the facility competitive in the event marketplace.

As of April 5, 2006, total funds transferred by the City for non-personal expenses and funds used by TSJ totaled \$5.1 million. Based on the cash requirement forecast submitted by TSJ, the cash requirement for non-personal services for May and June are forecast to be approximately \$950,000. Of the \$950,000, \$450,000 will be transferred from the savings generated from personal services. The remaining \$500,000 needs an appropriation from the Unrestricted Fund Balance in order for TSJ to manage the operations of the Convention Center and Cultural Facilities through June 30, 2006.

Following is a reconciliation of TSJ's total non-personal operating expenses and cash requirements:

Proposed Revised TSJ cash requirement and Increased Appropriations		6,050,000
Less: Cash transferred to date	(4,880,000)	
Less: Use of funds to cover TSJ overdraft	(67,000)	
Less: Unanticipated capital items	(153,000)	
Total amount charged to the Appn as of April 2006		(5,100,000)
Additional Cash Requirement for May through June 2006		950,000
Less: Appropriation Transfer of Personal Savings		(450,000)
Net cash requirement increase requested		500,000

PUBLIC OUTREACH

Not applicable.

COORDINATION

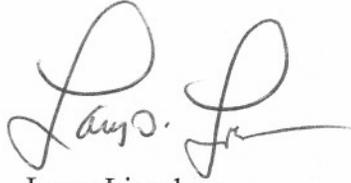
This item has been coordinated with the Finance Department, the City Attorney's Office and Team San José.

COST IMPLICATIONS

This action will reduce the Convention and Cultural Affairs Fund Balance by \$500,000.

CEQA

Not a project.



Larry Lisenbee
Budget Director



Kay Winer
Deputy City Manager