

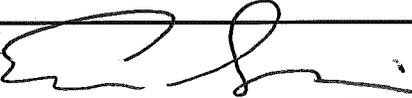
# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Paul Krutko

**SUBJECT: TEAM SAN JOSE 2009-2010  
PERFORMANCE MEASURES**

**DATE:** 09-28-09

Approved 

Date 10/7/09

## RECOMMENDATION

Acceptance of Team San José performance measures for 2009-2010.

## OUTCOME

Approval of this action will set the 2009-2010 performance targets for Team San José in place and provide a quantifiable method for measuring the success of Team San José.

## BACKGROUND

In January of 2009, the City of San Jose and Team San José (TSJ), which manages the City's Cultural Facilities, entered into a new five year agreement through June 30 2014, with two additional three year options. Subsequently, the City and TSJ entered into an addendum to the contract in summer 2009.

The new agreement requires TSJ to submit its annual targets for the following performance measures to be weighted as follows: Economic Impact Measures 40%, Gross Operating Profit 35%, Theatre Performance 15%, and Customer Service Survey Results 10%. In addition, the level of Incentive Management Fee (Incentive Fee) is set each fiscal year based on TSJ's achievement of separate, but related incentive fee measures.

## ANALYSIS

The performance measures and incentive fee measures set forth by TSJ, and agreed upon by City staff, were based on the Adopted 2009-2010 Budget, including the Convention and Cultural Affairs Fund, and Transient Occupancy Tax Fund and General Fund contributions to the Convention and Visitor's Bureau. The measures were also calculated assuming the restoration of \$1.45 million to the Non-Personal/Equipment allocation in the Convention and Cultural Affairs Fund.

The purpose of the performance measures is to provide a quantifiable way of evaluating TSJ's management of the convention facilities. The purpose of the incentive fee measures is to provide a quantifiable way of calculating the actual Incentive Fee earned by TSJ, and paid from the Convention and Cultural Affairs Fund.

The targets for the performance measures assumed that the downturn in the economy would last through the entire fiscal year, and also accounts for the potential expansion plans for the Convention Center. A brief summary of each of the performance measures is included below, with footnotes detailing any variation between the performance measures and incentive measures:

**2009-2010 Performance Measure Goals**

**Economic Impact = 40%**

**Attendance:** Attendance is based on the number of visitors to the Convention center and Cultural Facilities managed by Team San Jose.

	FY 05/06	FY 06/07	FY 07/08	08/09 Projected	09/10 Target
Local/Social	1,194,109	1,118,794	1,555,793	1,118,500	875,000
Out of Town	109,651	132,506	88,008	80,380	65,000
Exhibitor	33,914	21,029	15,948	17,475	13,250

**Assumptions**

- Attendance at the Convention Center is expected to drop in 2009-2010 due to loss of large events and continued decline of corporate events due to economic downturn.
- Parkside Hall will host a large multi-month blockbuster museum exhibit in conjunction with the Tech.
- Downturn at the Convention Center and Parkside Hall will be offset by activation of the Civic Auditorium and Montgomery Theaters.

**Estimated Economic Impact (EEI):** EEI is calculated using a merged model of Destination Marketing Association International ExPact Calculator and SportsEconomic model, currently used by the City for large festivals and events.

FY 05/06	FY 06/07	FY 07/08	08/09 Proj	09/10 Target
NA	\$93,183,904	\$111,371,879	\$110,807,617	\$88,750,000

**Assumptions**

- Economic Impact will decrease in correlation to the projected drop in attendance.
- Attendance and EEI goals were formulated by taking current definite business and comparing with past performance, factoring for indicators such as tentative business, room consumption pace, and market conditions.
- In accordance with the contract, the year one goal was developed utilizing the Destination Marketing Association International ExPact Convention Calculator and SportsEconomics Festivals and Events calculator

**2009-2010 Performance Measure Goals (Cont'd.)**

**Economic Impact = 40% (Cont'd.)**

**Hotel Room Nights:** Hotel room night bookings are tied to events at the convention center and cultural facilities.

FY 05/06	FY 06/07	FY 07/08	08/09 Proj	09/10 Target
252,778	240,987	255,412	240,000	180,000

**Assumptions**

- Bookings in the corporate sector will continue to be down due to economic conditions as well as expected hesitancy due to the proposed construction at the convention center occurring within booking window.
- Association market bookings are expected to increase as this market is less affected by volatile economic conditions and the longer booking window (up to 5 years out) allows Team San Jose to sell post-expansion product.
- State Association business is expected to decrease slightly due to state budget cuts and competition on cost from first tier destinations.

**Return on Investment (ROI) Formula \*:** The ROI formula is based on the investment into the convention center and cultural facilities and the return on this investment.

FY 05/06	FY 06/07	FY 07/08	08/09 Proj	09/10 Target
NA	NA	NA	\$4.14	\$3.25

**Assumptions**

- ROI Formula calculates the return for every \$1 invested into the Convention Center and Cultural Facilities.
- Formula is calculated by dividing the monies generated by TSJ by the expense of the City's investment in the facilities on an annual basis.
- The numerator consists of: TSJ Revenues, CVB Private Revenues, and Economic Impact.
- The denominator consists of: direct and indirect expenses from the operation of the CVB, direct and indirect expenses paid by TSJ on account of the operation of the facilities, and Debt Service.

\* In order to comply with IRS Revenue Procedure 97-13, ROI is not a component of the incentive fee measures.

**2009-2010 Performance Measure Goals (Cont'd.)**

**Gross Operating Profit \*\* = 35%**

In the new contract, the calculation for Gross Operating Profit (GOP) has changed. As a result, the prior years GOP is not presented in this memorandum as it is not directly comparable. For 2009-2010, the target for GOP is a loss of \$6,800,000. Factors that contribute to this figure are low building rental revenues due to the economic downturn and construction impacts from the Convention Center expansion project, partially offset by increased revenue from the movement of food and beverage from Centerplate to TSJ and increased business at the Civic Auditorium and Center for Performing Arts.

\*\* In order to comply with IRS Revenue Procedure 97-13, incentive fee measures include Gross Revenue rather than GOP. For 2009-2010, the Gross Operating Revenue target is \$16,500,000.

**Theater Performance = 15%**

Theaters	FY 07/08	08/09 Proj	09/10 GOAL
Performance Days- Civic		26	35
Occupied Days- Civic	147	107	80
Performance Days- CPA		107	70
Occupied Days- CPA	228	186	120
Performance Days- California		100	70
Occupied Days- California	248	265	225
Performance Days- Montgomery		109	100
Occupied Days- Montgomery	212	215	200

**Assumptions**

- Performance days are the number of days that a ticketed event is in any venue.
- Civic Auditorium- Forecasting 25 concerts with Nederlander and 10 additional Arts and Entertainment events. The forecast is based on current condition of the facilities and the number of days venue will not be available due to renovation.
- CPA- Forecast 4 one-week Broadway Events (5-6 performance days per event)
- California Theater- Opera San Jose and Symphony Silicon Valley still hold 210 (57%) of all days available in the California Theatre. Demand is high, but prime dates are not available.
- Montgomery Theater- Addition of one special event in addition to Children's Musical Theater and Lyric Theater. Projections anticipate up

market for small venues due to current economic conditions. TSJ is creating a flexible rate package for small, local arts groups.

**Client Satisfaction =10%**

	FY 05/06	FY 06/07	FY 07/08	08/09 Proj	09/10 GOAL
Goal	83%	85%	87%	89%	80%
Actual	96%	93%	100%	97%	-

**Assumptions**

- Forecasted decrease due primarily to projected disruption of service by budget/ staffing reductions and proposed expansion and renovation construction.

***2009-2010 Annual Report Budget Revision***

In the 2009-2010 Adopted Budget, through the approval of MBA #29, the Non-Personal/Equipment appropriation was reduced by \$1.45 million in an effort to preserve fund balance for the proposed Convention Center expansion project and to remain consistent with the Council-approved Plan of Finance. As a result of better than anticipated 2008-2009 performance in the Convention and Cultural Affairs Fund, \$1.1 million is recommended to be added to the ending fund balance in the 2008-2009 Annual Report.

In addition, the ending fund balance is recommended to be increased by \$100,000 through a reduction to the 2009-2010 TSJ Incentive Fee. This reduction can be achieved as the City and TSJ entered into an addendum to the contract in summer 2009. The Addendum to the Agreement for the Management of the San Jose Convention Center and Cultural Facilities revised the formula for the amount of the Incentive Fee in order to be consistent with IRS Revenue Procedure 97-13 governing qualified management agreements. This IRS procedure sets forth conditions under which a management contract does not result in private business use. The management contract must provide for reasonable compensation for services rendered with no compensation based, in whole or in part, on a share of net profits from the operation of the facilities. With the contract addendum, the Incentive Fee is based on incentive fee measures separate from, but related to the performance measures. For example, the incentive fee measures include Gross Revenue as a target, while the performance measures include Gross Operating Profit. As a result, the Incentive Fee, assuming TSJ achieves 100% of their incentive fee measures per the addendum, was reduced from \$400,000 to \$300,000.

When the additional fund balance realized through the better than anticipated 2008-2009 performance (\$1.1 million) is added to the \$100,000 from the Incentive Fee restructuring, and a one-time \$250,000 transfer from the General Fund that was included in the Adopted Budget as part of City Council's approval of the 2009-2010 Mayor's June Budget Message, there is \$1.45 million available to offset the proposed Non-Personal/Equipment restoration. It should be noted that, in addition to the aforementioned changes, a reduction of \$172,000 to the Ending Fund

Balance is recommended in the Annual Report to account for lower than anticipated 2008-2009 Transient Occupancy Tax collections. In total, there is approximately \$1.3 million in funding available to partially offset the \$1.45 million restoration. City Administration, in conjunction with TSJ, will closely monitor activity in the Convention and Cultural Affairs Fund and bring forward actions as necessary should revenues unexpectedly decrease or expenditures increase. The recommendation to restore the \$1.45 million will give TSJ the resources they feel they need to run the City's convention facilities.

### **EVALUATION AND FOLLOW-UP**

Performance Measures are a critical component of the contract between Team San José and the City. As such, targets for these measurement categories will be developed annually. The success of Team San José in achieving these performance targets will be evaluated at the end of the fiscal year, and updates will be presented to the City Council on an annual basis

### **PUBLIC OUTREACH/INTEREST**

Although this item does not meeting the criteria listed below, this memo will be posted as a part of the October 20, 2009 City Council agenda on the City's website.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

### **COORDINATION**

The Office of Economic Development has coordinated this memorandum with Team San José, the City Attorney's Office, the City Manager's Budget Office, and the Finance Department.

HONORABLE MAYOR AND CITY COUNCIL

09-28-09

**Subject: Team San Jose 2009-2010 Performance Measures**

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**CEQA**

CEQA: Not a Project

A handwritten signature in black ink, appearing to read "Paul Krutko".

Paul Krutko  
Chief Development Officer

For questions please contact Paul Krutko, Chief Development Officer, at (408) 535-8181.