CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

THE 2005-06 AND 2006-07 ANNUAL PERFORMANCE AUDIT OF TEAM SAN JOSE, INC.

Team San Jose Did Not Meet Two Of Its Four Performance Measure Targets In 2005-06 And 2006-07

Team San Jose Has Implemented 7 Of The 10 Partially Implemented Management Agreement Requirements As Noted In The 2004-05 Audit Report And Needs To Implement One Additional Management Agreement Requirement

Report 07-05
November 2007

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Steven Hendrickson, Interim City Auditor

November 8, 2007

Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Transmitted herewith is a report on *The 2005-06 and 2006-07 Annual Performance Audit Of Team San Jose, Inc.* This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. Both the City Administration's response and Team San Jose, Inc.'s response are shown on the yellow pages before the appendices. The City Auditor's comments on Team San Jose's response are shown on the green pages before the Appendices.

This report will be presented to the *Public Safety, Finance & Strategic Support Committee* at its November 15, 2007 meeting and to the *Community and Economic Development Committee* at its November 26, 2007 meeting. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Belinda Silvatici and Carolyn Huynh.

Respectfully submitted,

Steven M Hendrickson

Steven Hendrickson
Interim City Auditor

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Executive Summary

In accordance with the City Auditor's 2006-07 Audit Workplan, we audited Team San Jose, Inc. to determine whether it met the performance measures and other requirements specified in the Agreement for the Management of the San Jose Convention Center and Cultural Facilities between the City of San Jose and Team San Jose, Inc. (Management Agreement) for FYs 2005-06 and 2006-07. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Objectives, Scope, and Methodology section of this audit report.

Finding I — Team San Jose Did Not Meet Two Of Its Four Performance Measure Targets In 2005-06 And 2006-07

In accordance with the Management Agreement, the City Auditor's Office audited Team San Jose, Inc. (TSJ) to determine whether it met the four Performance Measure Targets in the Management Agreement for FYs 2005-06 and 2006-07. We found that TSJ:

- Did not meet its Gross Revenues Performance Measure Target for FY 2005-06 by $1,168,678 and for FY 2006-07 just missed its Gross Revenues Performance Measure Target by $45,438;
- Did not meet its Net Loss Performance Measure Target for FY 2005-06 by $1,902,899 and for FY 2006-07 by $1,900,155;
- Did meet its Economic Impact Performance Measure Target for FYs 2005-06 and 2006-07; and
- Did meet its Customer Service Results Performance Measure Target for FYs 2005-06 and 2006-07.

The exhibit below summarizes TSJ's performance:

Exhibit 2 TSJ's 2004-05, 2005-06, And 2006-07 Performance Overview

Performance Measure	Management Agreement Target	Actual	Performance Measure Met	Positive (Negative) Variance Of Actual To Management Agreement	Positive (Negative) % Variance Of Actual To Management Agreement
Gross Revenues					
2004-05	$8,698,000	$7,158,816	No	($1,539,187)	(18%)
2005-06	$9,943,000	$8,774,322	No	($1,168,678)	(12%)
2006-07	$10,600,000	$10,554,562	No	($45,438)	(.4%)
Net Loss					
2004-05	($3,745,000)	($4,629,067)	No	($884,067)	(24%)
2005-06	($1,966,000)	($3,868,899)	No	($1,902,899)	(97%)
2006-07	($1,432,000)	($3,332,155)	No	($1,900,155)	(133%)
Economic Impact					
2004-05	577,200	1,121,704	Yes	544,504	194%
2005-06	620,900	1,337,674	Yes	716,774	215%
2006-07	712,800	1,272,329	Yes	559,529	178%
Customer Services Results					
2004-05	83%	Unable to determine	Unable to determine	Unable to determine	Unable to determine
2005-06	85%	93%	Yes	8%	109%
2006-07	87%	97%	Yes	10%	111%

As shown above, we found that TSJ did not meet two of its four performance measures for FYs 2005-06 and 2006-07. Specifically, TSJ generated gross revenues of $8,774,322, for FY 2005-06, thereby missing its Management Agreement Gross Revenues Performance Measure Target of $9,943,000 by $1,168,678 and TSJ generated gross revenues of $10,554,562 for FY 2006-07, thereby missing its Management Agreement Gross Revenues Performance Measure Target of $10,600,000 by only $45,438.

We also found that TSJ incurred a net loss of $3,868,899, for FY 2005-06, or $1,902,899 more than its Management Agreement Net Loss Target of $1,966,000, and TSJ incurred a

net loss of $3,332,155, for FY 2006-07, or $1,900,155 more than its Management Agreement Net Loss Target of $1,432,000.

We also found that TSJ more than met its Economic Impact Performance Measure Target for FYs 2005-06 and 2006-07.

For 2005-06, TSJ reported Total Actual Attendee Days of 1,337,674, exceeding its Total Attendee Days target by 716,774. Specifically, as broken down by Local/social, Out of town visitors, and Exhibitors TSJ reported:

- Local/social visitors of 1,194,109, exceeding its target of 515,100 by 679,009;
- Out of town visitors of 109,651, exceeding its target of 87,300 by 22,351; and
- Exhibitors of 33,914, exceeding its target of 18,500 by 15,414.

For 2006-07, TSJ reported Total Actual Attendee Days of 1,272,329, exceeding its Total Attendee Days target by 559,529. Specifically, as broken down by Local/social, Out of town visitors, and Exhibitors TSJ reported:

- Local/social visitors of 1,118,794, exceeding its target of 600,400 by 518,394;
- Out of town visitors of 132,506, exceeding its target of 92,700 by 39,806; and
- Exhibitors of 21,029, exceeding its target of 19,700 by 1,329.

However, as mentioned in the 2004-05 Audit Report, in our opinion, the Management Agreement Economic Impact Target appeared to be set too low and the City needs to amend the Management Agreement to incorporate a more challenging Economic Impact Target and to include actual hotel room nights booked in the amended Economic Impact Target. According to City Administration, the Economic Impact Targets were originally set using the best information available at the time and given the state of the economy.[1]

[1] The City Administration is planning to re-visit the Economic Impact Targets pending City Council direction. The City Council is holding a special session in December 2007 to determine whether to direct the City Manager to extend the Management Agreement for one additional five-year period, as the initial term of the Management Agreement will expire on June 30, 2009.

TSJ collected sufficient survey information for us to determine that it has met its Customer Service Results Performance Measure Targets for 2005-06 and 2006-07. TSJ achieved about an 18 percent overall response rate for 2005-06 and about a 23 percent response rate for 2006-07. For FY 2005-06, most, or 93 percent of event planners reported being "extremely satisfied" or "satisfied" with overall customer satisfaction and 89 percent reported that they would book their event at one of the Convention and Cultural Facilities in the future. For FY 2006-07, most, or 97 percent of event planners reported "Excellent", "Very Good", or "Good" when rating their overall customer service experience. Of the 117 survey responses received, 74 percent responded that they would book their event at one of the Convention and Cultural Facilities in the future while 19 percent responded they would possibly book in the future.

Lastly, in the 2004-05 Audit Report, the City Auditor made a total of five recommendations regarding the Management Agreement Performance Measure Targets. This report provides the status of the 2004-05 recommendations within the corresponding performance measure section.

Finding II

Team San Jose Has Implemented 7 Of The 10 Partially Implemented Management Agreement Requirements As Noted In The 2004-05 Audit Report And Needs To Implement One Additional Management Agreement Requirement

The Management Agreement between the City of San José and Team San Jose (TSJ) addresses the operation and management of the San José Convention Center and Cultural Facilities. During the 2004-05 annual performance audit of TSJ, we identified 59 key requirements with which TSJ is responsible for complying. During our review of TSJ's compliance with the requirements in the Management Agreement, we found that TSJ has implemented 49 out of the 59 Management Agreement requirements and partially implemented the remaining 10 requirements. We noted that by performing various additional

tasks, TSJ, with the assistance of the City, could fully meet the above requirements of the Management Agreement and help ensure full compliance with these requirements.

RECOMMENDATION

We recommend that TSJ:

Recommendation #1

Engage a team to perform a nation-wide executive search to hire a qualified individual with experience in the management of similar facilities as the Chief Executive Officer of the Convention and Cultural Facilities in accordance with the Management Agreement. (Priority 3)

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Introduction

In accordance with the City Auditor's 2006-07 Audit Workplan, we audited Team San Jose, Inc. to determine whether it met the performance measures and other requirements specified in the Agreement for the Management of the San Jose Convention Center and Cultural Facilities between the City of San Jose and Team San Jose, Inc. (Management Agreement) for FYs 2005-06 and 2006-07. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Objectives, Scope, and Methodology section of this audit report.

The City Auditor's Office thanks Team San Jose, Inc., the San Jose Convention & Visitors Bureau, the City Manager's Office, the Budget Office, the Finance Department, the City Attorney's Office, and the Office of Equality Assurance, who gave their time, information, insight, and cooperation during the audit process.

In 2006, the City Auditor's Office performed its first annual performance audit of Team San Jose, Inc. (TSJ), covering the 2004-05 fiscal year, as required by the Management Agreement between the City and TSJ.[1] The City Auditor found that TSJ 1) did not meet its Gross Revenues Performance Measure Target by $1,539,187; 2) did not meet its Net Loss Performance Measure Target by $884,067; 3) did meet its Economic Impact Performance Measure Target; and 4) did not gather sufficient information for the City Auditor to assess whether it met its Customer Service Results Performance Measure Target. Accordingly, the City Auditor made a total of five recommendations regarding the above finding - four recommendations for TSJ and one joint recommendation for the City Administration and TSJ. As of April 2007, TSJ has fully implemented three of its four recommendations and partly implemented one. The joint recommendation has also been partly implemented.

[1] The 2004-05 Performance Audit of Team San Jose, Inc. was issued on October 11, 2006 and represents the first year of five to be audited by the City Auditor in accordance with the Management Agreement between the City of San Jose and Team San Jose, Inc.

In addition, the City Auditor's report, entitled "The 2004-05 Annual Performance Audit of Team San Jose, Inc." (2004-05 Audit Report), identified 59 specific requirements with which TSJ is responsible for complying in accordance with the Management Agreement. Of these 59 requirements, the City Auditor found that TSJ had implemented 49 and had partially implemented the remaining 10 requirements. Regarding the above finding, the City Auditor made a total of eleven recommendations for TSJ and made one for the City Administration. As of April 2007, TSJ had fully implemented five of eleven recommendations and partly implemented six. The City Administration had partly implemented its one recommendation.[2]

Background

The Mayor's March 2003 Budget Message requested that the City Administration report on opportunities to save costs and improve efficiencies at the Convention Center by revising the current operations structure. At that time, the Conventions, Arts and Entertainment Department (CAE) was responsible for the management and operation of the Convention and Cultural Facilities, specifically overseeing event coordination, technical services, sales and marketing, facility setup, security, and maintenance.

In June 2003, the City Council directed the City Manager to prepare a Request for Proposal (RFP) for the management and operation of the San Jose Convention Center and Cultural Facilities (Facilities). The direction from Council emphasized that the primary objectives of this effort were to decrease costs of operation and increase the occupancy and revenue-producing capabilities of the Facilities. Additionally, the City or proposer should absorb all Civil Service employees, but the proposals could include innovative employment relationships, such as leasing of existing City employees by the successful proposer.

The Facilities include three Convention Facilities and three Cultural Facilities:

[2] The City Auditor's Office performs Semi-Annual Recommendation Follow-up on all City Council-approved recommendations. The Semi-Annual Recommendation Follow-up reports can be found online at the City Auditor's website, http://www.sanjoseca.gov/auditor/.

The Convention Facilities are:

1. **San Jose Convention Center**: The Convention Center provides exhibit and general assembly space encompassing over 425,000 square feet of function space. The Center includes multiple accommodations for large exhibitions, up to 30 meeting rooms for 2,400, and banquets up to 5,000. South Hall is an 80,000 square foot column-free tensile structure adjacent to the Convention Center.[3] The South Hall expansion grows the Convention Center exhibit space to a total of 223,000 square feet.

2. **Civic Auditorium**: The Civic Auditorium includes 3,060 seats and four meeting rooms designed for performing arts, general assembly, community, and sporting events.

3. **Parkside Hall**: The Parkside Hall includes 30,000 square feet of exhibit and general assembly space with capacity for banquets up to 1,800 guests.

The Cultural Facilities are:

1. **Center for the Performing Arts**: The Center for the Performing Arts features continental seating with 2,665 seats and includes full staging facilities, reception, box office, concessions, coat check for patrons, and an infrared system for the hearing-impaired.

2. **Montgomery Theater**: The Montgomery Theater is located across the street from the Convention Center in the same building as the Civic Auditorium. It features seating capacity for up to 523 guests, as well as eight wheelchair seats.

[3] The City issued the RFP for the San Jose Convention and/or Cultural Facilities Management and Operation Agreement in December 2003. At the time, the South Hall had not yet been constructed and as such was not included in the description of the Convention Center. The construction of the South Hall was completed in June 2005.

3. **California Theater**: The California Theater, originally built in 1927, was renovated and re-opened in September 2004 as a performing arts facility accommodating art groups as well as the presentation of film. The California Theater is used for many purposes, such as meetings, motion picture screenings (complete with 1,119 theater seats), concerts, theatrical performances, weddings, and private parties and receptions. Additionally, Opera San Jose makes its home at the California Theater.[4]

In response to the City Council's directive, the City issued a RFP in December 2003. The RFP established customer service; financial performance; employee environment; and City and community use and public access as the four goals and objectives for managing the Facilities.

In February 2004, the City received four responses to the RFP: 1) The City Employee Team; 2) Team San Jose, Inc.; 3) Global Spectrum; and 4) GL Events.

A selection panel consisting of four City and five non-City members reviewed the proposals and interviewed the proposers in March 2004.

In April 2004, the selection panel concluded with a recommendation to the City Council that the City Manager enter into exclusive negotiations with Team San Jose, Inc. (TSJ) to manage and operate the Convention Center and Cultural Facilities for a five-year period. If negotiations with TSJ were unsuccessful within the thirty-day period, the panel recommended that negotiations commence with Global Spectrum, the next highest-rated firm.

In May 2004, the City Council authorized the City Manager to enter into exclusive negotiations with TSJ. The negotiations resulted in the development and execution of the "Agreement

[4] As noted in the City's RFP, the California Theater was not scheduled to open until September 2004. On August 18, 2004, the City and Opera San Jose (Opera) entered into a Facility Use Agreement (FUA). The FUA allows the Opera up to four Productions per year in Seasons 2004-05, 2005-06, 2006-07, 2007-08, and up to five Productions per year in Seasons 2008-09, 2009-10, 2010-11, 2011-12, 2012-13, and 2013-14 at a $10,000 Facility Use Fee per Production. While the City's RFP noted that the Opera would make the California Theater its home venue, historical revenue and expense data was not yet available for TSJ to include in its proposal proforma.

for the Management of the San Jose Convention Center and Cultural Facilities between the City of San Jose and Team San Jose, Inc."

Team San Jose

TSJ is a private, non-profit corporation created specifically to manage and operate the Facilities. Its mission is to ensure that San Jose's Convention Center and Cultural Facilities are effectively managed to reduce costs, improve the local economy, and add value to customers, residents, workers, and businesses within the City of San Jose.

The operating model of TSJ is comprised of staff from TSJ, the San Jose Convention & Visitors Bureau (CVB), Centerplate, City employees, and other contracted employees. TSJ's July 2007 organization chart shows TSJ is headed by a Board of Directors, an Executive Committee, and a Chief Executive Officer (CEO) who is also the Chairman of the Board. The organizational chart shows 35 CVB positions, 7 TSJ positions, 14 Centerplate positions, 84 City employee positions, 4 specific contracts, and other miscellaneous contracts. See Appendix B.

According to the 2004-05 Adopted Operating Budget, the City eliminated 8.43 Facilities' positions as a result of the contract with TSJ, leaving a total of 84.75 authorized City positions. In order to memorialize the mutual understanding of the parties concerning the shared employees, a Memorandum of Understanding was developed and included as an exhibit to the Management Agreement.

TSJ's Board of Directors is represented by four distinct stakeholder groups: 1) local hoteliers; 2) organized labor; 3) the arts; and 4) the CVB. The Board elects officers, establishes policy, and approves annual operating budgets. The members of each stakeholder group elect a representative to sit on the Executive Committee, which is responsible for the day-to-day decisions of TSJ. The Executive Committee addresses routine issues and directs the activities of the professional staff, including the Chief Executive Officer (CEO). As mentioned earlier, the Chairman of the Board is also serving as TSJ's CEO and also holds the position of President and CEO of the San Jose Convention & Visitors Bureau.

The CVB, formerly a division of the San Jose Chamber of Commerce, became a separate entity on July 1, 1984 with a base of 113 members, represented by a 17-member Board of Directors. The City entered into an Agreement with the CVB

on June 27, 2000 for the period July 1, 2000 to June 30, 2005, with one additional five-year option which was exercised extending the Agreement from July 1, 2005 to June 30, 2010. The CVB's mission is to enhance the image and economic well-being of San Jose by taking the leadership role in marketing San Jose as a globally-recognized destination. The CVB provides a comprehensive marketing program to advertise, promote, and publicize the City to achieve as the City's first priority for the CVB, the goal of booking conventions, trade shows, conferences, and other events at the Convention Center and area hotels.

Management Agreement

On June 22, 2004, the City Council approved a Management Agreement with TSJ to manage and operate the Facilities for a five-year period, beginning July 1, 2004 and ending June 30, 2009. The City has the right to extend the term of the Management Agreement for one additional five-year period.

The Management Agreement, in Section 4.8, outlines the following four key performance measures and requires TSJ to submit a monthly report to the City. The following measures track revenue and financial performance, economic impact, and customer service.

1. **Gross Revenues**: TSJ will focus on increasing gross revenues for the Facilities. Gross Revenues will be aggregated from all sources for all Facilities and detailed by category, including rental income, food and beverage commissions, services and other revenue streams.

2. **Net Profit or Loss Financial Performance**: TSJ will focus on reducing the City's operational subsidy to support the Convention and Cultural Facilities.

3. **Economic Impact**: TSJ will focus on increasing the total attendance for events held at the Convention and Cultural Facilities.

4. **Customer Service Results**: TSJ will ask the decision-maker of each event to rate their overall satisfaction with the product and services provided.

The Management Agreement contains both a termination and a compensation deletion provision in the event that TSJ fails to meet the performance measures listed in the Management Agreement. Specifically, the Management Agreement includes a provision that allows the City Council to terminate the Management Agreement, in whole or in part, if the Council determines TSJ has not met the performance measures stated in the Management Agreement.

The Management Agreement states that the City and TSJ (Operator) agree that if:

> *(a) Operator fails to achieve at least three of the four measures set forth in 4.8 or*
>
> *(b) Operator fails to achieve at least 67% of any of measures (a), (b) or (c) set forth in Section 4.8 or fails to achieve the applicable annual percentage measure set forth in measure (d);*
>
> *then, City Council may terminate this Agreement within the time provided for in Section 6.1.*[5] *The City Council's determination of whether Operator has met the performance measures and to what degree shall be at the City Council's sole discretion. Nothing in this section is intended to limit the City's discretion to terminate this Agreement for convenience or as otherwise provided for in this Agreement.*

In addition, if in Year 4 (July 1, 2007 through June 30, 2008) or Year 5 (July 1, 2008 through June 30, 2009) of the term of the Management Agreement, TSJ fails to meet the performance measures set forth in Section 4.8, the City shall have the right to delete the fixed payment of $150,000 from the preset management fee. The City may either eliminate the fee from the Operating Budget or require that the budgeted amount be expended for another purpose.

The Management Agreement requires two annual audits (financial statement and performance audit) and provides the City an option to request a third (an agreed upon procedures audit). The following summarizes the three audits.

[5] Section 6.1 states "... City may upon one hundred and eighty (180) days written notice, beginning on the second day after mailing, terminate this Agreement in whole or in part..."

- **Annual Financial Statement Audit**: An audit of the books and records of the Facilities is to be conducted by the City's current External Auditor. The audited financial statements shall include a balance sheet, income statement and statement of changes in financial position, and a statement of Gross Revenues. The City Auditor's Office relies on the audited financial statement of revenues, expenses and changes in net assets to determine TSJ's gross revenues and net loss performance actuals.
- **Performance Audit**: An annual performance audit is to be conducted by the City's Internal Independent Auditor (City Auditor's Office) to determine compliance to performance standards pursuant to the Management Agreement.
- **Agreed Upon Procedures Audit**: The Management Agreement also allows the Finance Director to request the City's External Auditor to conduct an agreed upon procedures audit. The audit may include, but is not limited to, a review and evaluation of TSJ's internal controls and operating procedures for the Facilities.

In addition to the above audits, City staff regularly monitors TSJ's performance and compliance with the Management Agreement. For example, in accordance with the Management Agreement, TSJ submits a monthly report to the Deputy City Manager. City staff from the Finance Department, the Budget Office, and the City Manager's Office also meet with TSJ staff on a monthly basis to review financial and operations data. A Senior Accountant in the City's Finance Department provides additional monitoring of TSJ. The Senior Accountant performs multiple duties such as, but not limited to, preparing FMS entries for cash and credit card receipts; preparing FMS entries for adjusted revenues; reviewing the transfer of funds request for operating expenses from TSJ and comparing amounts requested with budgeted monthly cash projections; and summarizing City payroll accrual and other costs for submission to TSJ.

The Management Agreement stipulates that TSJ shall submit a proposed operating budget to the City on or before March 1st of each contract year. The adopted 2005-06 Operating Budget for TSJ was $11.6 million, of which $6.5 million was appropriated for Personal Services and $5.1 million was appropriated for Non-Personal/Equipment. The adopted 2006-07 Operating Budget for TSJ was $12.7 million of which $7.0 million was appropriated for Personal Services and $5.8 million was appropriated for Non-Personal/Equipment.[6]

The Facilities, under the management of TSJ, generate revenues which help fund the operations. In addition, for 2005-06 and 2006-07, the operation of the Facilities was funded by the Convention and Cultural Affairs Fund, which was comprised of transfers from the Transient Occupancy Tax Fund and the Parking Fund as shown in the exhibit below.

Exhibit 1 Transfers To The Convention And Cultural Affairs Fund For 2005-06 And 2006-07

Transfers To Convention And Cultural Affairs Fund	2005-06	2006-07
Transient Occupancy Tax Fund	$4,922,103	$6,338,040
General Purpose Parking Fund	892,823	583,000
Total Transfers to the Convention And Cultural Affairs Fund	$5,814,926	$6,921,040

Objectives, Scope, And Methodology

The objectives of our audit were to determine whether Team San Jose (TSJ) met its performance measures specified in the Management Agreement for FYs 2005-06 and 2006-07 and whether TSJ has met all of the key requirements in the Management Agreement.

To determine whether TSJ met its Gross Revenues Performance Measure Target we:

- Reviewed the Management Agreement target for Gross Revenues;

[6] Adopted budgetary information found in the 2006-2007 Adopted Operating Budget, Volume 2, pg VIII – 24.

- Obtained and reviewed TSJ's Audited Financial Statements for FYs 2005-06 and 2006-07;
- In accordance with generally accepted government auditing standards, we interviewed the external auditor, currently Macias Gini & O'Connell, LLP (MGO), to determine if we could rely on their work;
- Obtained and reviewed TSJ's budget for FYs 2005-06 and 2006-07;
- Obtained and reviewed TSJ's pricing rate sheets and policies; and
- Interviewed TSJ staff regarding their Gross Revenues Performance Measure Target.

To determine whether TSJ met its Net Loss Performance Measure Target we:

- Reviewed the Management Agreement target for Net Loss;
- Obtained and reviewed TSJ's Audited Financial Statements for FYs 2005-06 and 2006-07;
- In accordance with generally accepted government auditing standards, we interviewed the external auditor, MGO, to determine if we could rely on their work;
- Obtained and reviewed TSJ's budget for FYs 2005-06 and 2006-07; and
- Interviewed TSJ staff regarding their Net Loss Performance Measure Target.

To determine whether TSJ met its Economic Impact Performance Measure Target we:

- Reviewed the Management Agreement target for Economic Impact;
- Obtained and reviewed TSJ's annual attendance report for FYs 2005-06 and 2006-07;
- Obtained and reviewed TSJ's attendance reporting guidelines and procedures;
- Interviewed the TSJ Business Information Manager to determine if TSJ's attendance reporting guidelines and procedures were followed;

- Observed the TSJ Business Information Manager's usage of TSJ's database to determine if TSJ's attendance reporting guidelines and procedures were followed;
- Observed controls over data input and data editing tasks; and
- Performed testing on the accuracy of the attendance report data for FYs 2005-06 and 2006-07.

To determine whether TSJ met its Customer Service Results Performance Measure Target we:

- Reviewed the Management Agreement target for Customer Service Results and
- Obtained and reviewed TSJ's customer service surveys for FYs 2005-06 and 2006-07.

To determine the status of the 10 partially met Management Agreement requirements noted in the 2004-05 Audit Report we:

- Reviewed the 2004-05 Audit Report from which a list of the 10 partially met key requirements was compiled;
- Reviewed the Management Agreement;
- Reviewed the City Auditor's Semi-annual Recommendation Follow-up report;
- Requested TSJ to provide a status of the 10 partially met requirements;
- Requested City staff to verify TSJ had completely met some of the 10 partially met requirements; and
- Obtained and reviewed documents to assess whether TSJ had fully met some of the 10 partially met requirements as noted in the 2004-05 Audit Report.

To address specific concerns, raised by the then Acting City Manager, regarding compliance with the Management Agreement we:

- Reviewed the Management Agreement;
- Interviewed TSJ and City staff; and

- Obtained and reviewed documents to assess whether TSJ was in compliance with the Management Agreement.

In the 2004-05 Audit Report, in response to a City Council request, TSJ's gross revenues and net loss in FY 2004-05 were compared to CAE's gross revenues, expenses, and net losses for the prior four years that it managed the Facilities. To determine CAE's revenues in the prior years, only those revenues that were comparable to the revenues that TSJ currently generates were included. To estimate CAE's expenses, cost information for 2001-02 through 2003-04 was obtained and analyzed. CAE's net losses were estimated by deducting its expenses from its gross revenues. In this audit, we compare TSJ's gross revenues and net loss in FYs 2004-05, 2005-06, and 2006-07 to CAE's gross revenues, expenses, and net losses for the prior four years that it managed the Facilities.[7]

The scope of our audit included a review of the attendance report in TSJ's database for FYs 2005-06 and 2006-07. We performed limited testing on the adequacy of controls over TSJ's database by observing employee access over data input and data editing tasks. In addition, we learned that TSJ's Information Technology staff backs up the database nightly. In addition, we performed testing on the accuracy of the attendance report data and found no exceptions.

Major Accomplishments Related To This Program

In Appendix C, Team San Jose informs us of its accomplishments and results for fiscal years 2005-06 and 2006-07.

[7] As mentioned earlier, TSJ took over the management of the Facilities on July 1, 2004. The construction of the South Hall was completed in June 2005 and the California Theater was opened in September 2004. Therefore, the comparison includes these facilities in TSJ's gross revenues, expenses, and net loss figures. However it is important to note that these facilities were not in operation during the period the CAE managed the facilities and as such are not included in its gross revenues, expenses, and net loss figures stated in the comparison.

Finding I

Team San Jose Did Not Meet Two Of Its Four Performance Measure Targets In 2005-06 And 2006-07

In accordance with the Management Agreement, the City Auditor's Office audited Team San Jose, Inc. (TSJ) to determine whether it met the four Performance Measure Targets in the Management Agreement for FYs 2005-06 and 2006-07. We found that TSJ:

- Did not meet its Gross Revenues Performance Measure Target for FY 2005-06 by $1,168,678 and for FY 2006-07 just missed its Gross Revenues Performance Measure Target by $45,438;
- Did not meet its Net Loss Performance Measure Target for FY 2005-06 by $1,902,899 and for FY 2006-07 by $1,900,155;
- Did meet its Economic Impact Performance Measure Target for FYs 2005-06 and 2006-07; and
- Did meet its Customer Service Results Performance Measure Target for FYs 2005-06 and 2006-07.

The exhibit below summarizes TSJ's performance:

Exhibit 2 TSJ's 2004-05, 2005-06, And 2006-07 Performance Overview

Performance Measure	Management Agreement Target	Actual	Performance Measure Met	Positive (Negative) Variance Of Actual To Management Agreement	Positive (Negative) % Variance Of Actual To Management Agreement
Gross Revenues					
2004-05	$8,698,000	$7,158,816	No	($1,539,187)	(18%)
2005-06	$9,943,000	$8,774,322	No	($1,168,678)	(12%)
2006-07	$10,600,000	$10,554,562	No	($45,438)	(.4%)
Net Loss					
2004-05	($3,745,000)	($4,629,067)	No	($884,067)	(24%)
2005-06	($1,966,000)	($3,868,899)	No	($1,902,899)	(97%)
2006-07	($1,432,000)	($3,332,155)	No	($1,900,155)	(133%)
Economic Impact					
2004-05	577,200	1,121,704	Yes	544,504	194%
2005-06	620,900	1,337,674	Yes	716,774	215%
2006-07	712,800	1,272,329	Yes	559,529	178%
Customer Services Results					
2004-05	83%	Unable to determine	Unable to determine	Unable to determine	Unable to determine
2005-06	85%	93%	Yes	8%	109%
2006-07	87%	97%	Yes	10%	111%

As shown above, we found that TSJ did not meet two of its four performance measures for FYs 2005-06 and 2006-07. Specifically, TSJ generated gross revenues of $8,774,322, for FY 2005-06, thereby missing its Management Agreement Gross Revenues Performance Measure Target of $9,943,000 by $1,168,678 and TSJ generated gross revenues of $10,554,562 for FY 2006-07, thereby missing its Management Agreement Gross Revenues Performance Measure Target of $10,600,000 by only $45,438.

We also found that TSJ incurred a net loss of $3,868,899, for FY 2005-06, or $1,902,899 more than its Management Agreement Net Loss Target of $1,966,000, and TSJ incurred a

net loss of $3,332,155, for FY 2006-07, or $1,900,155 more than its Management Agreement Net Loss Target of $1,432,000.

We also found that TSJ more than met its Economic Impact Performance Measure Target for FYs 2005-06 and 2006-07.

For 2005-06, TSJ reported Total Actual Attendee Days of 1,337,674, exceeding its Total Attendee Days target by 716,774. Specifically, as broken down by Local/social, Out of town visitors, and Exhibitors TSJ reported:

- Local/social visitors of 1,194,109, exceeding its target of 515,100 by 679,009;
- Out of town visitors of 109,651, exceeding its target of 87,300 by 22,351; and
- Exhibitors of 33,914, exceeding its target of 18,500 by 15,414.

For 2006-07, TSJ reported Total Actual Attendee Days of 1,272,329, exceeding its Total Attendee Days target by 559,529. Specifically, as broken down by Local/social, Out of town visitors, and Exhibitors TSJ reported:

- Local/social visitors of 1,118,794, exceeding its target of 600,400 by 518,394;
- Out of town visitors of 132,506, exceeding its target of 92,700 by 39,806; and
- Exhibitors of 21,029, exceeding its target of 19,700 by 1,329.

However, as mentioned in the 2004-05 Audit Report, in our opinion, the Management Agreement Economic Impact Target appeared to be set too low and the City needs to amend the Management Agreement to incorporate a more challenging Economic Impact Target and to include actual hotel room nights booked in the amended Economic Impact Target. According to City Administration, the Economic Impact Targets were originally set using the best information available at the time and given the state of the economy.[8]

[8] The City Administration is planning to re-visit the Economic Impact Targets pending City Council direction. The City Council is holding a special session in December 2007 to determine whether to direct the City Manager to extend the Management Agreement for one additional five-year period, as the initial term of the Management Agreement will expire on June 30, 2009.

TSJ collected sufficient survey information for us to determine that it has met its Customer Service Results Performance Measure Targets for 2005-06 and 2006-07. TSJ achieved about an 18 percent overall response rate for 2005-06 and about a 23 percent response rate for 2006-07. For FY 2005-06, most, or 93 percent of event planners reported being "extremely satisfied" or "satisfied" with overall customer satisfaction and 89 percent reported that they would book their event at one of the Convention and Cultural Facilities in the future. For FY 2006-07, most, or 97 percent of event planners reported "Excellent", "Very Good", or "Good" when rating their overall customer service experience. Of the 117 survey responses received, 74 percent responded that they would book their event at one of the Convention and Cultural Facilities in the future while 19 percent responded they would possibly book in the future.

Lastly, in the 2004-05 Audit Report, the City Auditor made a total of five recommendations regarding the Management Agreement Performance Measure Targets. This report provides the status of the 2004-05 recommendations within the corresponding performance measure section.

Team San Jose Did Not Meet Its Performance Measure For Gross Revenues For 2005-06 And 2006-07

The first Performance Measure, Gross Revenues, requires TSJ to achieve specific Gross Revenue Targets for each fiscal year of the agreement. The Gross Revenues Performance Measure stated in the Management Agreement is as follows:

> ***(a) Gross Revenues:*** *Operator will focus on increasing gross revenues for the facilities. Gross Revenues will be aggregated from all sources for all facilities and detailed by category, including: Rental Income; Food and Beverage Commissions; Services and other revenue streams. TSJ is projected to achieve the following gross revenue targets, for each fiscal year.*
>
> | | |
> |---|---|
> | *Fiscal Year 1:* | *$8,698,000* |
> | *Fiscal Year 2:* | *$9,943,000* |
> | *Fiscal Year 3:* | *$10,600,000* |
> | *Fiscal Year 4:* | *$11,303,000* |
> | *Fiscal Year 5:* | *$11,739,000* |

According to the Independent Auditor's Report and Financial Statements, operating revenues are derived from charges for building rental, audio/visual services, electrical/utility services, equipment rental, catering, concessions, networking services,

telecommunication services, and other services. All other revenues not derived from these sources, such as contributions from the Convention and Cultural Affairs Fund are classified as non-operating in the audited statement of revenues, expenses, and changes in net assets (deficit).

TSJ did not meet its Gross Revenues Performance Measure Target specified in the Management Agreement for 2005-06 and 2006-07. The exhibit below compares TSJ's Management Agreement Gross Revenues Target to the actual gross revenues that TSJ generated in 2005-06.

Exhibit 3 Comparison Of TSJ's Management Agreement Gross Revenues Target To Actual Gross Revenues For 2005-06

Management Agreement Gross Revenues Target	Actual Gross Revenues	Variance Of Actual Gross Revenues To Management Agreement Target	% Variance
$9,943,000	$8,774,322	($1,168,678)	(12%)

As shown above, in 2005-06, TSJ's gross revenues were $8,774,322, or 12 percent less than the Gross Revenues Target specified in the Management Agreement. For performance measuring purposes, TSJ's gross revenues total includes $164,625, which represents the value of the City's free use of the Facilities and $223,566, which represents charges for the City's use of power for other City buildings.[9]

The exhibit below compares TSJ's Management Agreement Gross Revenues Target and the actual gross revenues that TSJ generated in 2006-07.

[9] The San Jose Convention Center and Cultural Facilities audited financial Statement of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2006 and 2007 deduct City of San Jose credits for facility usage and power charges for the former Martin Luther King Library from total operating revenues. For purposes of determining TSJ's actual gross revenues for performance measuring purposes, these credits are included.

Exhibit 4 Comparison Of TSJ's Management Agreement Gross Revenues Target To Actual Gross Revenues For 2006-07

Management Agreement Gross Revenues Target	Actual Gross Revenues	Variance Of Actual Gross Revenues To Management Agreement Target	% Variance
$10,600,000	$10,554,562	($45,483)	(.4%)

As shown above, in 2006-07, TSJ's gross revenues were $10,554,562, or only .4 percent less than the Gross Revenues Target specified in the Management Agreement. For performance measuring purposes, TSJ's gross revenues total includes $193,045, which represents the value of the City's free use of the Facilities and $239,912, which represents charges for the City's use of power for other City buildings.

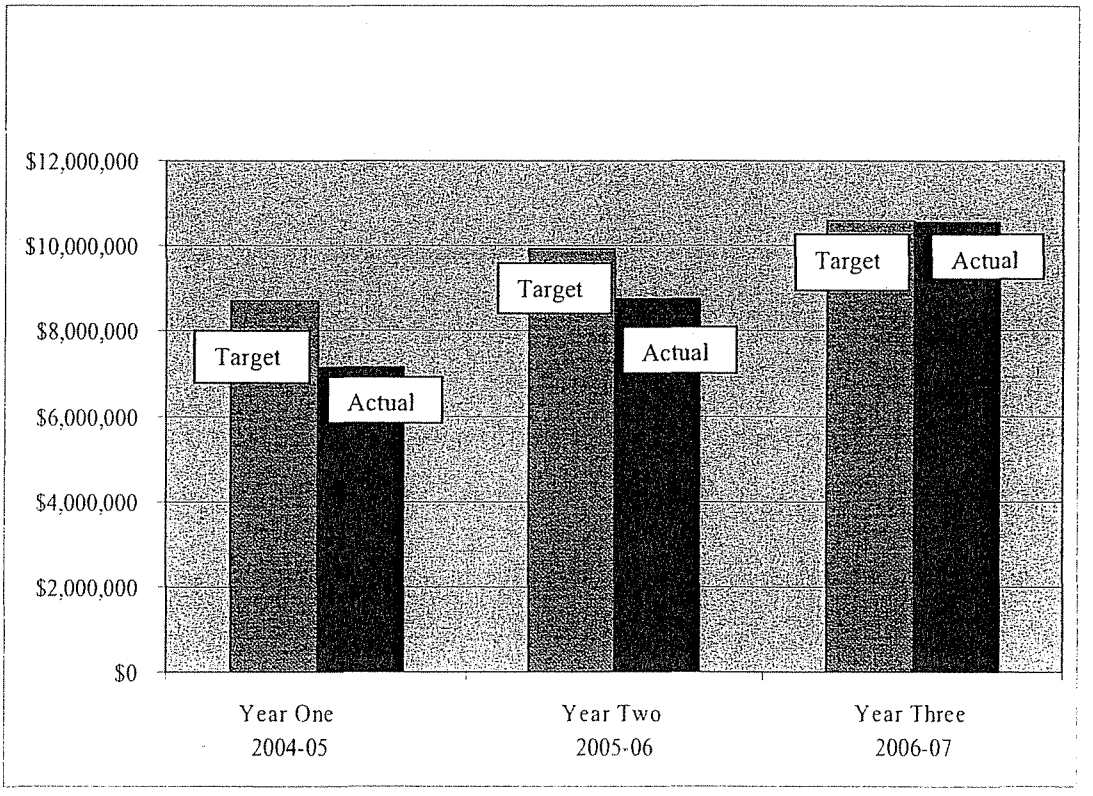
The City Auditor's report entitled, "The 2004-05 Annual Performance Audit of Team San Jose, Inc." (2004-05 Audit Report), noted that 2004-05 was a transition year. As TSJ took over the management of the Facilities from CAE, it booked both new business and fulfilled business that CAE booked in 2003-04 or even earlier. We determined that CAE management negotiated the majority, 62 percent, of the events occurring in 2004-05. Additionally, the 2004-05 Audit Report mentioned that the long lead time between event bookings and the date events are held make it possible that it may take until 2006-07 before TSJ could be held solely responsible for failing to meet the Gross Revenues Performance Measure Target and Net Loss Performance Measure Target as specified in the Management Agreement.

According to TSJ, the City provided all RFP respondents with inaccurate data which TSJ used to develop its Pro Forma. TSJ provided an explanation to the City Auditor's Office that states *...After our selection for negotiating a contract, and upon gaining more complete access to the actual booking data and supporting file documentation for the Convention and Cultural Facilities, we find that the information provided by the City (2003 budget), coupled with the limited calendar access we had, was not an accurate representation of the actual business on the books...* TSJ's explanation further states, *The net impact... represents a reduced estimate of more than $900,000 in rental revenue from the November 2003 baseline*

assumptions to current booked reality. This was revenue that had to be replaced before the team could begin to work on the additional revenues that we had originally forecasted.

The graph in the exhibit below compares TSJ's 2004-05 (Year One), 2005-06 (Year Two), and 2006-07 (Year Three) Management Agreement Gross Revenues Targets to the actual gross revenues TSJ generated in Year One, Year Two, and Year Three.

Exhibit 5 Comparison Of TSJ's Management Agreement Gross Revenues Targets To Actual Gross Revenues For Year One, Year Two, And Year Three



As shown above, TSJ did not meet its Management Agreement Gross Revenues Target for Year One and Year Two, and missed Year Three by $45,438 or just .4 percent. TSJ increased the gross operating revenues it generated from Year One to Year Two, by $1,615,509, or about 23 percent, and from Year Two to Year Three by $1,780,240, or about 20 percent.

As mentioned earlier, the long lead time between event bookings and the date events are held make it possible that it may take until 2006-07 before TSJ could be held solely responsible for meeting the Gross Revenues Performance Measure Target and Net Loss Performance Measure Target as specified in the Management Agreement. TSJ continues to make progress in closing the gap between its Management Agreement Gross Revenues Targets and its actual gross revenues, as it just missed meeting its Year Three (2006-07) Management Agreement Gross Revenues Target.

The exhibit below compares gross operating revenues that TSJ generated in 2004-05 (Year One), 2005-06 (Year Two), and 2006-07 (Year Three).

Exhibit 6 Comparison Of TSJ's Gross Operating Revenues For Year One, Year Two, And Year Three

Operating Revenues:	Year One 2004-05	% Of Total Revenue	Year Two 2005-06	% Of Total Revenue	Year Three 2006-07	% Of Total Revenue
Building rental	$4,194,140	58.6%	$4,489,668	51.2%	$ 5,078,075	48.1%
Food and beverage services	1,209,721	16.9%	2,048,213	23.3%	2,521,900	23.9%
Event electrical /utility services	460,927	6.4%	619,297	7.1%	737,676	7.0%
Heat and power services charges	551,427	7.7%	520,262	5.9%	771,870	7.3%
Networking services	245,000	3.4%	481,584	5.5%	482,964	4.6%
Audio/visual services	266,438	3.7%	298,588	3.4%	431,674	4.1%
Other revenues	59,772	0.8%	140,084	1.6%	294,046	2.8%
Telecommunications services	99,731	1.4%	90,226	1.0%	117,310	1.1%
Equipment rentals	56,988	0.8%	46,262	0.5%	59,977	0.6%
Labor	14,669	0.2%	40,138	0.5%	59,070	0.6%
Total	**$7,158,813**	**100%**	**$8,774,322**	**100%**	**$ 10,554,562**	**100%**

As shown above, from Year One to Year Two, TSJ increased operating revenues for building rental, food and beverage services, event electrical/utility services, networking services, other revenues, and labor and decreased operating revenues for heat and power services, telecommunications services, and

equipment rentals. From Year Two to Year Three, TSJ increased operating revenues for all categories, most notably for other revenues, labor, and audio/visual services.

The exhibit below compares TSJ's gross operating revenues from Year One to Year Two in more detail.

Exhibit 7 Comparison Of TSJ's Operating Revenues From Year One To Year Two

Operating Revenues:	Year One 2004-05	Year Two 2005-06	Variance	% Variance
Building rental	$4,194,140	$4,489,668	$295,528	7%
Food and beverage services	1,209,721	2,048,213	838,492	69
Event electrical/utility services	460,927	619,297	158,370	34
Heat and power services charges	551,427	520,262	(31,165)	(6)
Networking services	245,000	481,584	236,584	97
Audio/visual services	266,438	298,588	32,150	12
Other revenues	59,772	140,084	80,312	134
Telecommunications services	99,731	90,226	(9,505)	(10)
Equipment rentals	56,988	46,262	(10,726)	(19)
Labor	14,669	40,138	25,469	174
Total Operating Revenues	**$7,158,813**	**$8,774,322**	**$1,615,509**	**23%**

As shown in the exhibit above, TSJ increased operating revenues from Year One to Year Two by $1,615,509, or by about 23 percent. Most notably, as a percentage of the total increase in revenues, TSJ increased food and beverage service revenues by $838,492, or by about 69 percent; building rental by $295,528, or by about 7 percent; and networking services by $236,584, or by about 97 percent.

The exhibit below compares TSJ's operating revenues from Year Two to Year Three in more detail.

Exhibit 8 Comparison Of TSJ's Operating Revenues From Year Two To Year Three

Operating Revenues:	Year Two 2005-06	Year Three 2006-07	Variance	% Variance
Building rental	$4,489,668	$5,078,075	$588,407	13%
Food and beverage services	2,048,213	2,521,900	473,687	23
Event electrical/utility services	619,297	737,676	118,379	19
Heat and power services charges	520,262	771,870	251,608	48
Networking services	481,584	482,964	1,380	.3
Audio/visual services	298,588	431,674	133,086	45
Other revenues	140,084	294,046	153,962	110
Telecommunications services	90,226	117,310	27,084	30
Equipment rentals	46,262	59,977	13,715	30
Labor	40,138	59,070	18,932	47
Total Operating Revenues	**$8,774,322**	**$10,554,562**	**$1,780,239**	**20%**

As shown in the exhibit above, TSJ increased operating revenues from Year Two to Year Three by $1,780,239, or by about 20 percent. Most notably, as a percentage of the total increase in revenues, TSJ increased building rental by $588,407, or about 13 percent; food and beverage services by $473,687, or about 23 percent; and heat and power services charges by $251,608, or by about 48 percent.

As mentioned earlier, the CAE managed the Facilities previous to TSJ taking over on July 1, 2004. The exhibit below compares the operating revenues that CAE generated for 2001-02 through 2003-04 to TSJ's operating revenues in 2004-05, 2005-06, and 2006-07.[10]

[10] The CAE's operating revenues do not include revenues generated by the California Theater or South Hall as these two facilities were not yet built or operated by the City.

TSJ's operating revenues include revenues generated by the California Theater and South Hall as of September 2004 and June 2005, respectively.

TSJ's 2004-05 gross revenues total includes $300,000, which represents a collection for an Apple Computer event which was held in January of 2004. The Conventions, Arts and Entertainment Department (CAE) booked the event which was held during CAE's last year of managing the Facilities and the $300,000 was included in CAE's 2003-04 gross revenues. However, CAE was unable to collect the revenues from this event. TSJ collected the $300,000 in 2004-05 and included it in its revenue totals.

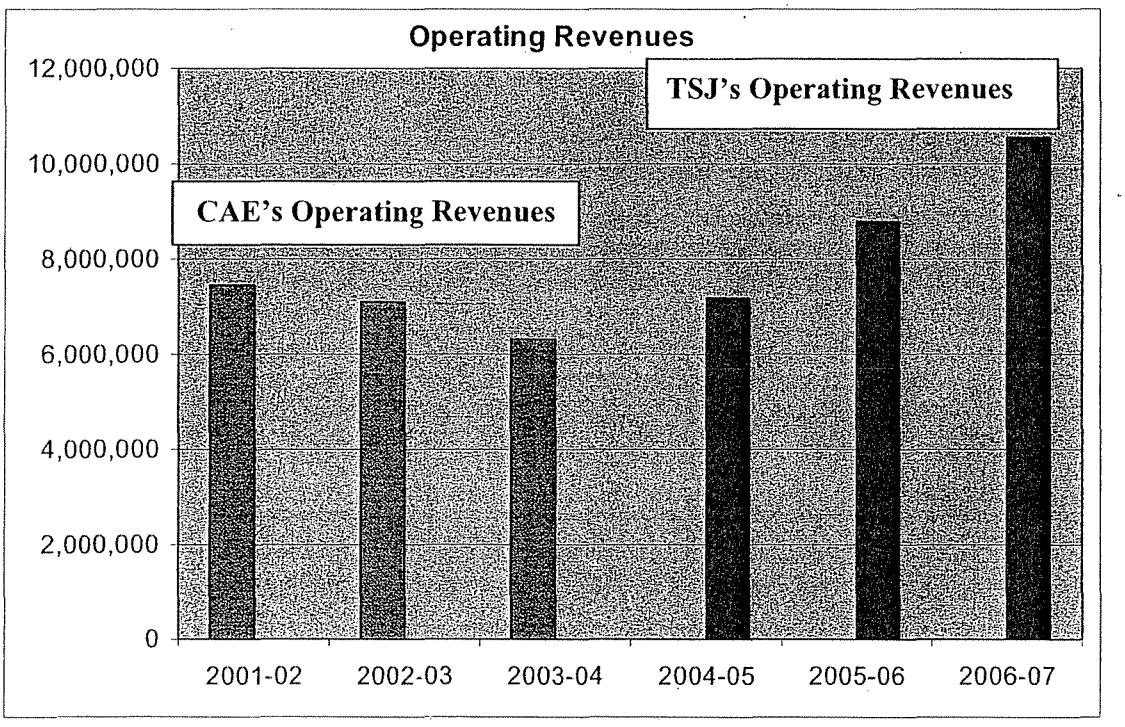
Exhibit 9 **Comparison Of The Revenues Generated Under CAE Management For 2001-02, 2002-03, And 2003-04 To TSJ Management In 2004-05, 2005-06, And 2006-07**

Fiscal Year	CAE Operating Revenue	TSJ Operating Revenue
2001-02	$7,451,534	
2002-03	7,109,733	
2003-04	6,307,804	
CAE's Three-year Average	6,956,357	
2004-05		$7,158,813
2005-06		8,774,322
2006-07		**10,554,562**
TSJ's Three-year Average		**8,829,232**

TSJ's 2005-06 and 2006-07 revenues were greater than CAE's 2001-02, 2002-03, and 2003-04 revenues. TSJ's three-year revenue average of $8,829,232 was $1,872,875 greater than CAE's three-year revenue average of $6,956,357. TSJ's 2004-05 revenues of $7,158,813 were below 2001-02 CAE's revenues of $7,451,534 by $292,721.

The graph in the exhibit below compares the operating revenues CAE generated in 2001-02, 2002-03, and 2003-04 to TSJ's operating revenues generated in 2004-05, 2005-06, and 2006-07.

Exhibit 10 **Comparison Of CAE's Operating Revenues For 2001-02, 2002-03, And 2003-04 To TSJ's 2004-05, 2005-06, And 2006-07 Operating Revenues**



We should note that TSJ's 2004-05 Gross Revenues Performance Measure Target in the Management Agreement is less than it originally proposed to the City during the RFP process. The City initially allowed the proposers to revise their revenue and cost estimates to adjust for parking revenues and additional staffing costs. At the conclusion of the RFP process, the City Council directed the City to enter into negotiations with TSJ. These negotiations led to an additional decrease in TSJ's proposed 2004-05 Gross Revenues Target and an additional increase in its 2004-05, 2005-06, 2006-07, 2007-08, and 2008-09 Net Loss Targets.

Status Of Previous City Auditor Recommendations

In the 2004-05 Audit Report, it was noted that, in order to be competitive with other convention facilities, CAE and TSJ frequently reduced or waived rental fees. This is usually based on the client providing an economic benefit to the City such as traceable hotel room nights and/or food and beverage revenues. We found that there may be up to three files for each event and that the files did not consistently contain adequate notation

and/or justification for the reduction of and/or waiving of rental fees. We noted that TSJ provided pricing sheets for events occurring in 2004-05 which TSJ negotiated and that these pricing sheets did contain justification for waived or reduced rental fees. However, we noted that, in our opinion, when TSJ reduces or discounts rental fees, it should document in client event files the justification for such reductions or waivers. Accordingly, the following recommendation was made:

> "Develop well-defined price negotiation policies and procedures that ensure all client event files include proper documentation for waived/reduced rental fees."

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, it was determined that, as of April 2007, TSJ had implemented the above recommendation. Specifically, it was noted that TSJ had developed price negotiation policies and procedures. Additionally, after sampling 100 files from TSJ's 2005-06 master list of events, it was noted that, overall, TSJ was in compliance with its pricing policies and procedures which included documentation for waived/reduced rental fees.

TSJ Did Not Meet Its Performance Measure For Net Loss For 2005-06 And 2006-07

The second Performance Measure, Net Loss, requires TSJ to achieve specific net loss targets for each fiscal year of the agreement. The Net Loss Performance Measure is stated in the Management Agreement as follows:

> *(b) **Net Profit or Loss financial performance**: Operator will focus on reducing the City's operational subsidy to support the Convention and Cultural Facilities. This category is measured through Net Profit or Loss (year-over-year) comparisons expressed as EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) and detailed on a comprehensive Profit and Loss (P & L) statement. TSJ is projected to achieve the following Net Profit/Loss results, for each fiscal year:*
>
> | | |
> |---|---|
> | *Fiscal Year 1:* | *($3,745,000)* |
> | *Fiscal Year 2:* | *($1,966,000)* |
> | *Fiscal Year 3:* | *($1,432,000)* |
> | *Fiscal Year 4:* | *($975,000)* |
> | *Fiscal Year 5:* | *($836,000)* |

According to Macias Gini & O'Connell's Independent Auditor's Report, for the Years ended June 30, 2006 and June 30, 2007, operating expenses are derived from charges for City of San Jose management and administrative charges, overhead, oversight and contracted services; Team San Jose administrative and general salaries and management fee; utilities; contracted outside services; other expenses; operating supplies; repairs and maintenance; insurance, workers' compensation insurance premiums; and depreciation.

For performance measurement purposes, TSJ's 2005-06 and 2006-07 expenses do not include depreciation expense on its own assets and City oversight expenses. Additionally, TSJ's 2006-07 expenses do not include fire insurance expenses allocated to the Facilities. As noted earlier, TSJ's net loss will be expressed as earnings before interest, taxes, depreciation, and amortization.[11] It is important to note that although the Management Agreement states that the costs of the City Auditor's annual performance audit and the annual financial audit "will be paid by and allocated as operating costs of the facilities", Exhibit J-2 in the Management Agreement shows the cost of the City Auditor's performance audit and the annual financial audit as part of "City Oversight Expenses." These expenses are not allocated as operating costs of the facilities for purposes of calculating TSJ's 2004-05 Net Loss Performance Measure Target. Accordingly, for purposes of determining if TSJ met its Management Agreement Net Loss Performance Measure Target for 2005-06 and 2006-07, we excluded these expenses. Additionally, the Management Agreement does not include fire insurance in the insurance expense line item; we excluded these expenses for 2006-07.

As discussed earlier, TSJ's 2004-05 through 2008-09 Net Loss Targets in the Management Agreement are higher than it initially proposed to the City during the RFP process. The City initially allowed the proposers to revise their revenue and cost estimates to adjust for parking revenues and additional staffing costs. At the conclusion of the RFP process, the City Council

[11] For purposes of determining if TSJ met its Management Agreement Net Loss Performance Measure Targets, we did not include $187,858 in City oversight expenses for 2005-06 and 2006-07, and $24,530 and $239,308 in depreciation expenses for 2005-06 and 2006-07, respectively. Additionally, $167,186 in fire insurance expense for 2006-07 was not included in TSJ's insurance expense for performance measurement purposes.

directed the City to enter into negotiations with TSJ. These negotiations led to an additional increase in its 2004-05, 2005-06, 2006-07, 2007-08, and 2008-09 Net Loss Targets.

The exhibit below compares TSJ's Management Agreement Net Loss Target to the actual net loss that TSJ incurred in 2005-06.

Exhibit 11 Comparison Of TSJ's Management Agreement Net Loss Target To Actual Net Loss For 2005-06

Management Agreement Net Loss	Actual Net Loss	$ Variance Of Actual To Management Agreement Net Loss	% Variance From Actual To Management Agreement Net Loss
($1,966,000)	($3,868,899)	($1,902,899)	(97%)

As the exhibit above shows, for 2005-06, TSJ incurred a net loss of $3,868,899, which is $1,902,899, or about 97 percent more than the Management Agreement's Net Loss Performance Measure Target of $1,966,000.

The exhibit below compares TSJ's Management Agreement Net Loss Target to the actual net loss that TSJ incurred in 2006-07.

Exhibit 12 Comparison Of TSJ's Management Agreement Net Loss Target To Actual Net Loss For 2006-07

Management Agreement Net Loss	Actual Net Loss	$ Variance Of Actual To Management Agreement Net Loss	% Variance From Actual To Management Agreement Net Loss
($1,432,000)	($3,332,155)	($1,900,155)	(133 %)

As the exhibit above shows, for 2006-07, TSJ incurred a net loss of $3,332,155, which is $1, 900,155, or about 133 percent more than the Management Agreement's Net Loss Performance Measure Target of $1,432,000.

The exhibit below compares TSJ's 2004-05 (Year One), 2005-06 (Year Two), and 2006-07 (Year Three) Management Agreement Net Loss Targets to the net loss that TSJ incurred in Year One, Year Two, and Year Three.

Exhibit 13 Comparison Of TSJ'S Management Agreement Net Loss Targets To Actual Net Loss For 2004-05, 2005-06, And 2006-07

Fiscal Year	Management Agreement Net Loss Target	Actual Net Loss	$ Variance Of Actual To Management Agreement Net Loss Target	% Variance From Actual To Management Agreement Net Loss
2004-05	$3,745,000	$4,629,067	($884,067)	(24%)
2005-06	1,966,000	$3,868,899	($1,902,899)	(97%)
2006-07	1,432,000	$3,332,155	($1,900,155)	(133%)

As shown above, TSJ did not meet its Management Agreement Net Loss Target for Year One, Year Two, and Year Three. However, TSJ decreased the net loss it incurred from Year One to Year Two, by $760,168, or by about 16 percent, and from Year Two to Year Three by $536,744 or about 14 percent.

As mentioned earlier, the long lead time between event bookings and the date events are held make it possible that it may take until 2006-07 before TSJ could be held solely responsible for meeting the Gross Revenues Performance Measure Target and Net Loss Performance Measure Target as specified in the Management Agreement.[12] While TSJ falls short of meeting its Year Three (2006-07) Management Agreement Net Loss Target, the net loss it incurred has decreased year over year.

The exhibit below compares the operating expenses that TSJ incurred in 2004-05 (Year One), 2005-06 (Year Two), and 2006-07 (Year Three).

[12] TSJ took over the management of the Facilities in July of 2004.

Exhibit 14 Comparison Of Operating Expenses TSJ Incurred From Year One, Year Two, And Year Three

Operating Expenses:	Year One 2004-05	% Of Total Expenses	Year Two 2005-06	% Of Total Expenses	Year Three 2006-07	% Of Total Expenses
City of San Jose management and administrative charges	$6,228,160	53%	$5,820,023	46%	$6,645,397	48%
Utilities	2,335,139	20	2,467,647	20	2,535,946	18
Administrative and general salaries - Team San Jose	645,366	5	872,271	7	1,237,668	9
Contracted outside services	516,980	4	714,818	6	461,066	3
Other expenses	317,857	3	668,446	5	763,447	5
Overhead - City of San Jose	542,368	5	555,116	4	865,262	6
Operating supplies	302,600	3	410,711	3	420,768	3
Repairs and maintenance	231,123	2	392,837	3	394,565	3
Insurance	276,064	2	280,854	2	282,330	2
Workers' compensation insurance premiums	124,820	1	226,559	2	130,268	1
Management Fee - Team San Jose	150,000	1	150,000	1	150,000	1
Contracted services - City of San Jose	117,403	1	83,939	1	-	0
TOTAL OPERATING EXPENSES	**$11,787,880**	100%	**$12,643,221**	100%	**$13,886,717**	100%
TOTAL OPERATING REVENUES	**7,158,813**		**8,774,322**		**10,554,562**	
OPERATING LOSS	**$4,629,067**		**$3,868,899**		**$3,332,155**	

As shown above, the operating expenses TSJ incurred for City of San Jose management and administrative charges and utilities account for the majority of the total operating expenses incurred for 2004-05, 2005-06, and 2006-07. The exhibit below compares the operating expenses that TSJ incurred from Year One to Year Two in more detail.

Exhibit 15 Comparison Of Operating Expenses TSJ Incurred From Year One To Year Two

Operating Expenses:	Year One 2004-05	Year Two 2005-06	$ Variance	% Variance
City of San Jose management and administrative charges	$6,228,160	$5,820,023	($408,137)	(7%)
Utilities	2,335,139	2,467,647	132,508	6%
Administrative and general salaries - Team San Jose	645,366	872,271	226,905	35%
Contracted outside services	516,980	714,818	197,838	38%
Other expenses	317,857	668,446	350,589	110%
Overhead - City of San Jose	542,368	555,116	12,748	2%
Operating supplies	302,600	410,711	108,111	36%
Repairs and maintenance	231,123	392,837	161,714	70%
Insurance	276,064	280,854	4,790	2%
Workers' compensation insurance premiums	124,820	226,559	101,739	82%
Management Fee – Team San Jose	150,000	150,000	-	0%
Contracted services - City of San Jose	117,403	83,939	(33,464)	(29%)
TOTAL OPERATING EXPENSES	**$11,787,880**	**$12,643,221**	**$855,341**	**7%**
TOTAL OPERATING REVENUES	**7,158,813**	**8,774,322**	**$1,615,509**	**23%**
OPERATING LOSS	**$4,629,067**	**$3,868,899**	**($760,168)**	**(16%)**

As shown above, the operating expenses TSJ incurred from Year One to Year Two increased overall by $855,341, or by about 7 percent. Most notably, as a percentage of total expenses and category percentage increase, TSJ's operating expenses increased for workers' compensation insurance premiums by $101,739, or by about 82 percent; TSJ administrative and general salaries by $226,905, or by about 35 percent; contracted outside services by $197,838, or by about 38 percent; and repairs and maintenance by $161,714, or by about 70 percent.

According to TSJ staff, the increase to workers' compensation insurance premiums was mainly due to the increase in what TSJ pays to cover its city employees. TSJ administrative and general salaries expense increased because TSJ filled open positions. The City of San Jose management and administrative expenses decreased because there were many open positions. Contractors were used to fill in, which resulted in a contracted outside services expense increase. Lastly,

contracted expenses were up because temporary services payout increased sharply. Also, the mandatory firewatch service increased from the prior year.

The exhibit below compares the operating expenses that TSJ incurred from Year Two to Year Three in more detail.

Exhibit 16 Comparison Of Operating Expenses TSJ Incurred From Year Two To Year Three

Operating Expenses:	Year Two 2005-06	Year Three 2006-07	Variance	% Variance
City of San Jose management and administrative charges	$5,820,023	$6,645,397	$825,374	14%
Utilities	2,467,647	2,535,946	68,299	3
Administrative and general salaries - Team San Jose	872,271	1,237,668	365,397	42
Contracted outside services	714,818	461,066	(253,752)	(35)
Other expenses	668,446	763,447	95,001	14
Overhead - City of San Jose	555,116	865,262	310,146	56
Operating supplies	410,711	420,768	10,057	2
Repairs and maintenance	392,837	394,565	1,728	.4
Insurance	280,854	282,330	1,476	1
Workers' compensation insurance premiums	226,559	130,268	(96,291)	(43)
Management Fee - Team San Jose	150,000	150,000	-	-
Contracted services – City of San Jose	83,939	-	(83,939)	(100)
TOTAL OPERATING EXPENSES	**$12,643,221**	**$13,886,717**	**$1,243,497**	**10%**
TOTAL OPERATING REVENUES	**8,774,322**	**10,554,562**	**1,780,240**	**20%**
OPERATING LOSS	**$3,868,899**	**$3,332,155**	**($536,744)**	**(14%)**

As shown above, the operating expenses TSJ incurred from Year Two to Year Three increased overall by $1,243,497, or by about 10 percent. Most notably, as a percentage of total expenses and category percentage increase, TSJ's operating expenses increased for City of San Jose management and administrative charges by $825,374, or by about 14 percent; administrative and general salaries – Team San Jose by $365,397, or by about 42 percent; and overhead – City of San Jose by $310,146, or by about 56 percent.

According to TSJ staff, the increase to City of San Jose management and administrative charges was mainly due to increasing the number of filled City positions from 70 to 79. In addition, TSJ administrative and general salaries increased because most of the budgeted positions were filled. Lastly, the expenses incurred for City of San Jose overhead, a City-controlled expense, incurred an additional allocation during the mid-year budget review.

While the expenses TSJ incurred mostly increased from Year Two to Year Three, contracted outside services expenses decreased by $253,752, or by about 35 percent; workers' compensation insurance premiums expenses decreased by $96,291, or by about 43 percent; and no expenses were incurred for contracted services – City of San Jose, for Year Three.

According to TSJ staff, contracted outside services expenses decreased as the services provided by the former custodial service were performed by existing maintenance staff. Workers compensation insurance premium expenses decreased as a result of settled and diminishing claims. Lastly, no expenses were incurred for the City of San Jose contracted services category, as the City contract expired June 30, 2006, and was not renewed.

As mentioned earlier, the CAE managed the Facilities previous to TSJ taking over on July 1, 2004.[13] The exhibit below compares the net losses CAE incurred for 2001-02, 2002-03, and 2003-04 to the net loss that TSJ incurred in 2004-05, 2005-06, and 2006-07.

[13] The CAE's net losses do not include revenues and expenses generated by the California Theater or South Hall as these two facilities were not yet built or operated by the City.

TSJ's net losses include revenues and expenses generated by the California Theater and South Hall as of September 2004 and June 2005, respectively.

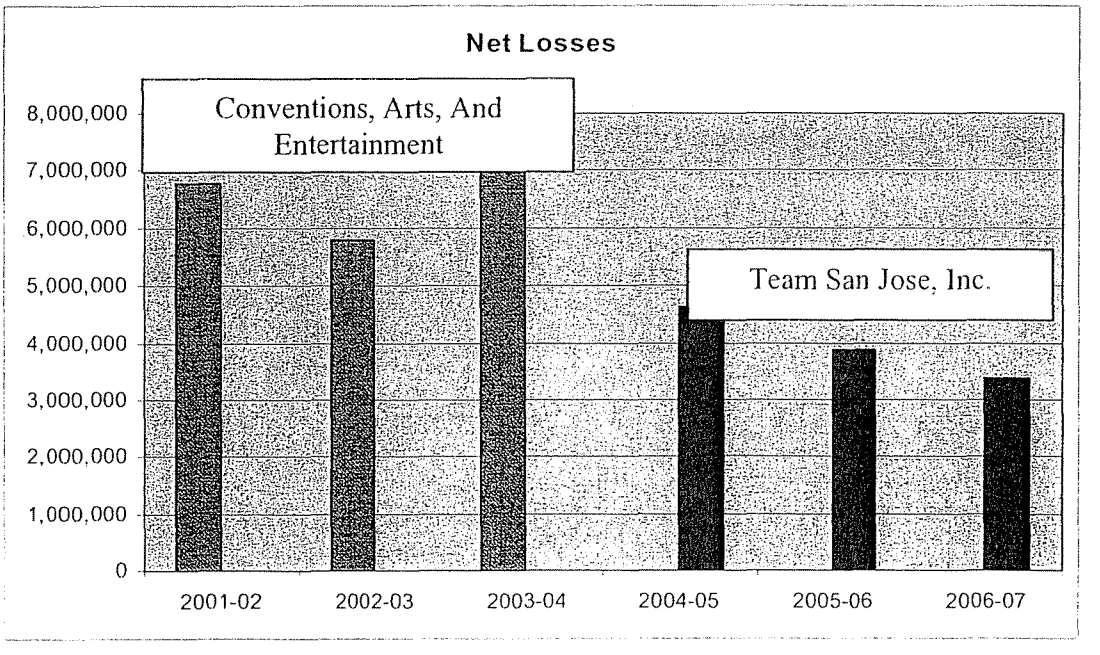
Exhibit 17 **Comparison Of CAE's Net Losses For 2001-02, 2002-03, And 2003-04 To TSJ's Net Loss For 2004-05, 2005-06, And 2006-07**

Net Loss		
Fiscal Year	CAE	TSJ
2001-02	$6,789,198	
2002-03	5,792,240	
2003-04	7,091,074	
2004-05		$4,629,067
2005-06		3,868,899
2006-07		3,332,155
Three-year Average	$6,557,504	$3,943,374

As shown above, TSJ's three-year net loss average for 2004-05, 2005-06, and 2006-07 was $2,614,130 less than CAE's three-year net loss average for 2001-02, 2002-03, and 2003-04.

The exhibit below graphs CAE's net loss for 2001-02 through 2003-04 to TSJ's net loss for 2004-05 through 2006-07.

Exhibit 18 **Comparison Of CAE's Net Loss For 2001-02 Through 2003-04 To TSJ's Net Loss For 2004-05 Through 2006-07**



TSJ Met Its Economic Impact Performance Measure Target For 2005-06 And 2006-07

The third Performance Measure, Economic Impact, requires TSJ to achieve specific attendee day figures for local/social visitors, out of town visitors, and exhibitors for each fiscal year of the Management Agreement. By managing the strategic mix of business and visitor types, TSJ is to focus on increasing the total attendance for events held at the Convention and Cultural Facilities. The Economic Impact Performance Measure is stated in the Management Agreement as follows:

> *(c) Economic Impact: By managing the strategic mix of business and visitor types, Operator will focus on increasing the total attendance for events held at the Convention and Cultural Facilities. Attendance will be measured and reported as "attendee days" (e.g., one attendee for one day = one attendee day; one attendee for three days = three attendee days)...Operator is projected to achieve the following attendee day figures for each fiscal year:*
>
> *Fiscal Year 1*
> *a. Local/Social Visitors: 507,000*
> *b. Out of Town Visitors: 60,200*
> *c. Exhibitors: 10,000*
>
> *Fiscal Year 2*
> *a. Local/Social Visitors: 515,100*
> *b. Out of Town Visitors: 87,300*
> *c. Exhibitors: 18,500*
>
> *Fiscal Year 3*
> *a. Local/Social Visitors: 600,400*
> *b. Out of Town Visitors: 92,700*
> *c. Exhibitors: 19,700*
>
> *Fiscal Year 4*
> *a. Local/Social Visitors: 660,000*
> *b. Out of Town Visitors: 103,600*
> *c. Exhibitors: 22,000*
>
> *Fiscal Year 5*
> *a. Local/Social Visitors: 690,400*
> *b. Out of Town Visitors: 108,000*
> *c. Exhibitors: 22,900*

Stimulating new spending locally by attracting visitors and the degree to which the event or attraction draws visitors from outside the local area is the basis of this Performance Measure. Attendance is measured and reported as attendee days. For example, one visitor attending an event for one day equals one attendee day. The same visitor attending an event for three days equals three attendee days.

The amount of dollars spent per day differs according to the type of visitor as defined below:

- Local Visitors: Delegates who reside in the metropolitan area of the host event and do not require overnight accommodations are expected to spend the least.
- Out of Town Visitors: Delegates who do not reside in the metropolitan area of the host event and require overnight accommodations. Overnight delegates spend much more per event than local visitors since lodging represents a large portion of their expenditures.
- Exhibitors: Attendees whose focus is to exhibit products, services, etc. to other delegates attending the host event. Exhibitors are generally out of town attendees.

Depending on the visitor type, a certain dollar amount is projected to be spent on a single day. Exhibitors are projected to spend the most, followed by out of town visitors, as they are projected to require overnight accommodations. Local visitors are projected to spend the least per day.

We found that TSJ more than met its Economic Impact Performance Measure Target for FYs 2005-06 and 2006-07.

Specifically, for 2005-06, TSJ reported:

- Local/social visitors of 1,194,109, exceeding its target of 515,100 by 679,009;
- Out of town visitors of 109,651, exceeding its target of 87,300 by 22,351; and
- Exhibitors of 33,914, exceeding its target of 18,500 by 15,414.

For 2006-07, TSJ reported:

- Local/social visitors of 1,118,794, exceeding its target of 600,400 by 518,394;
- Out of town visitors of 132,506, exceeding its target of 92,700 by 39,806; and
- Exhibitors of 21,029, exceeding its target of 19,700 by 1,329.

However, as mentioned in the 2004-05 Audit Report, in our opinion, the Management Agreement Economic Impact Target appeared to be set too low and the City needs to amend the Management Agreement to incorporate a more challenging Economic Impact Target and to include actual hotel room nights booked in the amended Economic Impact Target. According to City Administration, the Economic Impact Targets were originally set using the best information available at the time and taking the state of the economy into account. The City Council is holding a special session in December 2007 to determine whether to direct the City Manager to extend the Management Agreement for one additional five-year period, as the initial term of the Management Agreement will expire on June 30, 2009. The City Administration is planning to re-visit the Economic Impact Targets pending City Council direction.

The exhibit below compares the 2005-06 targets for each visitor to the actual attendee days.

Exhibit 19 **2005-06 Comparison Of Economic Impact Performance Measure Targets Specified In The Management Agreement To The Actual Attendee Days**

Visitor Type	2005-06 Performance Measure Target As Stated In The Management Agreement	Actual Attendee Days	Positive Variance	% Variance Of Target
Local/Social Visitors	515,100	1,194,109	679,009	232%
Out Of Town Visitors	87,300	109,651	22,351	126
Exhibitors	18,500	33,914	15,414	183
Total	**620,900**	**1,337,674**	**716,774**	**215%**

As shown above, for FY 2005-06, TSJ exceeded its attendee targets - local/social visitors target by 679,009 (232 percent of its target), out of town visitors target by 22,351 (126 percent of its target), and its exhibitors target by 15,414 (183 percent of its target). In total, TSJ achieved attendee figures of 1,337,674, exceeding the total attendee target figures by 716,774 or 215 percent of the total attendee day figures.

The exhibit below compares the 2006-07 targets for each visitor to the actual attendee days.

Exhibit 20 **2006-07 Comparison Of Economic Impact Performance Measure Targets Specified In The Management Agreement To The Actual Attendee Days**

Visitor Type	2006-07 Performance Measure Target As Stated In The Management Agreement	Actual Attendee Days	Positive Variance	% Variance Of Target
Local/Social Visitors	600,400	1,118,794	518,394	186%
Out Of Town Visitors	92,700	132,506	39,806	143
Exhibitors	19,700	21,029	1,329	107
Total	**712,800**	**1,272,329**	**559,529**	**178%**

As shown above, for FY 2006-07, TSJ exceeded its attendee targets - local/social visitors target by 518,394 (186 percent of its target), out of town visitors target by 39,806 (143 percent of its target), and its exhibitors target by 1,329 (107 percent of its target). In total, TSJ achieved attendee figures of 1,272,329, exceeding the total attendee target figures by 559,529 (178 percent) of the total attendee day figures.

As shown in the two exhibits above, for FYs 2005-06 and 2006-07, TSJ exceeded its total attendee day figures by 215 percent and 178 percent, respectively, while TSJ's 2006-07 exhibitor target was exceeded by 107 percent.

The exhibit below compares TSJ's local/social visitors, out of town visitors, and exhibitor attendance figures for 2004-05 (Year One) to 2005-06 (Year Two).

Exhibit 21 **Comparison Of TSJ's Actual Attendee Day Figures For Year One To Year Two**

Visitor Type	Actual Attendee Days For Year One 2004-05	Actual Attendee Days For Year Two 2005-06	Variance	% Change
Out Of Town Visitors	93,635	109,651	16,016	17%
Local/Social Visitors	996,478	1,194,109	197,631	20%
Exhibitors	31,591	33,914	2,323	7%
Total Attendees	1,121,704	1,337,674	215,970	17%

As shown in the exhibit above, TSJ increased its out of town visitor figures, from Year One to Year Two, by 16,016 attendee days, or by about 17 percent.

The exhibit below compares TSJ's local/social visitors, out of town visitors, and exhibitor attendance figures for 2005-06 (Year Two) to 2006-07 (Year Three).

Exhibit 22 **Comparison Of TSJ's Actual Attendee Day Figures For Year Two To Year Three**

	Year Two 2005-06	Year Three 2006-07	Variance	% Change
Out Of Town Visitors	109,651	132,506	22,855	21%
Local/Social Visitors	1,194,109	1,118,794	(75,315)	(6%)
Exhibitors	33,914	(12,885)	21,029	(38%)
Total Attendees	1,337,674	1,272,329	(65,345)	(5%)

As shown in the Exhibits 21 and 22 above, TSJ steadily increased its out of town visitor figures, from Year Two to Year Three, by 22,855 attendee days, or by about 21 percent. However, while TSJ increased its local/social visitor and exhibitor figures, from Year One to Year Two, these figures

decreased from Year Two to Year Three, by about 6 percent and 38 percent, respectively resulting in a total attendee days decrease of about 5 percent from Year Two to Year Three.

According to TSJ staff, *Team San Jose's Total Actual Attendance decreased 5% from 2005/06 FY to 2006/07 FY. This decrease is largely due to groups that were at the Convention Center in 2005/06 that did not return the following year. Game Developers and RSA Security, Inc. (programs grew too large for San Jose), [sic] RoboNexus (San Jose did not have preferred dates available). However, Team San Jose increased the number of events by 5% from 05/06 FY and increased contracted room nights by 40% from 05/06 to 06/07.*

The Total Local Attendees and Total Exhibitors for the 2006/07 FY had gone down. However, the Out of Town attendees increased by 21%. It can be said that the [sic] since the total amount of direct spending created by Out of Towner attendees went up, so did the benefit to the city as a whole.

Status Of Previous City Auditor Recommendations

The City Auditor's report entitled, "The 2004-05 Annual Performance Audit of Team San Jose, Inc." (2004-05 Audit Report), noted that the Economic Impact Performance Measure Target, as stated in the Management Agreement, appeared to be set too low. This was determined because 1) TSJ more than met its Economic Impact Target for Year One and 2) TSJ's Year One attendance target was significantly below the attendance levels the Convention, Arts, and Entertainment Department (CAE) achieved from 2000-01 through 2003-04.[14] In addition, the 2004-05 Audit Report noted that the Economic Impact Target did not include the number of room nights actually booked. Accordingly, the following recommendation was made:

> "...we recommend that TSJ and the City:
>
> Recommendation #2
>
> Develop a new Economic Impact Performance Measure Target based on factors such as

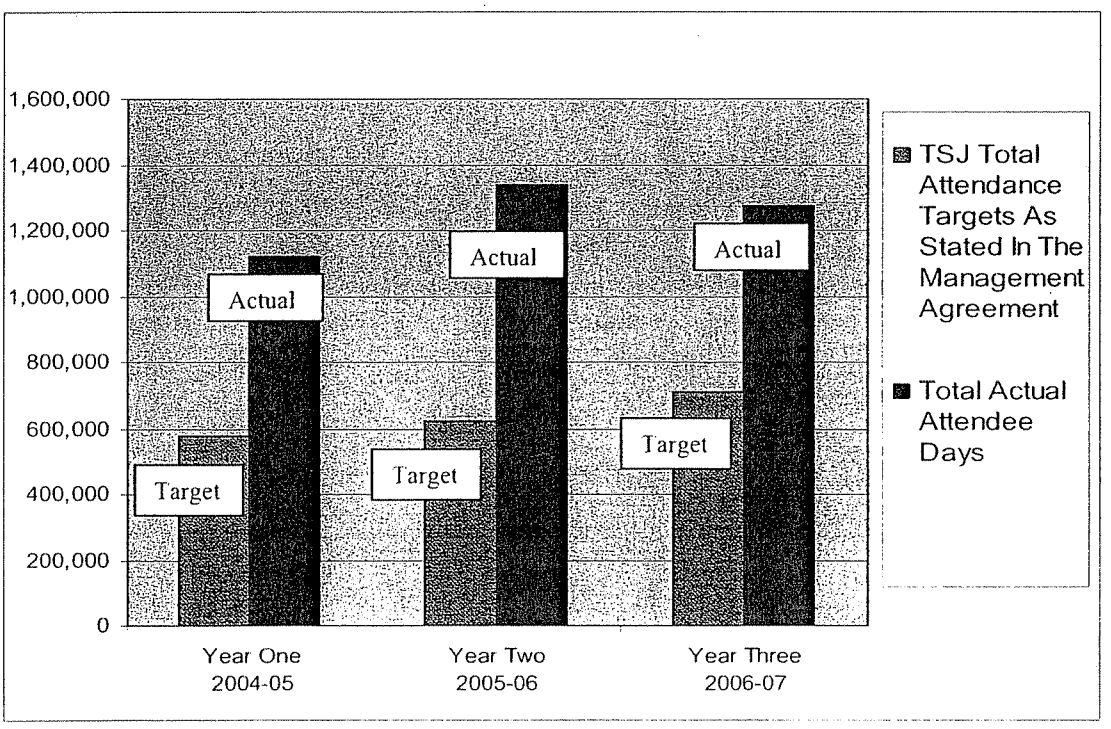
[14] The Convention, Arts, and Entertainment Department managed the Facilities prior to Team San Jose taking over on July 1, 2004. The exhibit entitled "Comparison Of Total Attendance Under CAE Management From 2000-01 Through 2003-04 To TSJ's 2004-05 Total Attendance Target" can be found in the City Auditor's Office report entitled, "The 2004-05 Annual Performance Audit of Team San Jose, Inc.", on page 29.

historical data, the capacity of the Facilities, and the potential for future growth and amend the Management Agreement accordingly. This target should also include the actual number of room nights booked for events held in the Facilities..."

The above recommendation is still applicable as 1) TSJ more than met its Year One, Year Two, and Year Three total attendance targets and 2) its total attendance targets, as stated in the Management Agreement, are far below the CAE's four-year total attendance average it generated in 2000-01 through 2003-04.

The exhibit below compares TSJ's Year One, Year Two, and Year Three Economic Impact Performance Measure targets specified in the Management Agreement to the total actual attendee days.

Exhibit 23 Comparison Of Economic Impact Performance Measure Targets Specified In The Management Agreement To TSJ's Actual Attendee Day Figures For Year One, Two, And Three



As shown in the graph in the exhibit above, TSJ more than met its total attendance targets for Year One, Year Two, and Year Three.

Exhibit 24 below compares TSJ's 2004-05 through 2008-09 total attendance targets to CAE's four-year total attendance average.[15]

Exhibit 24 Comparison Of TSJ's 2004-05 Through 2008-09 Total Attendance Targets To CAE's Four-Year Total Attendance Average

Fiscal Year	TSJ Total Attendance Targets For FYs 2004-05 Through 2008-09	Total Attendance Four-Year Average Under CAE Management	Variance	% Variance
2004-05	577,200	1,023,262	446,062	77%
2005-06	620,900	1,023,262	402,362	65%
2006-07	712,800	1,023,262	310,462	44%
2007-08	785,600	1,023,262	237,662	30%
2008-09	821,300	1,023,262	201,962	25%

As the exhibit above shows, CAE's four-year total attendance average of 1,023,262 is 25 percent to 77 percent higher than TSJ's five-year total attendance targets.

Accordingly, TSJ's Economic Impact Performance Measure Target, as stated in the Management Agreement, should be revised as recommended in the 2004-05 Audit Report. TSJ's Economic Impact Targets should be obtainable but challenging and take into account TSJ's three-year actual performance, the capacity of the Facilities, and the potential for future growth. These targets should also include the actual number of room nights consumed/picked-up for events held in the Facilities.

[15] TSJ performs a quality control assessment to ensure the accuracy of its attendance figures. While TSJ staff provided the CAE attendance reports for 2000-01 through 2003-04, TSJ did not perform an assessment for these years and therefore does not attest to the accuracy of these attendance figures.

As stated in the 2004-05 Audit Report, "In our opinion, hotel room nights booked is an important piece of the true economic impact of events held in San Jose." Room nights consumed/picked-up bring transient occupancy tax revenues directly to the City.

As noted earlier, TSJ's Economic Impact Performance Measure Target categorizes visitor types according to their estimated spending. Specifically, TSJ stated that local visitors do not require overnight accommodations, but out of town visitors and exhibitors are projected to require overnight accommodations.

Exhibit 25 below compares the estimated number of room nights consumed/picked-up to out of town visitors and exhibitors for 2004-05 (Year One), 2005-06 (Year Two), and 2006-07 (Year Three). According to TSJ staff, the numbers are conservative at best, for many reasons, but mainly because visitors may use online services to book their rooms instead of booking directly using the event block number, rendering these room night bookings untraceable.[16]

Exhibit 25 Comparison Of Out Of Town Visitors And Exhibitors For Year One, Two, And Three To Hotel Room Nights Consumed/picked-up

	Out Of Town Visitors	Exhibitors	Total Out Of Town And Exhibitors	Hotel Room Nights Consumed/picked-up
Year One – 2004-05 Actual Attendee Days Compared To Estimated Hotel Room Nights Consumed/picked-up	93,635	31,591	125,226	88,000
Year Two – 2005-06 Actual Attendee Days Compared To Estimated Hotel Room Nights Consumed/picked-up	109,651	33,914	143,565	136,699
Year Three – 2006-07 Actual Attendee Days Compared To Estimated Hotel Room Nights Consumed/picked-up	132,506	21,029	153,535	136,017

[16] According to TSJ, "Data is a conservative compilation of room night pick-up data from hotels where attendees were projected to stay. Actual room night calculation is difficult to determine based on the individual hotels having different tracking processes. The availability, growth and ease of the internet for the best available hotel rates offered can also affect the numbers reported by hotels."

As mentioned earlier and shown above, TSJ steadily increased the out of town visitor attendee day figures from Year One to Year Two by 16,016, or about 17 percent, and from Year Two to Year Three by 22,855, or about 21 percent. However, while exhibitor attendee day figures increased from Year One to Year Two by 2,323, or about 7 percent, the figures decreased by 12,855, or about 38 percent from Year Two to Year Three. The total out of town and exhibitors attendee day figures increased steadily from Year One to Year Two by 18,339, or about 15 percent, and from Year Two to Year Three by 9,970, or about 7 percent. While the number of hotel room nights consumed/picked-up greatly increased from Year One to Year Two by 48,669, or about 55 percent, the number decreased slightly from Year Two to Year Three by 682 less hotel room nights consumed/picked-up, or less than one percentage point.

As mentioned earlier, hotel room nights consumed/picked-up is an important piece of the true economic impact of events held in San Jose as room nights consumed/picked-up bring transient occupancy tax revenues to the City. Using the "Hotel Occupancy Report Summary By Fiscal Year" provided by TSJ, which shows an average hotel room rate of $114.06 for Year One, $120.30 for Year Two, and $133.45 for Year Three, and given the current transient occupancy tax of 10 percent, tax revenue generated as a result of visitors attending the Facilities for Years One, Two, and Three, would have been $4,463,364.[17]

TSJ Met Its 2005-06 And 2006-07 Customer Service Results Performance Measure Targets

The fourth Performance Measure, Customer Service Results, requires TSJ to create a standard survey asking the event planner of each event to rate their overall satisfaction with the product and services TSJ provided. The Customer Service Results Performance Measure in the Management Agreement is stated as follows:

> *(d) Customer Service Results: Operator will ask the decision maker of each event to rate their overall satisfaction with the product and services provided. The Operator will create a standard survey instrument containing a series of product and*

[17] We did not perform an audit of the participating hotel properties in order to verify the number of room nights consumed/picked-up and the potential transient occupancy tax exemptions.

service rating metrics including the following summary question, "Based on the services provided, please rate our overall performance."

Using 81% as the baseline, Operator will increase its customer services results by an additional 2% per year until Operator reaches a success rate of 91%. The post facility use survey data will be sent directly to the Contract Administrator for review. Periodically, Contract Administrator and the Operator shall review and discuss the survey data and identify, as necessary, areas for additional Operator attention and improvement.

City's Expenditures for capital improvements shall also be considered in review of Operator's revenue generation goals and economic impact goals.

For 2005-06, 93 percent, of event planners reported being "Extremely Satisfied" or "Satisfied" with overall customer satisfaction and 89 percent reported that they would book their event at one of the Convention and Cultural Facilities in the future.

Exhibits 26 A & B below show the customer service categories and responses for 2005-06. The survey was comprised of five general questions and 17 questions related to specific service areas which are categorized as follows: General Facility Information, Audio, Visual, Sound, and Food and Beverage Service. A three-point rating scale was used for each of the specific service areas, namely: Extremely Satisfied, Satisfied, and Dissatisfied.

Exhibit 26A 2005-06 Summary Of Customer Service Responses By Service And Product Category

Customer Service Category	# Extremely Satisfied & Satisfied	% Extremely Satisfied & Satisfied	# Dissatisfied	% Dissatisfied	Total # Responding	Total % Responding	Total Surveys
Responsiveness & Courteousness of Sales Department	86	97%	3	3%	89	99%	90
Responsiveness & Courteousness of Booking Department	85	98%	2	2%	87	97%	90
Responsiveness & Courteousness of Event Manager	82	91%	8	9%	90	100%	90
Room Setup According to Instructions	79	89%	10	11%	89	99%	90
Condition of Equipment (Tables, Chairs, etc.)	86	98%	2	2%	88	98%	90
Housekeeping Satisfaction	81	93%	6	7%	87	97%	90
Quality of Security Services	79	96%	3	4%	82	91%	90
Responsiveness & Courteousness of Facility Staff	82	96%	3	4%	85	94%	90
Quality of Audio/Visual System	61	97%	2	3%	63	70%	90
Quality of Sound System	62	93%	5	7%	67	74%	90
Responsiveness & Courteousness of Catering Sales Staff	53	91%	5	9%	58	64%	90
Responsiveness & Courteousness of Wait Staff	45	94%	3	6%	48	53%	90
Menu Selection	48	91%	5	9%	53	59%	90
Quality and Presentation of Food	52	96%	2	4%	54	60%	90
Quality of Concession Food	33	83%	7	18%	40	44%	90
Responsiveness and Courteousness of Concession Staff	34	85%	6	15%	40	44%	90
Quality of Bar Service	32	89%	4	11%	36	40%	90
Overall Customer Satisfaction	70	93%	5	7%	75	83%	90

Exhibit 26B **2005-06 Summary Of Customer Service Responses To Booking The Convention And Cultural Facilities In The Future**

Will you book your event in one of our Convention & Cultural Facilities in the Future?	# Yes	% Yes	# No	% No	# Maybe	% Maybe	Total # Responding	Total % Responding	# Not Responding/NA	% Not Responding	Total Surveys
	70	89%	3	4%	6	8%	79	88%	11	12%	90

Ninety-three percent of customers reported that they were "Extremely Satisfied" or "Satisfied" with service. As shown in Exhibit 26B, of the 79 respondents, 89 percent stated that they would book future events in one of the Convention and Cultural Facilities.

The four areas that had the highest percentage of respondents reporting being extremely satisfied and satisfied were: condition of equipment (98 percent), responsiveness and courteousness of the booking department (98 percent), responsiveness and courteousness of the sales department (97 percent), and quality of the audio/visual equipment (97 percent). The five areas that had the highest percentage of respondents reporting dissatisfaction were: quality of concession food (18 percent), responsiveness and courteousness of concession staff (15 percent), quality of the bar service (11 percent), and room set-up according to instructions (11 percent). According to TSJ staff, a negative response automatically triggers an alert to senior staff so that the customer's issue can be addressed quickly.

Exhibit 27 compares the number of customer service responses received for 2005-06 by month to the number of events occurring by month.

Exhibit 27 **2005-06 Comparison Of Customer Survey Responses By Month And Year To The Number Of Events Occurring By Month And Year**

FY 2005-06 Month	Number Of Events Occurring	Cumulative Events By Month	Number Of Surveys Returned	Response Rate (%)	Cumulative Number Of Surveys Received	Cumulative % Of Surveys Received
July	27	27	0	0%	0	0%
August	32	59	8	25	8	14
September	39	98	0	0	8	8
October	61	159	18	30	26	16
November	41	200	11	27	37	19
December	49	249	8	16	45	18
January	26	275	4	15	49	18
February	29	304	2	7	51	17
March	48	352	10	21	61	17
April	39	391	9	23	70	18
May	59	450	11	19	81	18
June	46	496	9	20	90	18
Total	**496**	**496**	**90**	**18%**	**90**	**18%**

As Exhibit 27 shows, TSJ achieved about an 18 percent overall response rate (90 surveys returned out of a total of 496 events) for 2005-06. While no surveys were returned for the months of July and September 2005, overall, in our opinion, TSJ achieved a sufficient response rate for us to determine whether it met its Customer Service Results Performance Measure Targets for 2005-06.

TSJ Met Its 2006-07 Customer Service Results Performance Measure Targets

For 2006-07, 49 percent rated "Excellent", 40 percent rated "Very Good", and 9 percent rated "Good" in overall customer services. In total, 97 percent of event planners reported "Excellent", "Very Good", or "Good" when rating their overall customer service experience. Of the 117 survey responses received, 74 percent responded that they would book their event at one of the Convention and Cultural Facilities in the future, while 19 percent responded they would possibly book in the future.

While TSJ met its 2006-07 Management Agreement Customer Service Results Targets, it is important to note that only 35 of the 117 online surveys submitted included the summary

question asking event planners to rate their overall experience. This is because TSJ made modifications to its online survey as a result of discussions between the City and TSJ. For example, in April of 2007, during the City Auditor's Semi-annual Recommendation Follow-up, we discussed with TSJ staff that the online survey document was missing the Management Agreement summary question "Based on the services provided, please rate our overall performance." At that time, TSJ mentioned that it would add the summary question to its online survey.

Exhibits 28 A & B show the customer service categories and responses for 2006-07. The survey was comprised of three or four general questions (depending on which online survey version event planners responded to) and nine specific service area categories. A five-point rating scale was used for each of the specific service areas, namely: 5 - Excellent; 4 - Very Good; 3 - Good; 2 - Fair; and 1 - Poor. Eight of the nine specific service areas were further broken down by sub-components such as professionalism and responsiveness. For purposes of this review, survey results for these nine specific service area categories and their sub-components were averaged.

Exhibit 28A 2006-07 Summary Of Customer Service Responses By Service And Product Category[18]

Customer Service Category	Overall Average Rating	# Rated Excellent (5)	% Rated Excellent (5)	# Rated Very Good (4.0-4.9)	% Rated Very Good (4.0-4.9)	# Rated Good (3.0-3.9)	% Rated Good (3.0-3.9)	# Rated Fair (2.0-2.9)	% Rated Fair (1.0-1.9)	# Rated Poor (1.0 - 1.9)	% Rated Poor (1.0-1.9)	# Total Responses	% Total Responses	Total Surveys
Condition Of Facility Used	4.1	48	41%	43	37%	17	15%	7	6%	1	1%	116	99%	117
Sales	4.3	59	50%	35	30%	14	12%	4	3%	5	4%	117	100%	117
Event Management	4.5	64	55%	33	28%	13	11%	6	5%	1	1%	117	100%	117
Food & Beverage (Catering Manager)	4.3	33	46%	19	26%	14	19%	2	3%	4	6%	72	62%	117
Food & Beverage (Banquet Service)	4.3	25	43%	21	36%	7	12%	2	3%	3	5%	58	50%	117
Food & Beverage (Concession Stands)	4.1	21	41%	17	33%	8	16%	3	6%	2	4%	51	44%	117
Operations (Cleaning Services)	5	70	60%	30	26%	11	9%	3	3%	3	3%	117	100%	117
Operations (Telecommunications)	4.6	28	78%	5	14%	1	3%	1	3%	1	3%	36	31%	117
Operations (Audio/Visual)	4.4	36	60%	12	20%	7	12%	3	5%	2	3%	60	51%	117
Rate Your Overall Experience	4.3	17	49%	14	40%	3	9%	1	3%	0	0%	35	30%	117
TOTAL OVERALL AVERAGE	4.4													

Exhibit 28B 2006-07 Summary Of Customer Service Responses To Booking The Convention And Cultural Facilities In The Future

	Overall Average Rating	# Response Yes	% Response Yes	# Response Possibly	% Response Possibly	# Response No	% Response No	# and % No Response	Total Surveys
Booking In The Future Again	2.7	87	74%	22	19%	8	7%	0	117

[18] Data for this analysis was rounded to the nearest whole percentage point.

As stated earlier and shown in Exhibit 28A, 97 percent, of event planners reported "Excellent (49 percent)", "Very Good (40 percent)", or "Good (9 percent)" when rating their overall customer service experience. TSJ's total overall customer service average appears to be a rating of 4.4, or about in the middle of "Very Good" to "Excellent." In addition, of the 117 respondents, 87 (74 percent) responded that they would book their event at one of the Convention and Cultural Facilities in the future. Of the remaining 30 respondents, 22 (19 percent) responded they would possibly book their event at one of the Convention and Cultural Facilities in the future.

The three areas that had the highest percentage of respondents reporting excellent service were: telecommunications (78 percent), cleaning services (60 percent), and audio/visual (60 percent). The two areas that had the highest percentage of respondents reporting poor service were: Food and Beverage – Catering Manager (six percent) and Food and Beverage – Banquet Service (five percent). As mentioned earlier, according to TSJ, a negative response automatically triggers an alert to senior staff so that the customer's issue can be addressed quickly.

Exhibit 29 below compares the number of customer service responses received for 2006-07 by month to the number of events occurring by month.

Exhibit 29 **2006-07 Comparison Of Customer Survey Responses By Month And Year To The Number Of Events Occurring By Month And Year**

FY 2005-06	Number Of Events Occurring	Cumulative Events By Month	Number Of Surveys Returned	Response Rate (%)	Cumulative Surveys Received	Cumulative % Of Surveys Received
July	27	27	3	11%	4	15%
August	30	57	5	17%	8	14%
September	47	104	11	23%	19	18%
October	56	160	10	18%	29	18%
November	51	211	14	27%	43	20%
December	39	250	11	28%	54	22%
January	35	285	10	29%	64	22%
February	35	320	8	23%	72	23%
March	50	370	6	12%	78	21%
April	30	400	4	13%	82	21%
May	57	457	9	16%	91	20%
June	62	519	26	42%	117	23%
Total	**519**	**519**	**117**	**23%**	**117**	**23%**

As Exhibit 29 above shows, TSJ achieved about a 23 percent overall response rate for 2006-07. For the most part, surveys were received at a steady rate, between 12 percent and 29 percent, for all months but June. TSJ achieved an increased response rate of 42 percent for the month of June 2007. In our opinion, TSJ achieved a sufficient response rate for us to determine whether it met its Customer Service Results Targets for 2006-07.

Status Of Previous City Auditor Recommendations

In the 2004-05 Audit Report, three recommendations were made regarding Customer Service Results, two of which have been implemented. The following describes the recommendations made in the 2004-05 Audit Report and provides a status update.

We made the first recommendation (Recommendation #2 in the 2004-05 Audit Report) because TSJ had mentioned it considered implementing additional changes to its Customer Service Results process since July 2004 and had not yet implemented these changes. Specifically, TSJ stated that it would implement an online survey form and change its current rating scale from a three-point scale to a five-point scale.

Accordingly, we recommended that TSJ:

Recommendation #3

Implement an online survey form and a revised survey instrument that incorporates a five-point rating scale. (Priority 3)

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that, as of April 2007, TSJ had implemented the above recommendation. Specifically, we noted that TSJ had employed an online survey that incorporates a five-point rating scale. After an event has occurred, TSJ emails a thank you letter to the event's planner. The thank you letter requests the event planner to fill out the online survey by accessing the link provided.

The second recommendation (Recommendation #4 in the 2004-05 Audit Report) we made addresses the fact that TSJ was receiving the surveys and was not reporting the result of the surveys on a monthly basis to the Contract Administrator, which is not in accordance with the Management Agreement. Accordingly, we recommended that TSJ:

Recommendation #4

Send customer service surveys directly to the City's Contract Administrator or the City should amend the Management Agreement to reflect current survey practices. (Priority 3)

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that, as of April 2007, TSJ had implemented the above recommendation. Specifically, when the event planner submits the online survey, data in the survey is emailed directly to the City's Contract Administrator.

Lastly, the third recommendation (Recommendation #5 of the 2004-05 Audit Report) we made addressed the lack of clarity and specificity about the current Customer Service Results Performance Measure Targets in the Management Agreement. We recommended that the City develop a target that would be the percentage of respondents that stated that TSJ either exceeded or met their expectations. For instance, the target could be established to read that 90 percent of the respondents stated that TSJ exceeded or met their overall expectations. The

City would have to modify the Management Agreement to implement changes to the Customer Service Results Performance Measure Targets. Therefore, we recommended that the City and TSJ:

Recommendation #5

Develop a clearer and more specific Customer Service Results Performance Measure Target and amend the Management Agreement accordingly. (Priority 3)

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up process, it was determined that, as of April 2007, this recommendation has been partly implemented. According to City Administration, Team San Jose is working with the City to develop a clearer and more specific Customer Service Results Performance Measure Target and will amend the Management Agreement accordingly.

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Finding II

Team San Jose Has Implemented 7 Of The 10 Partially Implemented Management Agreement Requirements As Noted In The 2004-05 Audit Report And Needs To Implement One Additional Management Agreement Requirement

The Management Agreement between the City of San José and Team San Jose (TSJ) addresses the operation and management of the San José Convention Center and Cultural Facilities. During the 2004-05 annual performance audit of TSJ, we identified 59 key requirements with which TSJ is responsible for complying. During our review of TSJ's compliance with the requirements in the Management Agreement, we found that TSJ has implemented 49 out of the 59 Management Agreement requirements and partially implemented the remaining 10 requirements. We noted that by performing various additional tasks, TSJ, with the assistance of the City, could fully meet the above requirements of the Management Agreement and help ensure full compliance with these requirements.

Status Of Previous City Auditor Recommendations

In the City Auditor's report entitled "The 2004-05 Annual Performance Audit of Team San Jose, Inc." (2004-05 Audit Report), the City Auditor made a total of twelve recommendations regarding compliance with the requirements in the Management Agreement; one recommendation for the City Administration and eleven recommendations for TSJ. As of April 2007, the City Administration had partly implemented its one recommendation. The following provides the status of the remaining 10 recommendations, which were noted as partially implemented Management Agreement requirements in the 2004-05 Audit Report.[19]

[19] While the 2004-05 Audit Report found that TSJ met the Management Agreement requirement regarding the use and storage of hazardous materials, a recommendation was made to amend the Management Agreement in order to allow TSJ to store and use any hazardous materials that are needed to operate and maintain the Facilities (p. 46, 2004-05 Audit Report). Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we noted that as of April 2007, the Management Agreement has not yet been amended.

The focus of this audit, in regards to compliance with the Management Agreement, is 1) the status of the 10 partially implemented Management Agreement requirements, and the corresponding recommendation and 2) specific compliance concerns raised by City Administration. The exhibit below summarizes the status of the 10 partially implemented Management Agreement requirements.

Exhibit 30 Status Summary Of The 10 Partially Implemented Management Agreement Requirements As Noted In The 2004-05 Audit Report

	Agreement Section	Section Name	Implemented	Partially Implemented
1	4.3 (b)	General Scope/Operations Manual	X	
2	4.4 (e)	Staff Supervision and Training	X	
3	4.4 (f2)	Short- and Long-Term Objectives	X	
4	4.5 (c)	Facilities Maintenance Reporting	X	
5	4.9	Reporting Requirements	X	
6	6.3	Termination for Failure to Meet Performance Measurements		X
7	15.2	Purchase of Supplies and Services	X	
8	16	Labor Compliance		X
9	20	Americans with Disabilities Act		X
10	26	Conflict of Interest	X	
		Total	**7**	**3**

As shown above, TSJ has implemented 7 of the 10 partially met requirements identified in the 2004-05 Audit Report. Below is our analysis of the 10 requirements' implementation status.

1. Section 4.3 (b) – Implemented

Section 4.3 (b) states:

"Operator's obligations shall include, but not be limited to, the performance of the services herein, subject to controls and restrictions as stated elsewhere in the Agreement and in the Operations Manual. Operator shall prepare, and thereafter update and amend as appropriate, the Operations Manual, which shall be subject to the approval of the Contract Administrator.

> Operator shall complete the initial version of the Operations Manual within 120 days of the Effective Date."

In the 2004-05 Audit Report, we noted that 1) TSJ submitted a Draft Operations Manual to our office on November 3, 2005; 2) TSJ did not complete the initial version of the Operations Manual by November 1, 2004 as stated in the Management Agreement; and 3) the CAE, which managed the Facilities prior to TSJ, did not have an Operations Manual, therefore, TSJ had to create an entirely new Operations Manual. Accordingly we recommended that TSJ, with input from the City, complete the Operations Manual and obtain formal approval from the City's Contract Administrator.

In September 2007, TSJ submitted an updated Operations Manual to the City Manager's Office, which was subsequently approved.

2. Section 4.4(e) – Implemented

Section 4.4 (e) states:

> "Operator shall maintain an adequate staff of courteous employees on duty at the Facility and provide appropriate supervision and training of such employees. Employees of Operator or of any subcontractor will be employees of Operator or subcontractor and not of City. Operator shall employ or otherwise contract for its operations only those persons whom by training, appearance and habits are judged to be suitable workers appropriate to the environment of the Facility."

In the 2004-05 Audit Report, we noted that while TSJ had developed minimum staffing level guidelines for events held in the Facilities and established training programs for some of its employees, TSJ did not provide us with documentation supporting its contention regarding City minimum staffing requirements or a formal training program for City staff responsible for maintaining the Facilities. Accordingly we recommended that TSJ develop minimum City staffing requirements and a formal training program for City staff responsible for maintaining the Facilities.

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that, as of April 2007, TSJ had implemented the above recommendation.

Specifically, we noted that TSJ had developed a maintenance training and safety guide and had provided specialized cross-training safety classes to its maintenance employees. Additionally, TSJ Maintenance Supervisors meet with TSJ Administration monthly to update and discuss maintenance issues.

3. Section 4.4 (f2) – Implemented

Section 4.4 (f2) states:

"...Operator shall develop short and long-term objectives for the Facility to enhance financial success of the Facility and annually report same to City."

In the 2004-05 Audit Report, we noted that TSJ reports monthly to the City Manager's Office any operational concerns, performance results, and marketing and sales updates. However, TSJ did not specifically address short- and long-term objectives for 2004-05 or report its short- and long-term objectives to the City for 2004-05. Accordingly, we recommended that TSJ develop short- and long-term objectives for the Facilities and report annually to the City.

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that, as of April 2007, TSJ had developed short- and long-term objectives. Additionally, according to the Office of Economic Development, the office to which TSJ now reports this information, TSJ submitted these objectives in their August 2007 monthly report.

4. Section 4.5 (c) – Implemented

Section 4.5 (c) states:

"...Operator shall also provide the Contract Administrator a report on the last day of the Operating Year of all Facility maintenance that was performed during the preceding year and all Facility maintenance scheduled for the following year. This report shall include a list of breakdowns of all major pieces of installed and portable equipment for that year. City shall have access to the Facility at all times for routine maintenance inspections."

In the 2004-05 Audit Report, we noted that, while TSJ provided documentation verifying it performed regular maintenance on the Facilities, it still needed to develop a schedule of planned maintenance for the year and report annually whether the planned maintenance was completed. Accordingly, we recommended that TSJ develop a schedule of planned maintenance for the year and report annually to the City whether the planned maintenance was completed.

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that, as of April 2007, TSJ had developed yearly maintenance schedules for each of the Convention and Cultural Facilities. Additionally, TSJ commissioned Property Condition Assessment, Inc. (PCA) to complete a facility needs study. Based on PCA's work, TSJ created a two-year Capital Improvement Program (CIP) for the facilities TSJ manages. The CIP was submitted to both the City Manager's Office and the San Jose Redevelopment Agency in May 2007 and reported to the Community and Economic Development Committee in September of 2007. In addition, we found that in 2006-07, TSJ provided a status update of pertinent maintenance issues in its monthly report to the City.

5. Section 4.9 – Implemented

Section 4.9 states:

> "On or before the 15th of each month Operator shall prepare and deliver to City monthly reports regarding the use and operation of the Facility in a format agreed upon by City. These reports must include information on the activities associated with the operation, management, supervision and maintenance of the Facility; the financial analysis of how the Facility is operating; a list of upcoming events; operating and maintenance issues and concerns; anticipated changes in, operations or maintenance activities; and other information as appropriate or as requested by the City through the Contract Administrator."

In the 2004-05 Audit Report, we noted that, although TSJ has consistently submitted a comprehensive monthly report to the City Manager's Office, it has been consistently late in doing so. According to TSJ, it was late in submitting the monthly report because it incorporates Centerplate's monthly financial report

into the reports.[20] As a result, it was taking TSJ additional time to complete the reports. Accordingly, we recommended that TSJ meet its 15th of the month reporting due date.

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, as of April 2007, the City Manager's Office confirmed that TSJ issued its monthly report on the 15th of the month to the City throughout 2006 and continues to do so.

6. Section 6.3 – Partially Implemented

Section 6.3 states:

"No later than July 31, 2005 and July 31 of each year of the term of this Agreement thereafter, Operator shall present a report to the City Manager demonstrating the extent to which it has met the Performance Measures set forth in Section 4.8." Furthermore, the Management Agreement states "City Manager shall review Operators report and shall present the report together with any comment or analysis by City staff to the City Council. City and Operator agree that if:

(a) Operator fails to achieve at least three of the four measures set forth in Section 4.8 or

(b) Operator fails to achieve at least 67% of any of measures (a), (b) or (c) set forth in Section 4.8 or fails to achieve the applicable annual percentage measure set forth in measure (d)

then, City Council may terminate this Agreement within the time provided for in Section 6.1.[21] *The City Council's determination of whether Operator has met the performance measures and to what degree shall be at the City Council's sole discretion. Nothing in this*

[20] Centerplate provides concessions, merchandise sales, catering, and restaurant services at various San Jose Convention and Cultural Facilities in accordance with the "Catering Agreement."

[21] Section 6.1 states "...City may upon one hundred and eighty (180) days written notice, beginning on the second day after mailing, terminate this Agreement in whole or in part..."

section is intended to limit the City's discretion to terminate this Agreement for convenience or as otherwise provided for in this Agreement."

In addition, if in Year 4 (July 1, 2007 through June 30, 2008) or Year 5 (July 1, 2008 through June 30, 2009) of the Management Agreement, TSJ fails to meet the performance measures set forth in Section 4.8, the City shall have the right to delete the fixed payment of $150,000 from the fixed management fee. The City may either eliminate the fee from the operating budget or require that the budgeted amount be expended for another purpose.

Status Of Previous City Auditor Recommendation For TSJ

As noted above, the Management Agreement requires TSJ to submit a report to the City Manager no later than July 31, 2005 demonstrating the extent to which it has met the performance measures set forth in the Management Agreement. In the 2004-05 Audit Report, we noted that TSJ submitted a year-end report to the City Manager on July 19, 2005. In its report, TSJ reported against the Economic Impact Performance Target in the Management Agreement and also reported that it could not accurately measure its Customer Service Results Performance Target due to challenges in collecting a sufficient amount of information on customer satisfaction. However, in its report to the City Manager, TSJ reported actual Gross Revenues and Net Loss against "budget" amounts and not the Performance Measures in the Management Agreement. TSJ did attach as an appendix to its End of the Year Progress Report a Primary Income and Expense Report that showed "Actual," "Revised," and "Adopted" numbers for "Revenues and Net Profit." The "Adopted" numbers were the same as the Management Agreement Performance Measures for the Revenues and Net Loss. Thus, in our opinion, TSJ did not include in its annual report to the City Manager a clear comparison of its actual performance against the Gross Revenues and Net Loss Targets in the Management Agreement. Accordingly, we recommended that TSJ include in its annual report to the City Manager a clear comparison of its actual performance to the Management Agreement Performance Measure Targets.

As of April 2007, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that TSJ had partly implemented this requirement. According to the City Manager's Office, TSJ was reporting on a monthly basis its actual results as compared to the Management Agreement

Performance Measure Targets and would report against the Management Agreement Performance Measure Targets in its year-end report due to the City Manager's Office by July 31, 2007.

Current Status Of City Auditor Recommendation For TSJ

We reviewed TSJ's June 2007 year end report to the City Manager and found that while TSJ provided a Performance Measure Section and a Financial Section in its report, it did not provide a clear comparison demonstrating the extent to which it has met the Management Agreement Performance Measure Targets as required by the Management Agreement.

Specifically, TSJ provided a graph analysis entitled "Executive Summary Performance Measures Year-to-Date," with a graph for each of its Management Agreement Measures; "Revenue", "Profit & Loss", "Economic Impact", and "Customer Satisfaction." However, we are concerned that its "Revenue" and "Profit & Loss" graph compares "Actual vs. Budget" but does not compare its actual performance to the Performance Targets specified in the Management Agreement. Furthermore, its "Economic Impact" graph compares "Actual vs. Goal", but does not break its total overall attendance figures into Local/social Visitors, Out of Town Visitors, and Exhibitors as specified in Section 4.8 (c) of the Management Agreement. Additionally, its "Customer Satisfaction" graph rates customer satisfaction on whether the customer will "Rebook" but does not report performance on the summary question "Based on the services provided, please rate our overall performance" as directed by Section 4.8 (d) of the Management Agreement.

In addition, TSJ provides a June 2007 Performance Measures matrix which includes a year to date analysis of TSJ's "Actual" performance to "Budget" and "Management Agreement" or "Contract/Goal," however, no written analysis accompanies the matrices to detail the extent to which TSJ has met the Performance Measures.

Lastly, in the Financial Section of its report, TSJ provides a year-to-date income statement which details individual revenue and expense components in a column entitled "Budget per Management" which mirrors the Gross Revenues and Net Loss Management Agreement Performance Targets. However, the extent to which it met its Gross Revenues and Net Loss Performance Targets is not addressed in the income statement.

Therefore, in our opinion, TSJ's year-end report "Executive Summary Performance Measures Year-to-Date" should 1) mirror the performance measures stated in Section 4.8 of the Management Agreement, 2) compare performance to the Management Agreement Performance Targets only, removing actual to budget comparisons, and 3) provide a clearly written analysis comparing TSJ's actual performance to each performance measure's Management Agreement Targets.

Status Of Previous City Auditor Recommendation For City Administration

In the 2004-05 Audit Report, we further noted that the City Administration also did not comply with the reporting requirements specified in Section 6.3 of the Management Agreement. As noted above, the Management Agreement requires the City Administration to review and present TSJ's report, together with any City staff comment or analysis, to the City Council. Accordingly, we recommended that the City Administration review and present TSJ's year-end report, along with any analysis, to the City Council. In the recommendation, we noted that the City Administration's analysis should include TSJ's performance as contrasted with its Management Agreement Performance Measure Targets.

As of April 2007, during the City Auditor's Semi-annual Recommendation Follow-up, we determined that the City Administration had partly implemented this requirement. According to the City Manager's Office, "Team San Jose's year-end report was presented to City Council in March of 2007. In the course of reviewing Team San Jose's year-end report and further identifying some of the challenges that they have experienced over the course of the past year, the City Manager's Office has determined that it will be recommending the contract with TSJ, including the performance measure targets, be revamped as part of upcoming discussions regarding the proposed expansion of the Convention Center."

7. Section 15.2 - Implemented

Section 15.2 states:

> "In connection with the purchase by Operator of equipment, materials, goods, supplies and inventories for the Facility, Operator shall endeavor to make all such purchases at the best price available to Operator, considering the quantities required and the quality desired, at the time available for the delivery and the sources of supply whenever possible as part of a volume

> purchase by Operator. Operator shall pass on to the Facility the full amount of any volume discounts and other discounts available to Operator. Operator shall also comply with City's Environmentally Preferable Procurement Policy, a copy of which is attached as Exhibit G hereto."

In the 2004-05 Audit Report, we noted that TSJ had reviewed the City's Environmentally Preferable Procurement Policy and had begun to work with the City to develop "green" purchasing guidelines. We recommended that TSJ work with the City to develop and implement "green" purchasing guidelines and procedures.

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, it was determined, as of April 2007, that TSJ has developed an Environmental Policy and had applied for a "green" business certification from Santa Clara County whereby it had pledged to actively work to show its environmental responsibility to the community by committing to comply with all applicable environmental regulations and strive to exceed compliance, conserve energy, water and other natural resources, develop and implement practices that prevent pollution and waste, and be an environmentally responsible business within its community. In January 2007, TSJ contracted with the City of San Jose, Greenteam Industries and San Jose Conservation Corps to increase its recycling efforts. In addition, TSJ has developed a list of "green" vendors from which it procures products.

8. Section 16 - Partially Implemented

Section 16 states:

> "This Agreement is subject to City's Living Wage and Prevailing Wage Policies and the applicable implementing regulations (collectively, the "Policy"). Operator shall comply with the provisions of the attached Labor Compliance Addendum (Exhibit E), which sets forth Operator's obligations under the Policy."

In the 2004-05 Audit Report, we noted that, according to Employee Relations, TSJ is in compliance with the City's Living Wage and Prevailing Wage Policies in regards to the City employees. However, TSJ had not provided the City's Office of Equality Assurance with information on its

employees and on contracts into which it had entered. As a result, the Office of Equality Assurance was not able to determine if TSJ was in compliance with the City's Living Wage and Prevailing Wage Policies for its employees or contracted employees. Accordingly, we recommended that TSJ work with the Office of Equality Assurance and provide required documentation in order to fully meet the City's Living Wage and Prevailing Wage Policies as required in the Management Agreement.

As of April 2007, during the City Auditor's Semi-annual Recommendation Follow-up , it was determined that TSJ had not yet provided the City's Office of Equality Assurance with information on its employees and on contracts into which it had entered. As a result, the Office of Equality Assurance was unable to determine if TSJ was in compliance with the City's Living Wage and Prevailing Wage Policies for its employees or contracted employees.

As of October 1, 2007, TSJ has provided a listing of the companies with which Team San Jose contracts and the services these companies provide to the Office of Equality Assurance. However, according to the Office of Equality Assurance, in order to determine if TSJ is in compliance with the City's Living Wage and Prevailing Wage Policies, additional information such as, the terms of these contracts, copies of the contracts, and what TSJ does to ensure that compliance has been achieved, is required. Additionally, TSJ will need to provide information regarding its employees.

9. Section 20 – Partially Implemented

Section 20 states:

> "Operator shall be solely and fully responsible for complying with the Americans with Disabilities Act of 1990 ("ADA") in connection with: (a) any use of the facilities by guests or services provided by Operator to Customers; and (b) modifying its policies, practices, and procedures to comply with the ADA. Operator shall develop a work plan to correct or avoid any violations or non-compliance with the ADA. Operator shall perform an assessment of Facilities for ADA compliance and notify City of any compliance issues..."

In the 2004-05 Audit Report, we found that TSJ had assessed the Facilities for ADA compliance. Additionally, we noted that TSJ's assessment found that the Facilities were generally ADA compliant; however, several items needed correction. Because TSJ had not yet developed a workplan or strategy to correct the ADA noncompliant items, we recommended that TSJ develop and implement a workplan or strategy to correct ADA noncompliant items and notify the City accordingly.

As of April 2007, during the City Auditor's Semi-annual Recommendation Follow-up, the City Manager's Office responded that the list would be completed and reported to the City by the end of 2007.

Subsequently, and as mentioned earlier, TSJ commissioned Property Condition Assessment, Inc. (PCA) to complete a facility needs study. Based on PCA's work, TSJ created a two-year Capital Improvement Program (CIP) for the facilities TSJ manages. The CIP was submitted to both the City Manager's Office and the San Jose Redevelopment Agency in May 2007 and reported to the Community and Economic Development Committee in September of 2007. The CIP provides a budget line item for installation of a new ADA-compliant fire alarm panel for the Convention Center, Parkside Hall, and the Center for the Performing Arts.

According to the City Manager's Office, PCA completed an assessment of the cultural facilities and a recommended study of ADA non-compliance. No City funding is available at this time to complete the assessment of all facilities. TSJ will work with the City's ADA coordinator for a site review of the convention center and, when funding is available, complete the assessment with a cost analysis by PCA on the convention center.

10. Section 26 - Implemented

Section 26 states:

> "Operator shall avoid all conflicts of interest or the appearance of conflict of interest in performance of this Agreement."

In the 2004-05 Audit Report, we found that the San Jose Convention and Visitor's Bureau has drafted but not finalized a conflict of interest policy. We stated that, in our opinion, TSJ needed to develop and implement a procedure that requires TSJ

staff to annually sign a form attesting that they are aware of the conflict of interest policy and that they will report any potential conflicts that arise during the course of their work. Accordingly, we recommended that TSJ develop and implement a procedure that requires TSJ staff to annually sign a form attesting that they are aware of the conflict of interest policy and that they will report any potential conflicts that arise during the course of their work.

Subsequently, during the City Auditor's Semi-annual Recommendation Follow-up, we determined, as of April 2007, that TSJ had developed and implemented a procedure that requires TSJ and the Convention and Visitors Bureau (CVB) staff to annually sign a Standards of Business Conduct Form (Form). In Section 3.1 of the Form, it states, "TSJ/CVB's assets and resources as well as corporate opportunities are to be used solely to pursue and achieve TSJ/CVB's goals and not for personal benefit. An employee who believes he or she might have a conflict of interest should discuss the issue with the person's immediate supervisor and/or Human Resources." Additionally, we reviewed all employee files and found a current signed Form in each file.

As mentioned earlier, the focus of this audit, in regards to compliance with the Management Agreement, is the status of the 10 partially implemented requirements and specific compliance concerns raised by City Administration. The following addresses concerns regarding TSJ's compliance with Section 14.3 of the Management Agreement.

Section 14.3 – Not Met

During our review of TSJ's compliance with the requirements in the Management Agreement, we found that TSJ has implemented 49 out of the 59 Management Agreement requirements and partially implemented the remaining 10 requirements. Besides providing the status of the 10 partially implemented requirements, this review addresses a specific compliance concern raised by City Administration. One of the key requirements, specifically Section 14.3, specifies that TSJ is to name a qualified individual with experience in the management of similar facilities as the Chief Executive Officer of the Facilities. Section 14.3 states:

> *Operator agrees to name a qualified individual with experience in the management of similar facilities as the Chief Executive Officer of the Facility. The Chief*

> *Executive Officer shall be the day-to-day liaison between City and Operator on all matters relating to this Agreement and shall be responsible for the day-to-day management and supervision of the Facility. The Chief Executive Officer shall be responsible for providing supervision and direction to Facility employees, including both Shared Employees and Operator employees. Complaints received by City regarding the conduct or manner of operation of the Facility by the General Manager shall be addressed by Operator. Operator's Chief Executive Officer and City's Contract Administrator shall have regular meetings to review reports and discuss Agreement Monitoring issues.*

During the 2004-05 review, we found TSJ to be in compliance with this requirement for the following reasons:

- When TSJ took over the management of the Facilities in July 2004, it provided a dedicated on-site Chief Executive Officer (CEO) who had been named in their response to the RFP;
- When the first CEO resigned, TSJ engaged a team to perform an executive search to fill the vacant CEO position; and
- Subsequently, within about four months, TSJ hired a (dedicated) qualified CEO for the Facilities.

During our current review, however, we found that TSJ's CEO left employment in October of 2005 and, as of September 2007, a replacement has not yet been hired. In our opinion, TSJ is not in compliance with this Management Agreement requirement because it does not have an on-site, experienced CEO, who is dedicated exclusively to the management of the Convention and Cultural Facilities.

We note, however, that the San Jose Convention and Visitors Bureau (CVB) President and CEO has been acting as TSJ's CEO. The City's Administration has pointed out concerns regarding the dual and triple roles the CVB President and CEO plays. Specifically, in May of 2006, the Acting City Manager stated that having the same person in authority as CVB President and CEO, Chairman of TSJ's Board, and TSJ's CEO is "fraught with problems in that insufficient checks and balances may be there."

According to the Management Agreement, the CEO of the Facilities is to be a qualified individual with experience in the management of similar facilities. That "*The Chief Executive Officer shall be the day-to-day liaison between the City and Operator on all matters relating to the Management Agreement and shall be responsible for the day-to-day management and supervision of the Facility.*" In addition, the Management Agreement states that "*...the CEO shall be responsible for providing supervision and direction to Facility employees, including both Shared Employees and Operator employees.*" While the CVB President and CEO may be qualified to serve as the general manager of sales and marketing for the CVB, he does not have previous experience in the management and operations of similar convention and cultural facilities.

Additionally, the two executive positions focus on completely different management functions. For example, according to federal documents filed by TSJ, TSJ stated its primary purpose is "*TO MANAGE THE CITY'S CONVENTION AND CULTURAL FACILITIES.*" According to federal documents filed by the CVB, the CVB stated its purpose is the "*PROMOTION OF SAN JOSE, CALIFORNIA AS A SITE FOR MEETINGS, CONVENTIONS, TRADE SHOWS AND PLEASURE TRAVEL.*"

Additionally, we found that the CVB's Human Resource Department is in the planning stage of hiring a TSJ Chief Operations Officer (COO), with a target date to hire the COO sometime around April 2008. According to TSJ, this position will report directly to the CVB President and CEO. In our opinion, this action will not fulfill the Management Agreement requirement as stipulated in Section 14.3.

Accordingly, we recommend that TSJ:

Recommendation #1

Engage a team to perform a nation-wide executive search to hire a qualified individual with experience in the management of similar facilities as the Chief Executive Officer of the Convention and Cultural Facilities in accordance with the Management Agreement. (Priority 3)

CONCLUSION

The Management Agreement between the City of San José and Team San Jose (TSJ) addresses the operation and management of the San José Convention Center and Cultural Facilities. During the 2004-05 annual performance audit of TSJ, we identified 59 key requirements with which TSJ is responsible for complying. During our 2004-05 review of TSJ's compliance with the requirements in the Management Agreement, we found that TSJ had implemented 49 out of the 59 Management Agreement requirements and partially implemented the remaining 10 requirements. We noted that by performing various additional tasks, TSJ, with the assistance of the City, could fully meet the above requirements of the Management Agreement and help ensure future compliance with these requirements.

Of the 10 partially implemented requirements we identified in our report covering fiscal year 2004-05, TSJ has since fully implemented 7 of these requirements. Regarding the one compliance item that the City Administration is concerned about, TSJ still has not hired a dedicated, on-site CEO to replace the CEO who resigned in October 2005.

RECOMMENDATION

We recommend that TSJ:

Recommendation #1

Engage a team to perform a nation-wide executive search to hire a qualified individual with experience in the management of similar facilities as the Chief Executive Officer of the Convention and Cultural Facilities in accordance with the Management Agreement. (Priority 3)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: STEVEN HENDRICKSON, INTERIM CITY AUDITOR

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: November 2, 2007

Approved Kay Winer Date 11/6/07

SUBJECT: CITY ADMINISTRATION RESPONSE TO THE 2005-06 AND 2006-07 ANNUAL PERFORMANCE AUDIT OF TEAM SAN JOSE, INC.

The City Administrations response to findings cited in the 2005-06 and 2006-07 annual performance audit report of Team San Jose, Inc. ("TSJ") is as follows:

Finding I: TSJ DID NOT MEET TWO OF ITS FOUR PERFORMANCE MEASURE TARGETS IN 2005-06 AND 2006-07

City Administration Response: City Administration acknowledges that performance measures need to be modified to be a more effective measure of TSJ's performance and will take action to amend the Management Agreement ("Agreement") accordingly. The following items will be amended:

- Performance measure targets will be tied to the annual budget process, requiring TSJ to achieve a certain percentage of budgeted revenue and expense to maintain compliance with the Agreement.
- A performance measure will be added to evaluate TSJ's performance in generating revenues and controlling expenses compared to a competitive set of convention centers of similar size.
- Additional changes to performance measure targets will be considered if a new contract with TSJ is negotiated at the expiration of the current term.

In addition, City Administration will engage the services of an "industry expert" to serve as the City's Asset Manager to consult with TSJ on strategic and operational issues on the City's behalf.

Finding II: TSJ HAS IMPLEMENTED 7 OF THE 10 PARTIALLY IMPLEMENTED MANAGEMENT AGREEMENT REQUIREMENTS AS NOTED UN THE 2004-05 AUDIT REPORT AND NEEDS TO IMPLEMENT ONE ADDITIONAL MANAGEMENT AGREEMENT REQUIREMENT

City Administration Response: City Administration's response to prior audit issues not fully implemented is as follows:

- Section 6.3 - City Administration feels TSJ has met the requirement of Section 6.3 of the Agreement by including a matrix comparing Actual to Management Agreement performance measure data each month in the financial reports. The status of performance targets is readily identifiable by reviewing the matrix. In addition, the performance measure targets are discussed in the monthly meetings with City Administration and TSJ.

- Section 6.3 – City Administration acknowledges that the City has not fully complied with providing the City Council with a report on performance measure targets as specifically stated in Section 6.3 of the Agreement. However, City Administration has opted to wait to report to the City Council until audited performance measure data is available. As a result, the presentation of the City Auditor's annual performance audit of TSJ meets this requirement.

- Section 14.3 – City Administration concurs with the City Auditor that a search be conducted to hire a Chief Executive Officer, which is consistent with TSJ's proposal and with the terms and conditions of the Agreement.

SCOTT P. JOHNSON
Director, Finance

TEAM SAN JOSE

408 Almaden Boulevard | San Jose, California 95110 | www.sanjose.org

To: Honorable Mayor and City Council

From: Dan Fenton, CEO, Team San Jose

Date: November 7, 2007

Subject:
Team San Jose Response to the 2005-2006, 2006-2007 Annual Performance Audit of Team San Jose, Inc.

Team San Jose appreciates the opportunity to respond to the Annual Performance Audit ("Audit") completed by the Office of the City Auditor. The Audit reviews a two year period from FY 2005-2006 and FY 2006-2007 and demonstrates solid growth in revenue, a steady decrease in operating loss and continued success in serving our customers.

Since 2004, Team San Jose, Inc. and over 300 employees have served the City of San Jose and the local community through an innovative approach to customer service. Team San Jose, a non-profit corporation, has a direct impact on San Jose's local economy and impacts business downtown through a unique local partnership between hoteliers, labor, the arts community, convention bureau, and Centerplate, our food and beverage provider.

The Audit is categorized into two sections, Finding I and Finding II. Our response will provide a brief discussion of each finding.

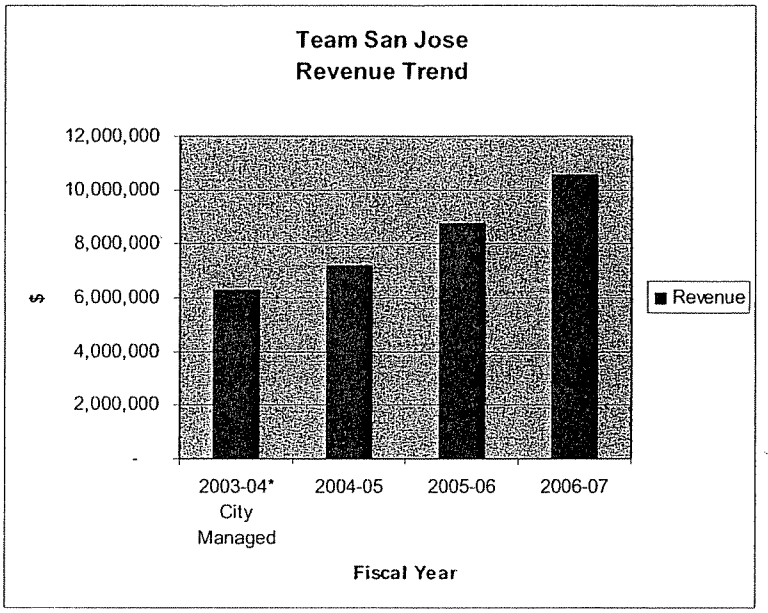
Finding I: Team San Jose did not meet two of its four performance measure targets in 2005-2006 and 2006-2007.

Gross Revenues Performance Measure Target

Background
After Team San Jose was selected as the preferred operator and manager for the McEnery Convention Center and Cultural Facilities in 2004, Team San Jose gained access to the booking calendar and found that projected revenue based on City budget information did not materialize. This loss in business totaled approximately $900,000 in revenue. In response to the loss in revenue, the City approved adjustments to Team San Jose's budget and Management Agreement of $400,000 to reflect this loss in revenue in year one only and not in subsequent years.

Increasing Revenue
In 2005-2006, Team San Jose generated $8,774,322 or 12% less than the target. In 2006-2007, Team San Jose generated $10,554,562 or 0.4% less than the target.

The chart below provides year over year revenue trends demonstrating solid results to drive more business to the convention center and cultural facilities.



FY 2003-2004 reflects CAE's revenue from operations.

Team San Jose has increase revenue to $10,554,562 or 67.3% since the City's last year of operation in 2004 in which revenue was $6,307,804.

Comparing San Jose's Revenue to Competing Convention Centers
In an effort to provide a fair comparison to other convention centers of similar size that San Jose competes with on a regular basis, Team San Jose hired CH Johnson Consulting, Inc., a firm of nationally recognized industry experts with over 20 years of experience in the conference/convention, hotel, tourism, and general real estate consulting fields.

The study is based on data given by each participating convention center providing a true comparison of revenue and expenses by each destination. Many convention centers have integrated operations with theaters and other facilities, like San Jose. CH Johnson Consulting, Inc., delineated convention center operations fairly and researched each convention center's operation in detail to ensure a fair comparison.

The convention centers included in the study are:

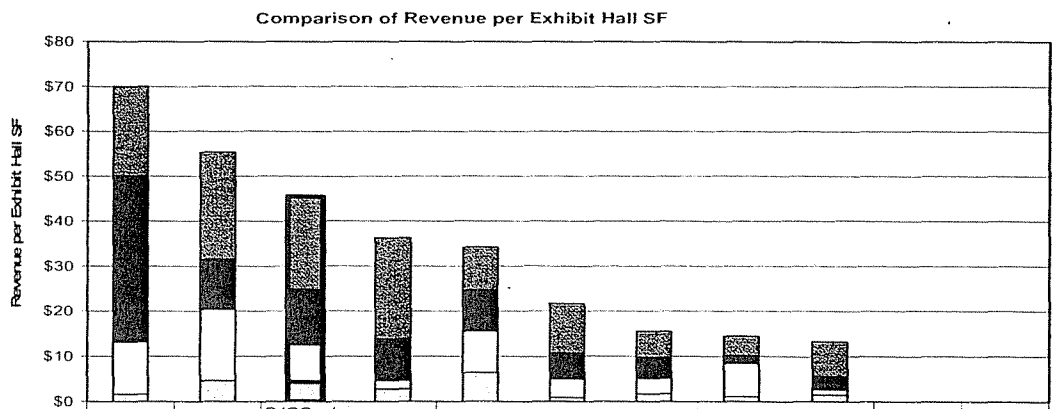
- Oregon Convention Center
- Austin Convention Center
- Sacramento Convention Center
- Washington State Convention Center
- The Salt Palace (Salt Lake City, Utah)
- Kansas City Convention Center
- Long Beach Convention Center
- Reno Convention Center

The total size and square footage of the facilities show a need for San Jose to upgrade and expand in order to stay competitive in the industry. Based on the study, San Jose has the third smallest exhibit hall and the smallest ballroom in the group. San Jose continues to work hard to keep the convention business we have while trying to attract new business. A number of key conventions have moved to other destinations as they have grown too large to stay in San Jose.

The study excluded South Hall from the space and revenue comparisons. As a stand alone structure, separate from the convention center South Hall adds 80,000 square feet of space. However, the space is unique and not contiguous with the rest of the exhibit space in the convention center. In addition, the construction of the space is not complete, the flooring of the building is not graded, the structure does not provide strength for rigging and bathrooms are not installed in the facility. All of these items provide challenges in renting the space and do not provide a good comparison to other convention center's exhibit space.

Study Results on revenue comparisons include:

1. The first chart below highlights San Jose's ranking against revenue per exhibit hall square footage.

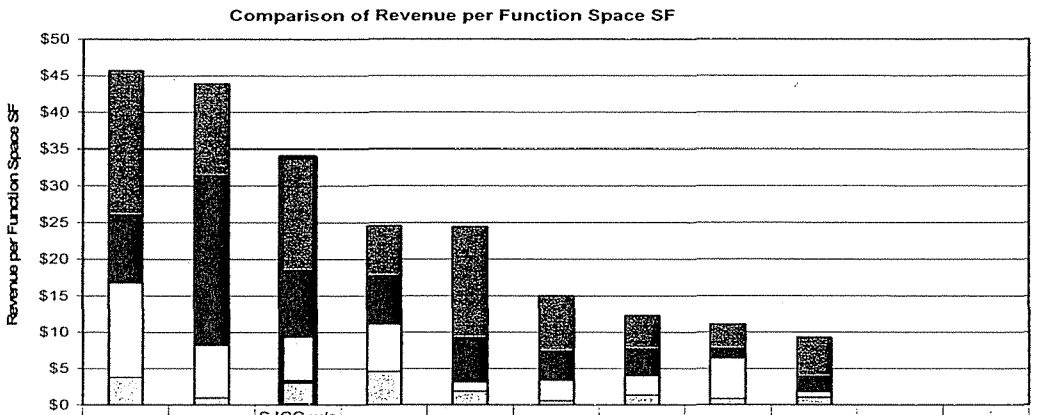


	Facility A	Facility B	SJCC w/o South Hall	Facility C	Facility D	Facility E	Facility F	Facility G	Facility H	SJCC Rank*	SJCC Index**
Total	$70.02	$55.42	$45.50	$36.32	$34.26	$21.73	$15.55	$14.45	$13.25	3	1.34
Rent	$19.91	$23.88	$21.04	$22.52	$9.55	$11.03	$5.81	$4.34	$7.67	3	1.51
Net F&B	37.01	11.19	11.68	9.14	9.17	5.77	4.67	1.74	2.99	2	1.13
Earned Net Income	11.52	15.75	8.48	1.91	9.14	4.07	3.33	7.28	1.10	4	1.22
Misc.	1.59	4.60	4.31	2.76	6.41	0.87	1.74	1.10	1.49	3	1.56

**Reflects rank of San Jose CC (without South Hall) among peer facilities. Scale 1 = best, 9 = worst.*
***Reflects position of San Jose CC (with South Hall) relative to peer facility average*
Source: Respective Facilities, Johnson Consulting

San Jose ranks the third highest in revenue per exhibit hall square footage and based on function space square footage.

2. The next chart compares San Jose against competitors based on Function Space per square footage.



	Facility A	Facility B	SJCC w/o South Hall	Facility C	Facility D	Facility E	Facility F	Facility G	Facility H	SJCC Rank*	SJCC Index**
Total	$45.71	$43.91	$33.96	$24.52	$24.42	$14.99	$12.29	$11.08	$9.31	3	1.39
Rent	$19.69	$12.49	$15.70	$6.84	$15.14	$7.60	$4.59	$3.33	$5.39	2	1.56
Net F&B	9.23	23.21	8.71	6.56	6.14	3.98	3.69	1.34	2.10	3	1.21
Earned Net Income	12.99	7.22	6.33	6.54	1.28	2.81	2.63	5.58	0.77	4	1.23
Misc.	3.79	1.00	3.21	4.58	1.85	0.60	1.37	0.84	1.05	3	1.58

**Reflects rank of San Jose CC (with South Hall) among peer facilities. Scale: 1 = best, 9 = worst*
***Reflects position of San Jose CC (with South Hall) relative to peer facility average.*
Source: Respective Facilities, Johnson Consulting

San Jose ranks the third highest in revenue per exhibit hall square footage and based on function space square footage.

Net Loss Performance Measure Target

Background

A memorandum, approved by the City Council on June 14, 2004, highlights the overall adjustments needed in 2004 after Team San Jose took over management of the facilities. Referenced in the June memorandum were unknown costs associated with the management and operations of the California Theatre. These costs account for $750,000 of Team San Jose's operating loss of which $250,000 was for start-up costs.

In addition, the memorandum outlined other adjustments needed based on increases in civil service salaries and benefit costs and city oversight charges accounting for almost a $1 million in additional expenses; increases in utility costs and adjusted rental revenue downward accounting for an additional $1 million, based on actual booking data received after taking over management of the facilities. These total costs amount to $2,750,000, including the $750,000 in unknown costs from the California Theatre and start up costs. No adjustments have been made to Team San Jose's Management Agreement to reflect these additional expenses.

In discussions with the City's Finance Department, there is agreement that performance measure targets should have been adjusted to the Management Agreement and budget to reflect the unknown cost associated with the California Theatre. The overall gap between Team San Jose's actual operating loss to the Management Agreement Performance targets would have been less as a result of these adjustments.

Reducing San Jose's Operating Loss

Team San Jose has reduced the San Jose McEnery Convention Center and Cultural Facilities operating loss by more than 50% since 2004 when the City's Convention, Arts and Entertainment Department managed the facilities.

As shown in the chart below, reductions in expenses include:

- City of San Jose Management and Administrative Charges have decreased 24 percentage points, as a percent of revenue, during the three years of operations. This has occurred while maintaining the budgeted headcount of 85 City employees.

- Utilities as a percent of revenue have decreased 8.4 percentage points over the same period.

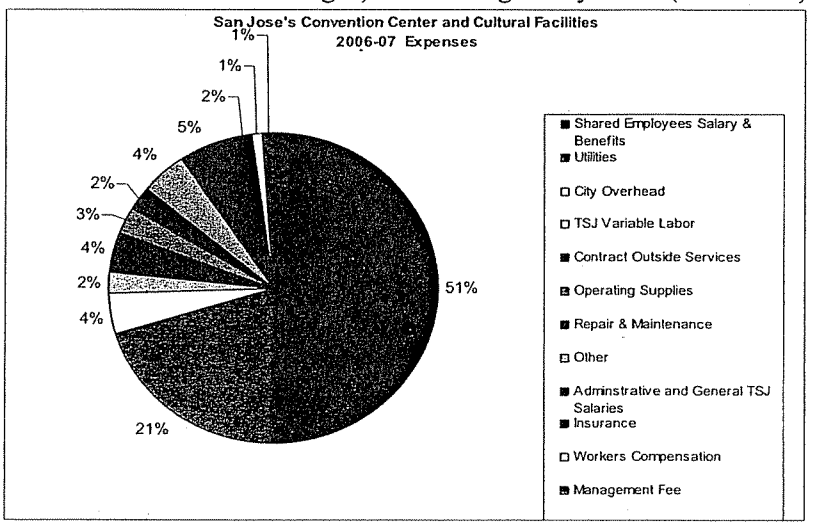
Both of these items demonstrate the increase in efficiency of the operation since 2004 under Team San Jose's management of the convention center and cultural facilities.

Overall from FY 2003-04 to 2006-07 operating expenses as a percent of revenue have decreased 80.8 percentage points.

	Year One 2004-05	% of Revenue	Year Two 2005-06	% of Revenue	Year Three 2006-07	% of Revenue
Revenue	7,158,813	100.0%	8,774,322	100.0%	10,554,562	100.0%
City of San Jose Management and Administrative Charges	6,228,160	87.0%	5,820,023	66.3%	6,645,397	63.0%
Utilities	2,335,139	32.6%	2,467,647	28.1%	2,535,946	24.0%
Administrative and General Salaries - Team San Jose	645,366	9.0%	872,271	9.9%	1,237,668	11.7%
Contracted Outside Services	516,980	7.2%	714,818	8.1%	461,066	4.4%
Other Expenses	317,857	4.4%	668,446	7.6%	763,447	7.2%
Overhead - City of San Jose	542,368	7.6%	555,116	6.3%	865,262	8.2%
Operating Supplies	302,600	4.2%	410,711	4.7%	420,768	4.0%
Repair and Maintenance	231,123	3.2%	392,837	4.5%	394,565	3.7%
Insurance	276,064	3.9%	280,854	3.2%	282,330	2.7%
Workers' Compensation Insurance Premiums	124,820	1.7%	226,559	2.6%	130,268	1.2%
Management Fee - Team San Jose	150,000	2.1%	150,000	1.7%	150,000	1.4%
Contracted Services - City of San Jose	117,403	1.6%	83,939	1.0%	-	0.0%
Total Operating Expenses	11,787,880	164.7%	12,643,221	144.1%	13,886,717	131.6%
Operating Loss	(4,629,067)	-64.7%	(3,868,899)	-44.1%	(3,332,155)	-31.6%

The pie chart below highlights FY 2006-2007 operating expenses for the Convention Center and cultural facilities.

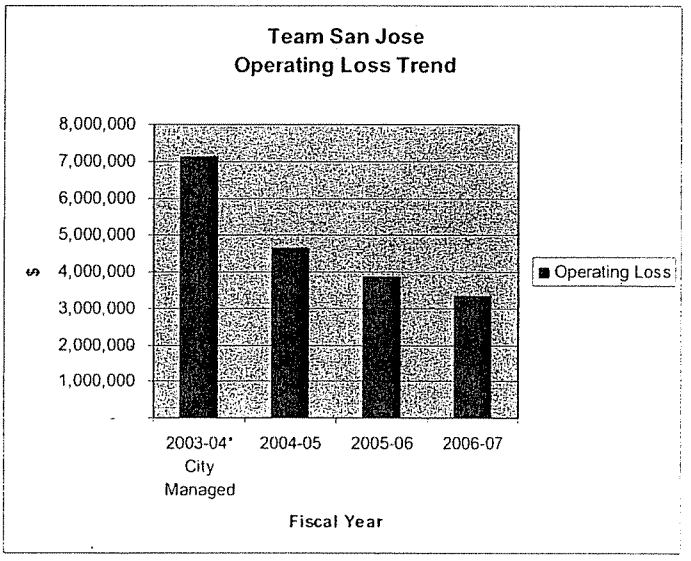
Seventy-six percent of the Convention Center and cultural facilities operating expenses are either city controlled (shared civil service employee salary and benefits, city administrative fees and overhead charges) or building utility costs (unaudited).



Over the last two years, City overhead charges have increased 55.9%.

In addition to overheard costs, another difficult expense area is utility costs for the facilities which represent 24% of the total expenses for FY 2006-2007. Without financial investments in the buildings to create efficiencies in energy, utility costs will continue to be a challenge. Team San Jose has worked hard to create efficiencies in other operating areas including implementing recycling program, reducing energy usage, and using "green" products. Other "green" initiatives will take additional funding investments in the aging facilities.

The chart below provides a year to year visual of the success Team San Jose has had to reduce the operating loss each year since taking over management of the facilities.

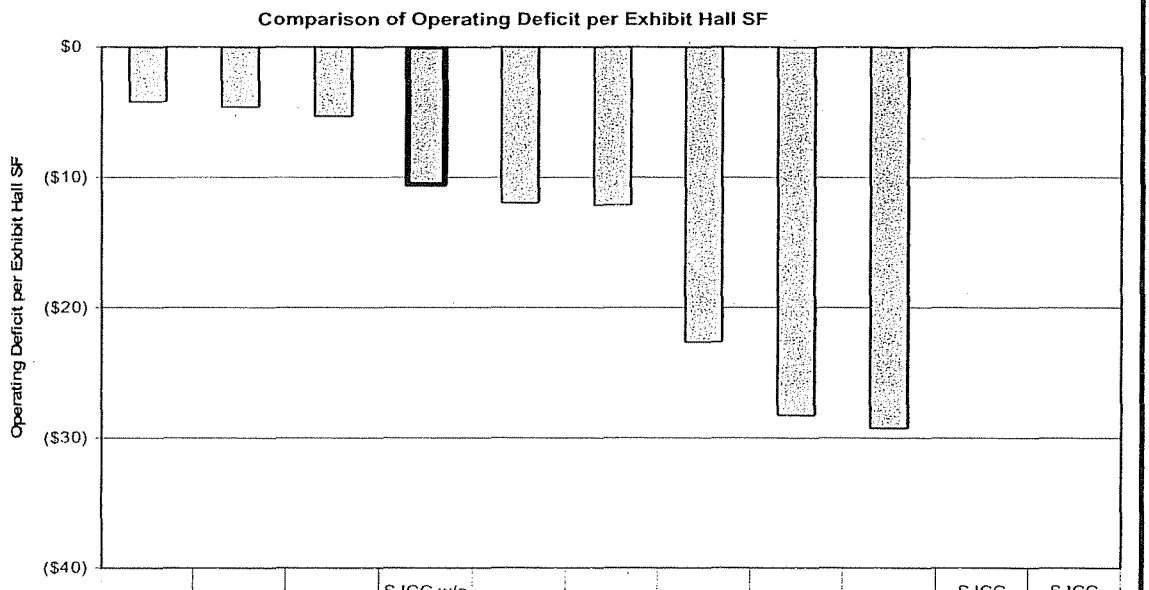


FY 2003-2004 reflects CAE's operating loss from operations.

Team San Jose has reduced the operating loss of the McEnery Convention Center and Cultural Facilities to $3,332,155 or 53% since the City's last year of operation in 2004 in which the operating was $7,091,074.

Comparing San Jose's Expenses to Competing Convention centers

Based on the CH Johnson Consulting Inc. study, San Jose fares well when comparing operating loss or operating deficits to competitive destinations. The chart below compares operating deficit per Exhibit Hall square footage.

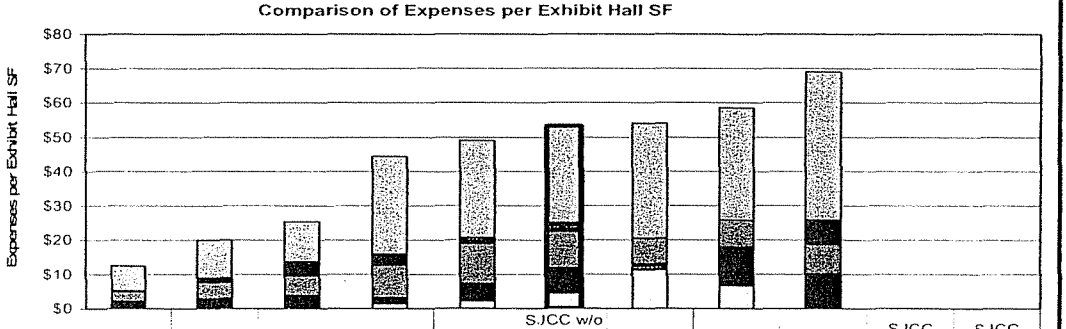


	Facility A	Facility B	Facility C	SJCC w/o South Hall	Facility D	Facility E	Facility F	Facility G	Facility H	SJCC Rank*	SJCC Index**
Operating Deficit	($4.19)	($4.59)	($5.30)	($10.53)	($11.94)	($12.11)	($22.65)	($28.26)	($29.26)	4	0.74

**Reflects rank of San Jose CC (without South Hall) among peer facilities. Scale: 1 = best, 9 = worst.*
***Reflects position of San Jose CC (with South Hall) relative to peer facility average.*
Source: Respective Facilities, Johnson Consulting

San Jose has the fourth lowest operating deficit in the competitive set.

The next chart compares expenses per Exhibit Hall square footage by destination.



	Facility A	Facility B	Facility C	Facility D	Facility E	SJCC w/o South Hall	Facility F	Facility G	Facility H	SJCC Rank*	SJCC Index**
Total	$12.48	$19.99	$25.36	$44.44	$49.08	$53.31	$54.10	$58.43	$69.01	6	1.24
Payroll & Benefits	$7.28	$10.96	$11.71	$28.54	$28.40	$28.70	$33.58	$32.58	$43.17	6	1.15
General & Admin	0.23	1.29	4.06	3.18	1.68	1.76	incl.	incl.	7.07	6	0.82
Utilities	2.75	4.82	5.73	9.45	11.72	11.50	7.46	7.84	8.61	8	1.48
Insurance	0.49	0.33	0.91	1.79	1.34	1.96	0.75	0.54	2.68	8	1.64
FF&E	incl.	0.63	0.25	incl.	incl.	0.28	0.67	incl.	0.44	6	1.11
Maint. & Repairs	1.25	1.42	2.31	incl.	3.37	4.30	incl.	10.28	6.63	7	1.31
Marketing	0.11	0.12	0.00	1.48	0.36	incl.	0.45	0.51	incl.	na	na
Misc.	0.36	0.41	0.37	incl.	2.21	4.81	11.19	6.66	0.41	7	1.64

**Reflects rank of San Jose CC (without South Hall) among peer facilities. Scale: 1 = best, 9 = worst*
***Reflects position of San Jose CC (with South Hall) relative to peer facility average*
Source: Respective Facilities, Johnson Consulting

San Jose ranks sixth overall when comparing expenses per Exhibit Hall square footage.

- San Jose has the highest utility expenses. This comparison demonstrates that San Jose has the only facility not renovated or expanded in the competitive set.

- San Jose ranks fourth in payroll and benefits. This comparison is based on basic costs and does not take into account cost of living in each destination. San Jose would be ranked lower if cost of living was included in the comparison.

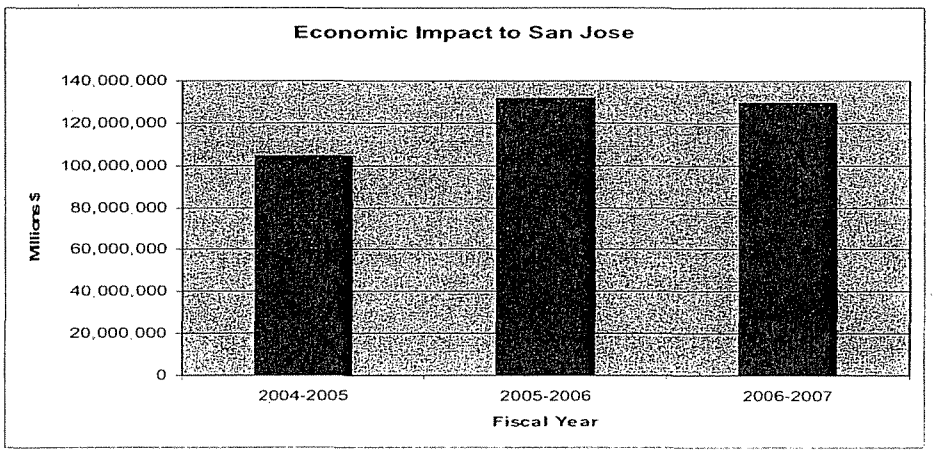
- Other areas to note are higher maintenance and repair and insurance costs.

Economic Impact Performance Measure Target

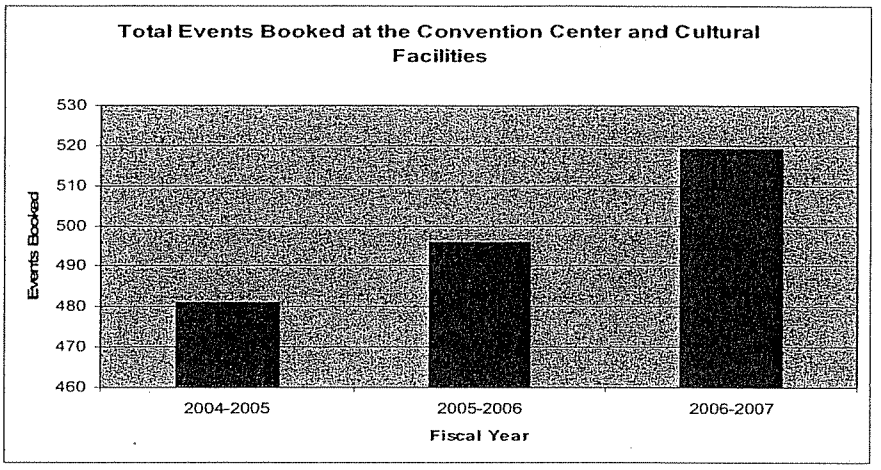
Increasing Visitors to San Jose
Team San Jose continues to increase visitor economic impact year over year. In 2004, Team San Jose developed targets based on economic data available at the time and were reasonable and sound based on information known at the time. Year over year, Team San Jose and the San Jose Convention and Visitors Bureau have booked more events, generated more visitors and created economic impact as a result.

In future years of the contract and with the potential contract renewal, Team San Jose would recommend the City consider revisions to measure success including adjusting economic impact, revenue and operating loss targets on an annual basis, not set five years in advance. In addition, base performance on San Jose's comparison to other competing destinations and customer service satisfaction results.

For FY 2006-2007, 1.25 million visitors visited San Jose, generating $129 million in economic impact. Visitor economic impact benefits the local economy and helps strengthen the city's economic outlook to support city services and programs. The chart below shows positive growth year over year since Team San Jose began managing the convention center and cultural facilities.



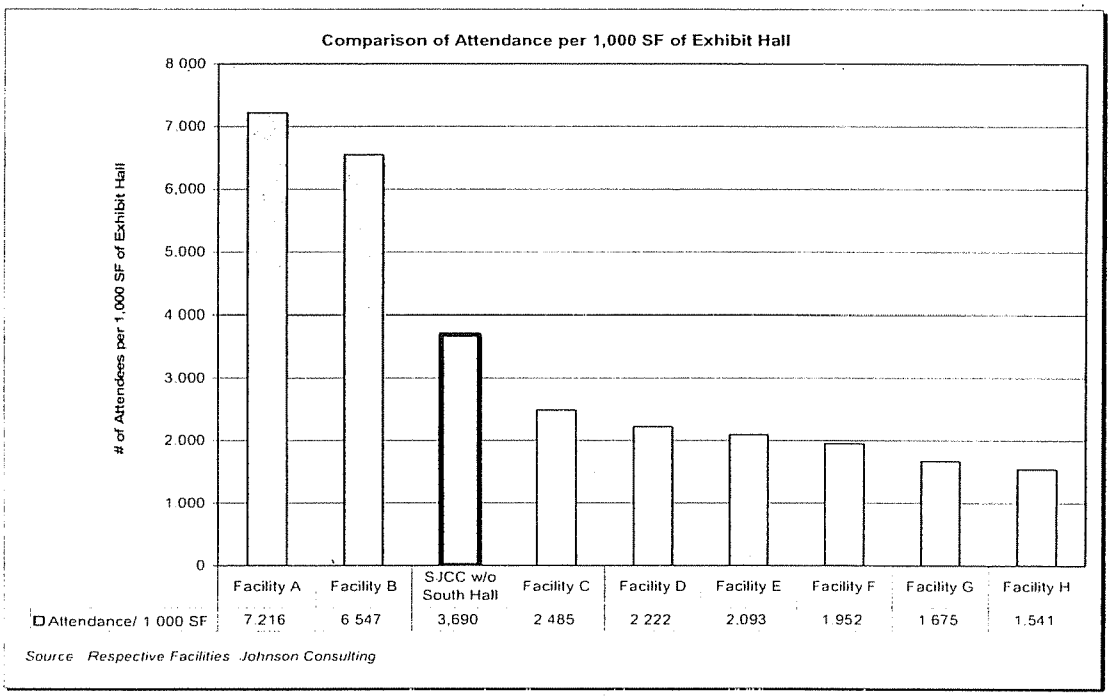
Other important measurements include events booked and hotel room night generation. Events Booked continues to increase year over year. The chart below demonstrates an increase in events booked year over year.



For Fiscal Year 2006-2007, 519 events were held at the Convention Center and cultural facilities, compared to 496 events in FY 2005-2006.

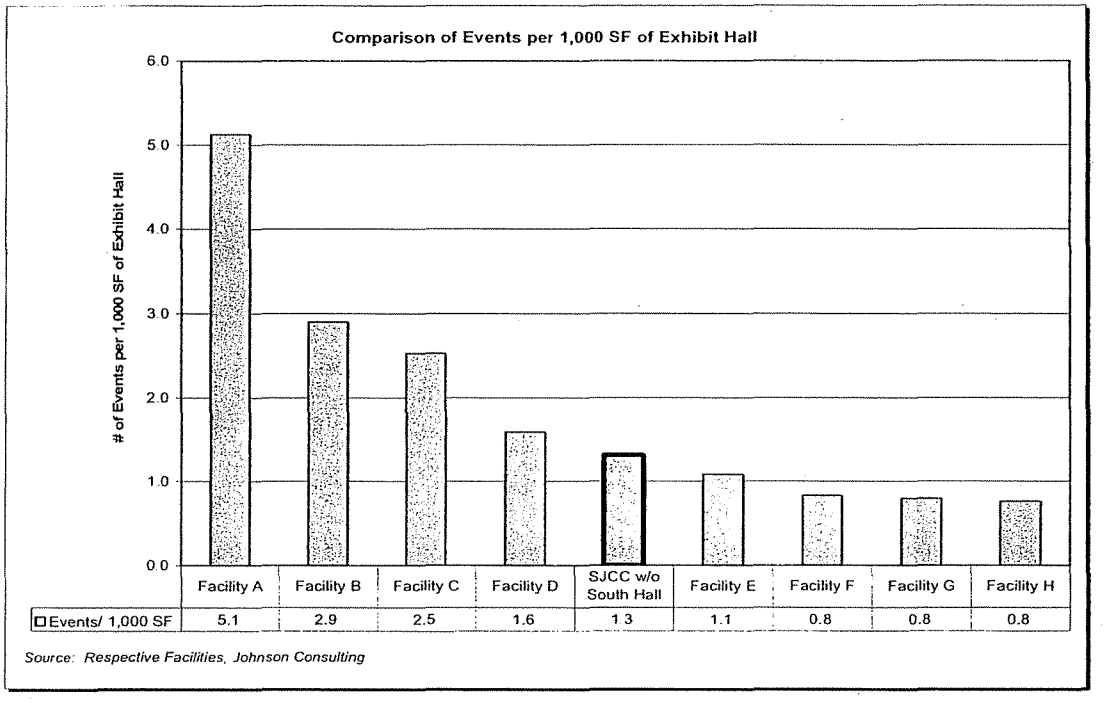
Room revenues or transient occupancy taxes directly support San Jose city services, the San Jose Convention and Visitors Bureau, arts funding and grants and the Convention Center and cultural facilities. Based on the 14 convention hotels reporting, Transient Occupancy Tax (TOT) Revenue has increased by 36.3 % since 2003-04. Fiscal year 06-07 brought in $129 million in Gross Hotel Room Revenues, an increase of $17 million over fiscal year 05-06. Hotel Average Occupancy for 2006-2007 is 59.91%, compared to the same period for 2005-2006 of 57.70%.

Comparing San Jose to Competing Destinations
Attendance per 100 square foot of Exhibit Hall space is another good comparison to evaluate success.



San Jose ranks third when comparing attendance per 1,000 square foot of Exhibit Hall space.

The chart below compares events per 1,000 square foot of Exhibit Hall space.



San Jose ranks fifth when comparing events per 1,000 square foot of Exhibit Hall space.

Customer Service Results Performance Measure Target

Customer service is a key component of keeping current customers and gaining new business. Customer Satisfaction survey results indicate:

- 97% of customers reported excellent, very good or good when rating their overall customer experience.
- 93% of customers provided a strong indication they would return to San Jose in the future.

Team San Jose continues to evaluate ways to use survey data submitted to respond to business trends and customer needs. Team San Jose is a unique model with one point of contact for customers and meeting planners. As an industry standard, convention centers and convention and visitors bureaus have challenges working together to provide a seamless experience for customers. A new study released by the International Association of Auditorium Mangers and Destination Marketing Association International, demonstrates the need for the industry as a whole to change how sales, marketing, and convention center managers work together to deliver results.

San Jose is one of the only models in the country that works under one umbrella, as one team from sales, marketing, event services, and hotel partnerships to managing the convention center's facility and operations. Industry trends demonstrate San Jose is ahead of other destinations to provide customers with the tools and resources needed for successful events.

Team San Jose's approach provides customers with one point of contact from booking to executing their event, creating flexibility and saving time for the client. The customer survey results continue to validate that this approach is what clients need to deliver successful events.

Finding II: Team San Jose has implemented 7 of 10 partially implemented Management Agreement Requirements as noted in the 2004-2005 Audit and Needs to implement one additional requirement

Section 6.3: Operator shall present a report to the City Manager demonstrating the extent to which it has met the Performance Measures within the Management Agreement.

Team San Jose disagrees with the Auditor's opinion that Team San Jose did not provide a clear comparison to targets.

In both 2005-2006 and 2006-2007, Team San Jose submitted monthly financials and reports that compared actuals to the Management Agreement. In 2007, Team San Jose submitted a quarterly report to the Community and Economic Development Committee that was approved and forwarded to the City Council where it was also approved. Also in August of 2007, Team San Jose submitted a report to the City Manager's Office highlighting Fiscal Year End results against performance targets in the Management Agreement. In addition to these two reports, the Audit highlights other reports provided that compared actual results to Management Agreement Performance Targets.

Section 16: Agreement is subject to City's Living Wage and Prevailing Wage Policies and applicable implementing regulations.

Team San Jose agrees with the Auditor's opinion to work with the Office of Equality Assurance to ensure that compliance has been achieved. Team San Jose has submitted the information needed to the Office of Equality Assurance and are waiting to hear back on other information the office might need to address this agreement section.

Section 20: Team San Jose is responsible for complying with ADA in connection with the facilities.

Team San Jose agrees with the City Auditor's opinion of partially implemented and will work with the City to conduct a site review of the convention center and with the City Administrator when funding is available to complete an ADA assessment.

Section 14.3: Team San Jose name a qualified individual with experience in the management of similar facilities as the CEO of the Facilities.

For the FY 2004-2005 Performance Audit, the report detailed that Team San Jose had met this contract section requirement. The report highlighted that the CEO fulfilled the contract requirement and that the CEO met regularly with the City Manager's Office/Contract Administrator.

Team San Jose's organizational structure has not changed since the FY 2004-2005 Performance Audit. Team San Jose believes it has met this contract requirement through the current organizational structure of the company.

In addition to the current CEO's industry and management experience, the Director of Client Services and Director of Operations have over forty years of experience in the industry and the knowledge, experience and leadership to lead the organization and manage the facilities. The Director of Client Services experience includes previous Assistant General Manager at McCormick Place, Director of Operations for Oakland Coliseum and Arena, and Managing Director in Park City Mountain Resort in Utah. The Director of Operations was the Facilities Manager for the Indiana Convention Center and RCA Dome. In addition to these two senior managers dedicated to facilities and operations, Team San Jose has two Building Superintendents with over thirty years of experience in facility management, dedicated to the operations of the facilities Team San Jose manages.

Conclusion

In conclusion, Team San Jose is proud of the accomplishments to date to increase revenue, decrease and manage expenses, and support our local community through our partnership with hotels, arts leadership, local labor, Centerplate and the San Jose Convention & Visitors Bureau.

Specific results include:

- Team San Jose has increase revenue by 67.2% since 2004.
- Team San Jose has reduced the operating loss of the McEnery Convention Center and Cultural Facilities to $3,332,155 or 53% since the City's last year of operation in 2004 in which the operating was $7,091,074.
- 97% of customers reported excellent, very good or good when rating their overall customer experience and 93% of customers provided a strong indication they would return to San Jose in the future.
- For FY 2006-2007, 1.25 million visitors visited San Jose, generating $129 million in economic impact.
- For Fiscal Year 2006-2007, 519 events were held at the Convention Center and cultural facilities, compared to 496 events in FY 2005-2006.
- Based on the 14 convention hotels reporting, Transient Occupancy Tax (TOT) Revenue has increased by 36.3 % since 2003-04. Fiscal year 06-07 brought in $129 million in Gross Hotel Room Revenues, an increase of $17 million over fiscal year 05-06.
- Hotel Average Occupancy for 2006-2007 is 59.91%, compared to the same period for 2005-2006 of 57.70%.

Team San Jose looks forward to continuing a strong partnership with the City as we work together make San Jose a great place to live, work, visit and play.

OFFICE OF THE CITY AUDITOR'S COMMENTS ON THE RESPONSE TO TEAM SAN JOSE AND THE CITY ADMINISTRATION TO THE 2005-06 AND 2006-07 ANNUAL PERFORMANCE AUDIT OF TEAM SAN JOSE, INC.

The following comments are presented to expand upon, clarify, and correct statements in the response of Team San Jose, Inc. (TSJ) and the City Administration (Administration) to the *2005-06 and 2006-07 Annual Performance Audit of Team San Jose, Inc.*

I. Auditor's Comment:

TSJ includes in its response findings from a study conducted by C.H. Johnson Consulting which uses a comparative analysis regarding revenues, expenses, and operating costs for the San Jose McEnery Convention Center with eight other convention facilities. The City Auditor has not audited this report and, as such, does not purport to its methods or findings.

II. Administration Response (Finding II -Page 11, Paragraph 4):

City Administration feels that TSJ has met the requirement of Section 6.3 of the Agreement by including a matrix comparing Actual to Management Agreement performance measure data each month in the financial reports. The status of performance targets is readily identifiable by reviewing the matrix. In addition, the performance measure targets are discussed in the monthly meeting with the City Administration and TSJ.

TSJ Response:

Team San Jose disagrees with the Auditor's opinion that Team San Jose did not provide a clear comparison to targets.

In both 2005-06 and 2006-07, Team San Jose submitted monthly financials and reports that compared actuals to the Management Agreement. In 2007, Team San Jose submitted a quarterly report to the Community and Economic Development Committee that was approved and forwarded to the City Council where it was also approved. Also in August of 2007, Team San Jose submitted a report to the City Manager's Office highlighting Fiscal Year End results against performance targets in the Management Agreement. In addition to these two reports, the Audit highlights other reports provided that compared actual results to Management Agreement Performance Targets.

Auditor's Comment:

We disagree that the matrix comparing data on actual to management agreement performance readily identifies TSJ's status in achieving its performance targets. As we point out on p. 64 of the Audit Report, the financial reports that TSJ provides to the City Manager do not address key comparisons required by the Management Agreement. Nor

do the reports provide a written analysis that highlights actual results as compared to the targets in the Management Agreement.

III. Administration Response (Finding II -Page 11, Paragraph 4):

City Administration concurs with the City Auditor that a search be conducted to hire a Chief Executive Officer, which is consistent with TSJ's proposal and with the terms and conditions of the Agreement.

TSJ's Response:

For the FY 2004-05 Performance Audit, the report detailed that Team San Jose had met this contract section requirement. The report highlighted that the CEO fulfilled the contract requirement and that the CEO met regularly with the City Manager's Office/ Contract Administrator.

Team San Jose's organizational structure has not changed since the FY 2004-05 Performance Audit. Team San Jose believes it has met this contract requirement through the current organizational structure of the company.

Auditor's Comment:

At the time of the 2004-05 Annual Performance Audit of Team San Jose, Inc., TSJ had named an individual to serve as the organization's CEO. However, as of October 2006, TSJ no longer has a CEO. We do not disagree with Team San Jose's organizational structure, however TSJ has not fulfilled its obligation as required by the Management Agreement.

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Administration Manual (CAM) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class[1]	Description	Implementation Category	Implementation Action[3]
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.[2]	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists.[2]	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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1 The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number. **(CAM 196.4)**

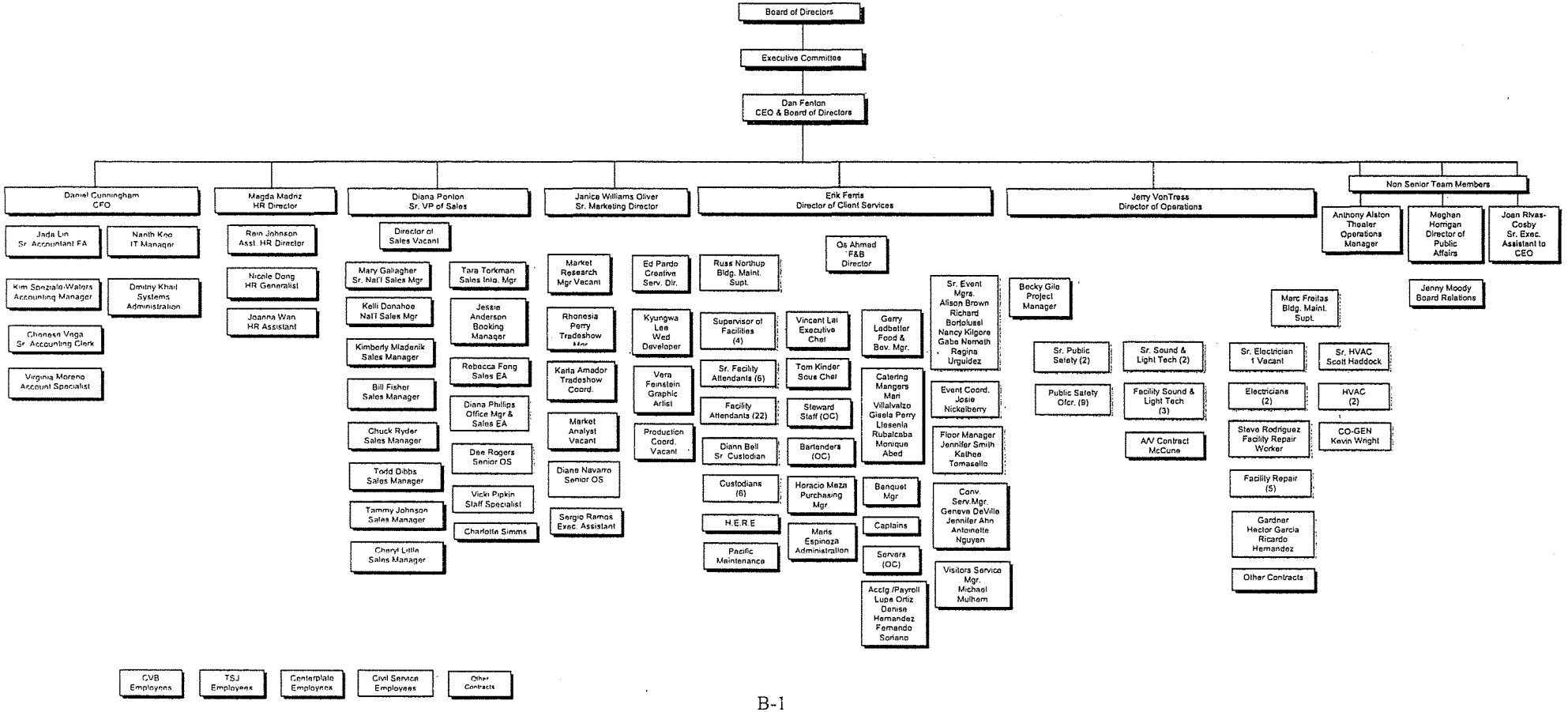
2 For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $25,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $50,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.
(CAM 196.4)

3 The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.
(CAM 196.4)

APPENDIX B

TEAM SAN JOSE

Organizational Chart
July 2007



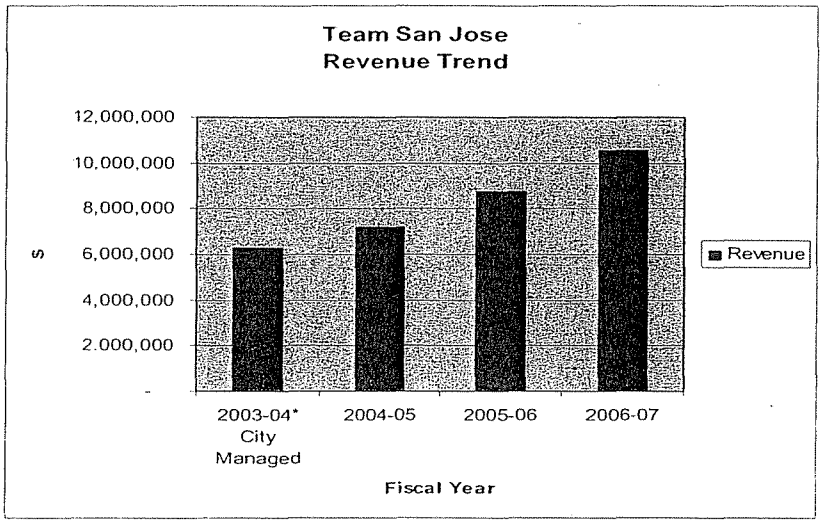
408 Almaden Boulevard | San Jose, California 95110 | www.sanjose.org

Team San Jose Accomplishments and Results FY 2005-2007

Team San Jose Continues to Increase Revenue and Support the Local Economy

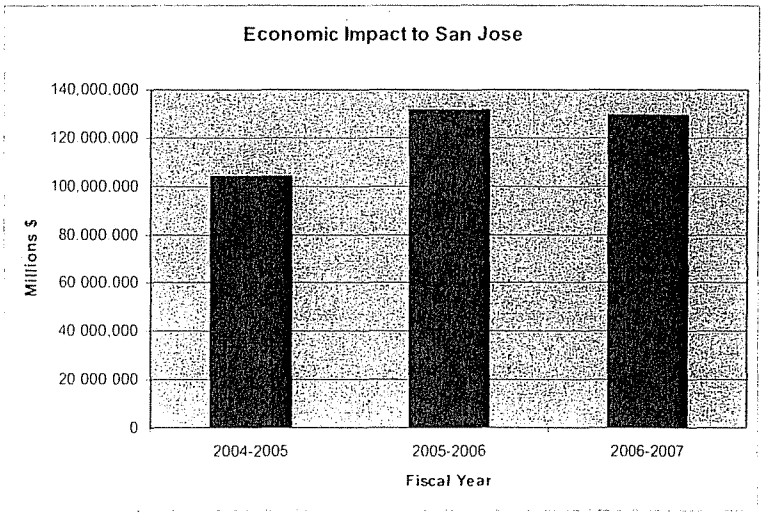
- Team San Jose has increase revenue to $10,554,562 or 67.3% since the City's last year of operation in 2004 in which revenue was $6,307,804.

- In 2005-2006, Team San Jose generated $8,774,322 in revenue. In 2006-2007, Team San Jose generated $10,554,562.

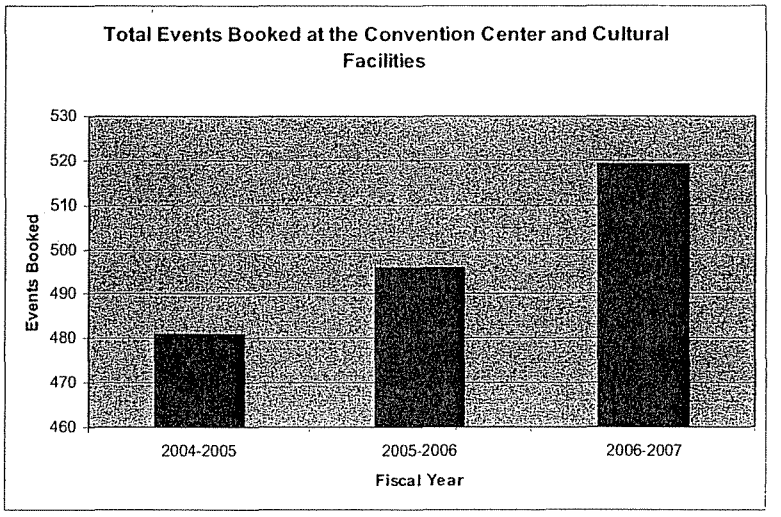


Promoting Economic Impact, Increasing Events and Booking Hotel Room Nights to Increase Hotel Revenue

- For FY 2006-2007, 1.25 million visitors visited San Jose, generating $129 million in economic impact. Trends show positive growth in visitors to San Jose.



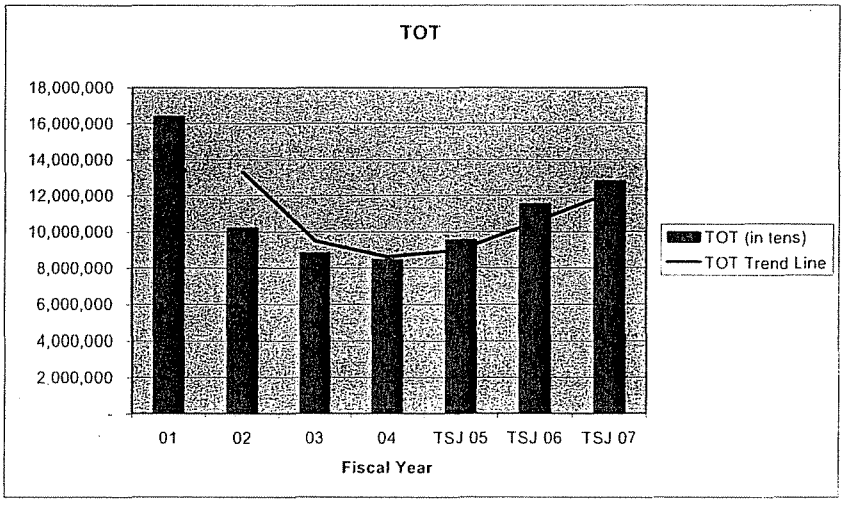
- For Fiscal Year 2006-2007, 519 events were held at the Convention Center and cultural facilities, compared to 496 events in FY 2005-2006.



- Based on the 14 convention hotels reporting, Transient Occupancy Tax (TOT) Revenue has increased by 36.3 % since 2003-04.

- Fiscal year 06-07 brought in $129 million in Gross Hotel Room Revenues, an increase of $17 million over fiscal year 05-06.

- Hotel Average Occupancy for 2006-2007 is 59.91%, compared to the same period for 2005-2006 of 57.70%.



Increasing Local Jobs

- Team San Jose's partnership with local labor has increased local jobs by 22%.

- Team San Jose has preserved civic service jobs through our partnership with city employees.

Supporting Arts and Entertainment Events in San Jose and Downtown

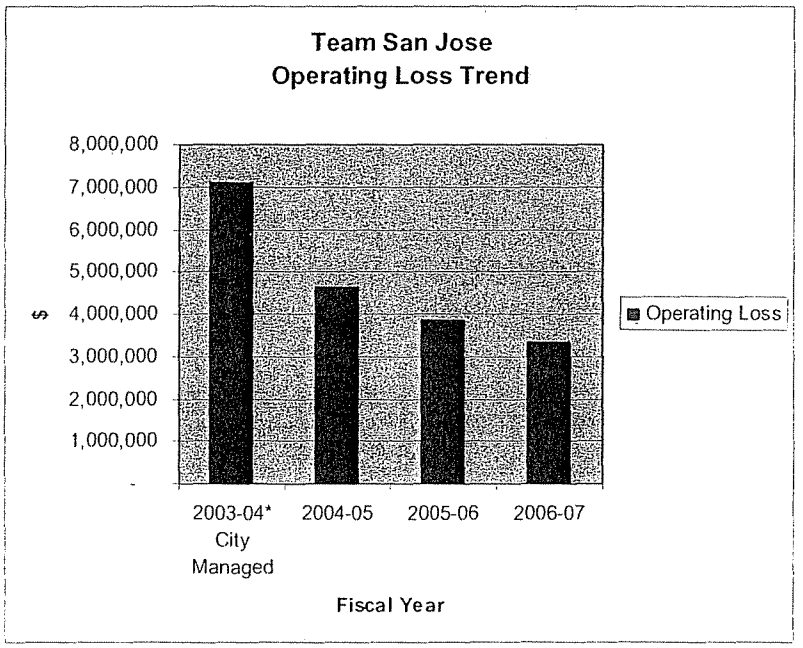
- Theater bookings for FY 2006-2007 include 168 events in all theaters managed by Team San Jose.

- Civic Auditorium bookings demonstrate strong growth in the arts and entertainment area. FY 2006-2007 show 73 events booked with average attendance of 2,148.

- The highest revenue generating events are connected directly to hotel room nights booked and convention activity. For FY 2006-2007, 13 conventions used the Civic as part of their building package, generating 11.80% of the total room nights booked for the year.

Reducing Convention Center and Cultural Facilities Operating Loss

- Team San Jose has reduced the operating loss of the McEnery Convention Center and Cultural Facilities to $3,332,155 or 53% since the City's last year of operation in 2004 in which the operating was $7,091,074.



Commitment to Customer Service

- 97% of customers reported excellent, very good or good when rating their overall customer experience.

- 93% of customers provided a strong indication they would return to San Jose in the future.

Repair and Maintenance Achievements: Supporting City Assets

Civic Auditorium
Installed a new sign
Painted exterior front of the building
Replaced a window
Painted a Team Room
Re-furbished stage floor
Refinished main floor
Upgraded concession stand
Ceiling tiles replaced
Added industrial sink to Team Room
Installed linoleum floor in meeting room 2
Multiple roof repairs completed
Replaced Air Conditioning unit in Meeting Rooms

Montgomery Theater
Installed new signs
Upgraded landscaping
Stripped and re-sealed Theater floor
Added new exterior lighting
Completed paint upgrades
Multiple roof repairs completed

Parkside Hall
Removed par key floor and laid carpet
Roof replacement (RDA)

Center for Performing Arts
Repaired outdoor water fountain and added lighting
Painted rows in the house
Upgraded landscaping
Replaced carpet in Theater
Recovered Theater Seating

South Hall
Cleaned the outside of the facility
Added (temporarily) a restroom trailer to the exterior
Installed a floor covering
Worked with General Services to install heating and cooling systems
Completed various infrastructure improvements

San Jose McEnery Convention Center
Installed new landscaping
Added an herb garden on the north side of the building
Repaired operable walls
Refurbished Cooling Tower
Replaced two electrical transformers
Installed the Barco sign
Painted meeting rooms and Ballroom area

Installation of fifteen flat screens throughout center
Upgraded and Repaired elevator and escalators
Energy efficient lighting replacement in Exhibit hall and warehouses
Added awnings
Tested equipment
Installed Mundatas Art Fixture

Commitment to Recycling

Team San Jose is committed to recycling and reducing waste generated as a result of meetings and conventions.

Civic, Montgomery, Parkside
Toilet paper dispensers, paper towel dispensers & soap dispensers were all changed out to allow for the usage of *green* products

Recycling Statistics:

- Team San Jose is currently diverting 25-30% of all solid waste, including bottles, cans, etc.
- Of all the plastics purchased in the last 2 years, 98-99% of the plastic was recyclable and the remaining percentage was bio-degradable.
- In 2006, only 76% of paper products were either recyclable &/or bio-degradable. Currently 100% of our paper purchases are recyclable materials.
- Team San Jose and Centerplate, our Food and Beverage partner are actively purchasing compostable materials and utensils for our future goal of partnering with the city for composting of food and beverage products.