



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Kim Walesh

**SUBJECT:** SEE BELOW

**DATE:** August 30, 2012

Approved

Date

8/31/12

**COUNCIL DISTRICT: 3**

**SUBJECT: TEAM SAN JOSE 2012-2013 PERFORMANCE MEASURES**

## RECOMMENDATION

- (a) Approve the Team San Jose (TSJ) performance measures for 2012 – 2013.
- (b) Adopt a resolution authorizing the City Manager to:
  - (1) Execute the Third Amendment to the Management Agreement between the City of San Jose and Team San Jose to reflect changes to calculations for Performance Measures related to Gross Operating Profit and Gross Operating Revenue, and to clarify which costs are the responsibility of the General Purpose Parking Fund and Convention and Cultural Affairs Fund; and
  - (2) Negotiate and execute an amendment to the Memorandum of Understanding regarding parking operations at the Convention Center garage.

## OUTCOME

Approval by the City Council will set the 2012-2013 Team San Jose Performance/Incentive Measures and allow the City Manager to negotiate and execute amendments to the Management Agreement between the City of San Jose and Team San Jose (“Management Agreement”).

## BACKGROUND

The City of San Jose (City) has two agreements with TSJ: one for management of the Convention Center and six cultural facilities (Management Agreement) and another for services provided by the Convention & Visitors Bureau (CVB Agreement). In January of 2009, the City and TSJ 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. In addition, an amended Agreement was approved by the City Council on March 1, 2011 that implemented a number of recommendations from the City Auditor's 2009-2010 Performance Audit.

As part of the City Auditor's 2010-2011 audit of TSJ, the Auditor recommended that City staff work with TSJ to clarify the calculation for Gross Operating Profit, as the amended Management Agreement contained conflicting calculations. As a result of amending the Gross Operating Profit calculation, the Return on Investment calculation will also need to be amended. The proposed Amendment is intended to eliminate the conflicting provisions.

*Convention Center Parking Operations*

The Convention Center Garage (Garage) is an integral facility that supports the parking needs of the Convention Center and other nearby cultural facilities, several hotels, the SoFA district, and various Downtown special events. The Department of Transportation operates the Garage as part of the City's Downtown parking portfolio. Net revenues from operation of the Garage are deposited in the General Purpose Parking Fund and are used to help offset costs of the parking system and to support debt service payments on the 4<sup>th</sup>/San Fernando Garage.

The Management Agreement includes a Memorandum of Understanding (MOU) that outlines the goals, performance measures, roles and responsibilities of both the City and TSJ relative to the parking operation of the Garage. The MOU needs to be modified to reflect modifications in the roles and responsibilities of each party. The MOU also needs to be modified to clarify the specific parking garage operating and maintenance activities that will be managed and funded directly through the General Purpose Parking Fund (Parking Fund); and which activities will be managed by TSJ, including those activities for which TSJ will be reimbursed by the Parking Fund.

*Performance Measures*

The Management Agreement requires TSJ to submit its annual targets for the following performance measures to be weighted as follows: Economic Impact 40%, Gross Operating Profit 40%, Theatre Performance 10%, and Customer Service Survey Results 10%. Performance and Incentive Measures related to the Gross Operating Profit/Revenue and Return on Investment (ROI) must align to the adopted budget. 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. TSJ must meet at least 100% of the measures to receive an Incentive Fee.

<b>Weighted Incentive Fee Score</b>			<b>Incentive Fee Amount</b>
Less than 100%			No additional Fee
At least 100% but less than 110%			\$200,000
At least 110% but less than 115%			\$300,000
115% or greater			\$350,000

## ANALYSIS

### *Management Agreement Amendments*

As mentioned previously, the current Management Agreement contains conflicting information for the calculation of Gross Operating Profit. In addition, the proposed amendment will now include Transient Occupancy Tax (TOT) and Convention Center Garage parking proceeds in the Gross Operating Profit calculation to capture the revenues generated by TSJ. Specially, section 4.8(a4) and 4.8(b) will now include the following as part of its calculation:

- TOT receipts allocated to the Convention and Cultural Affairs Fund for year which is being measured.
- Revenues generated at Convention Center garage.
- Expenses associated with Convention Center garage.
- Debt for Commercial paper program for Convention Center renovation.

A newly amended Management Agreement will also ensure that the calculation for Gross Operating Profit is consistent and accounts for the revenue changes outlined above.

### *Garage Parking Operations MOU*

Based on discussions between the City and TSJ, the MOU will be modified to include the following changes:

- City will have responsibility for Garage maintenance activities associated with: lights and ballasts, electrified signage, expansion joints, CO2 exhaust system testing, maintenance and repairs, exhaust fans, partial cost to run the HVAC and CO2 exhaust systems, certain door repairs in garage egress areas, and fire extinguisher testing and replacement. City will also have responsibility for expenses associated with the following Garage activities as specified in the MOU: Security, electrical and water facilities, janitorial costs for certain stairwells, emergency exits and tunnels, partial elevator expenses, partial fire sprinkler monitoring and maintenance costs, and partial TSJ Parking Coordinator expenses. Preliminarily, the garage related services funded in the Convention and Cultural Affairs Fund that will be supported by the General Purpose Parking Fund are estimated at approximately \$270,000 annually. The actual amount that will now be funded in the General Purpose Parking Fund may change as more detailed information is obtained by TSJ and the City for the appropriate allocation to the Garage, or as specific service contracts are renegotiated.

### *Performance Measures*

The performance measures and incentive fee measures set forth by City staff are based on the 2012-2013 Adopted Budget, including the Convention and Cultural Affairs Fund (Fund 536), and Transient Occupancy Tax Fund contributions to the Convention and Visitor's Bureau. City Staff worked with TSJ to develop the performance measures and incentive measures. In addition, the City's hospitality Industry Advisor (CSL) has reviewed the performance and incentive measures.

The purpose of the performance measures is to provide a quantifiable way of evaluating TSJ's management of the Convention and Cultural 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. As with past fiscal year results, the projections for FY 2011-2012 contained within this report are preliminary and unaudited. Any incentive payment for FY 2011-2012 Team San Jose results will be made following the City Council acceptances of the City Auditor's report, which will be released later this calendar year.

It should be noted that the budget for 2011-2012 was reduced by approximately 20% to account for the renovation and expansion; however major renovations to the existing convention center did not start until the latter part of the fiscal year. This allowed the City and TSJ to work around the construction and minimize negative impacts on clients for FY 2011-2012. In addition, TSJ's food and beverage service and ability to drive additional short-term business improved in FY 2011-2012. Thus, a combination of lower budget, TSJ's management around the construction, and increased pick-up business contributed to a successful year for TSJ.

While there is momentum from an economic recovery and San Jose is seeing growth in convention business, 2012-2013 is anticipated to be a challenging year from a performance standpoint at the Convention Center due to renovation and expansion construction impacts. The construction project will limit normal business pickup within the year and fewer events overall due to the phasing of the renovation of the existing building. Accounting for the renovation and construction impacts, the 2012-2013 budget assumes a 25%-30% reduction in construction and meeting business. The same assumptions are applied to the proposed economic measures. With fewer booking availability there will be fewer convention attendees, fewer visitor spending and fewer hotel room nights sold in 2012-2013. Specific performance analysis is highlighted below.

**Economic Impact = 40%**

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

<b>Attendance to Convention Center and Cultural Venues</b>					
	<b>FY 2009-2010 Actual</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Target</b>	<b>2011-2012 Projected</b>	<b>2012-2013 Target</b>
<b>TOTAL</b>	855,000	975,550	848,114	966,944	699,857

**Projection Summary:**

- Event attendance for 2012-2013 is anticipated to be down for the year as a result of the convention center expansion and renovation and the lack of available space for large events.

**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.

<b>Estimated Economic Impact (EEI) or Visitor Spending</b>						
<b>FY 2009-2010 Actual</b>	<b>2010-2011 Target</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Target</b>	<b>2011-2012 Projected</b>	<b>2012-2013 Target</b>	
\$117.8 M	\$65M	\$77.7M	\$52M	\$89.4M	\$60.5M	

**Projections Summary:**

- Estimated Economic Impact will decrease in correlation to the drop in attendance.
- Attendance and EEI goals were formulated by taking current definite business and comparing with past performance, with indicators such as tentative business, room consumption trends, and economic and market conditions, and balancing that with business limitations as a result of renovation and expansion.

**Hotel Room Nights:** Hotel room night bookings are tied to events at the Convention Center and Cultural Facilities.

<b>Hotel Room Nights Booked (Over Multiple Years)</b>						
<b>FY 2009-2010 Actual</b>	<b>2010-2011 Target</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Target</b>	<b>2011-2012 Projected</b>	<b>2012-2013 Target</b>	
182,000	200,000	200,139	218,000	239,848	236,806	

**Projections Summary:**

- Bookings for future hotel room nights will be flat for 2012-2013 compared to FY 2011-2012 due to the Convention Center expansion and renovation project as well as the inability to contract short term bookings in 2012-2013.

**Return on Investment (ROI) Formula<sup>1</sup>:** The ROI formula is based on the amount invested in the Convention Center and Cultural Facilities and the return on this investment. This measure calculates the return for every \$1 invested in the Convention Center and Cultural Facilities. The formula is calculated by dividing the monies generated by TSJ by the City's investment in the facilities.

<sup>1</sup> In order to comply with IRS Revenue Procedure 97-13, ROI is not a component of the incentive fee measures.

<b>Return on Investment Formula (ROI)</b>					
<b>FY 2009-2010 Actual</b>	<b>2010-2011 Target</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Target</b>	<b>2011-2012 Projected</b>	<b>2012-2013 Target</b>
\$2.19	\$2.21	\$2.68	\$1.91	\$2.82	\$2.20

Based on the revisions to the formula for Gross Operating Profit, there is a need to revise the Return on Investment formula, including the following:

- The revenue assumption for this measure will now include total Transient Occupancy Tax collected in the current fiscal year and allocated to the Convention and Cultural Affairs Fund, as well as all parking revenue associated with the Convention Center Garage. Important to note, however, is that the revenue from the Convention Center Garage will continue to be booked directly in the General Purpose Parking Fund.
- The operating expense assumption will now include Convention and Visitor Bureau marketing costs in the Convention and Cultural Affairs Fund, parking operating expenses, and the repayment of \$10 million of Commercial Paper related to the improvements of the Kitchen and HVAC System.

<b>ROI CALCULATION</b>	<b>Prior Calculation</b>	<b>REVISED Calculation</b>
<b>Numerator</b>		
TSJ Operating revenue	11,528,827	11,528,827
Estimated Economic Impact (EEI)	60,473,108	60,473,108
TOT Collections	-	6,281,864
Parking Revenue	-	2,248,255
<b>TOTAL NUMERATOR</b>	<b>72,001,935</b>	<b>80,532,054</b>
<b>Denominator</b>		
TSJ Operating expenses	16,152,845	16,102,845
Debt Service	15,341,000	15,341,000
Fund 536 additional expenses	3,021,607.00	3,021,607.00
Add'l Fund 536 expenses -CVB Marketing Funding	-	500,000
Add'l Fund 536 expenses -Repayment of Commercial Paper	-	222,232
Parking Operating Expenses	-	1,421,664
<b>TOTAL DENOMINATOR</b>	<b>34,515,452</b>	<b>36,609,348</b>
	\$ 2.09	\$ 2.20

**Projections Summary:**

- Reductions are based on lower projected revenues, attendance and visitor spending due to construction related impacts.

**Gross Operating Profit = 40%**

Per the amended Management Agreement the calculation for GOP for Team San Jose performance and incentive purposes, is highlighted below.

- The revenue assumption for Gross Operating Profit will now include total Transient Occupancy Tax collected in the current fiscal year, as well as total Convention Center parking revenue collected in the current fiscal year.
- The operating expenses will now include the Convention and Visitor Bureau marketing costs in the Convention and Cultural Affairs Fund as well as Convention Center parking operating expenses.

<u>Current Calculation</u>		
TOT Collections		-
Parking Revenue		-
TSJ Operating Revenue		<u>11,528,827</u>
<b>Total Revenue</b>		<b>11,528,827</b>
TSJ Operating Expenses		16,424,756
City Free Use		50,000
Parking Operating Expenses		-
Convention & Visitor Funding from 536		-
<b>Total Expenses</b>		<b>16,474,756</b>
<b>Gross Operating Profit</b>		<b>(\$4,895,929)</b>

<u>Revised Calculation</u>		
TOT Collections		6,281,864
Parking Revenue		2,248,255
TSJ Operating Revenue		<u>11,528,827</u>
<b>Total Revenue</b>		<b>20,058,946</b>
TSJ Operating Expenses		16,102,845
City Free Use		50,000
Parking Operating Expenses		1,421,664
Convention & Visitor Funding from 536		<u>500,000</u>
<b>Total Expenses</b>		<b>18,074,509</b>
<b>Gross Operating Profit</b>		<b>\$1,984,437</b>

<b>Gross Operating Profit</b>				
<b>FY 2009-2010 Actual</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Target</b>	<b>2011-2012 Projected</b>	<b>2012-2013 Target</b>
(\$6.9M)	(\$1.8M)	(\$4.6M)	(\$3.4M)	\$2.0M

**Projections Summary:**

- While 2011-2012 was an outstanding year in revenues as a result of improved economic trends, stronger in the year business bookings, and stronger attendance and visitor spending, 2012-2013 estimates show a slower convention business setting due to limited availability of the convention center for in the year bookings as a result of the convention center expansion and renovation.
- In order to comply with IRS Revenue Procedure 97-13, incentive fee measures include Gross Revenue rather than GOP. For 2012-2013, the Gross Operating Revenue target is \$11.5 million.
- 2012-2013 operating costs will increase as a result of client mitigations needed to support events through construction.

**Theater Performance = 10%**

Proposed performance by venue includes the following:

<b>Theaters</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Projected</b>	<b>Target</b>
SAN JOSE CIVIC <i>Performance Days</i>	14	30	58
SAN JOSE CIVIC <i>Occupied Days</i>	44	77	115
CENTER FOR THE PERFORMING ARTS <i>Performance Days</i>	104	102	106
CENTER FOR THE PERFORMING ARTS <i>Occupied Days</i>	158	156	155
CA THEATER <i>Performance Days</i>	104	101	88
CA THEATER <i>Occupied Days</i>	257	253	225
MONTGOMERY THEATER <i>Performance Days</i>	83	92	100
MONTGOMERY THEATER <i>Occupied Days</i>	173	190	212

**This includes the following overall Theater Performance summary:**

- In response to the City Council direction, TSJ's theater performance is largely driven by a number of factors including Resident art partner season performances, TSJ's own performance booking cultural and special events at the cultural venues and TSJ's partners Broadway San Jose and Nederlander Concerts performance.

TSJ's overall proposed performance for 2012-2013 includes a total of 707 occupied days and 352 performance days.

**Theatre Performance FY 2012-2013**

Occupied Days – Partner	419
Occupied Days – TSJ	288
Occupied Days – Total	707
Performance Days – Partner	183
Performance Days – TSJ	169
Performance Days – Total	352

**Projections Summary:**

- Performance days are defined as theater patrons will visit Downtown San Jose for a performance at a theater managed by TSJ, generating economic value to the community through parking and eating in restaurants.
- Occupied days are defined as when the theater is occupied by a theater client for load in, building sets, and other business as part of preparing for a performance to take place.
- Limited marketing of the San Jose Civic during the first half of the year will limit performance measures at this venue.
- CPA fire system and loading dock construction are both assumed to be upgraded in 2012-2013 which will limit performance of this venue.
- TSJ recently hired a director of theater marketing and sales. This position is critical to increasing the overall performance of the theater venues managed by TSJ. TSJ assumes a 5% growth in theater performance for non-arts partners due to having a full-time dedicated sales person.

- Over 60% of the available booking dates are made up of resident arts partner occupied days at the California Theatre, Center for the Performing Arts and Montgomery Theater. Resident arts partners include Symphony Silicon Valley, Children’s Musical Theater of San Jose, Opera San Jose, Lyric Theater and Ballet San Jose.
- Assumptions regarding resident arts partners include a decrease in performance measures for all arts partners, with the exception of Children’s Musical Theater and Lyric Theater which are both growing their performance days for 2012-2013.

**Client Satisfaction =10%**

Client satisfaction is based on independent surveys completed by customers to any of the facilities managed by TSJ. The surveys are completed online directly from the decisions maker of the event and submitted directly to City Oversight, City Council Liaison, TSJ Board Members and TSJ Senior Leadership Team.

<b>Client Satisfaction</b>				
<b>2009-2010 Actual</b>	<b>2010-2011 Actual</b>	<b>2011-2012 Target</b>	<b>2011-2012 Projected Actual</b>	<b>2012-2013 Target</b>
96%	97%	87%	98%	87%

**Projections Summary:**

- Forecasted decrease due primarily to projected disruption of service, such as noise and smell, by budget/ staffing cuts and construction during expansion.
- San Jose prides itself on high quality service. Over the construction period however, TSJ is assuming a decrease in customer satisfaction which is based on an online survey submitted by the direct meeting planner in charge of their conference in San Jose.
- In 2010, the City Council approved a revision to how this result is measured, mainly in previous years the measure was related to if the customer would rebook in San Jose. This rebooking related to all variables including building condition. As a result, the City Council changed the way this measure was calculated to focus directly on the service provided by TSJ from an event standpoint.
- The Mineta San Jose International Airport held off doing any customer survey tracking the two years it was under construction, so while adjustments to lower the measure are made to take into account construction impacts, TSJ is still concerned with this measure and being held to 87%.

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

TSJ is reporting quarterly to the Public Safety, Finance and Strategic Support Committee on the status of their performance measures. Until directed further the City will ensure that these reports continue. In addition, the City's Operating Budget process serves as an annual review for City Council to approve sales and marketing strategies and appropriate funding levels.

### **PUBLIC OUTREACH/INTEREST**

- 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)**

This memorandum does not meet any of the above criteria; however, it will be posted on the City's website for the Council agenda.

### **COORDINATION**

This memorandum was coordinated with the City Manager's Budget Office, Finance Department, Department of Transportation, City Attorney's Office, Team San Jose and Convention, Sports & Leisure, LLC.

### **CEQA**

Not a Project, File No.PP10-066 (e), Agreements/Contracts.

/s/  
KIM WALESH  
Director of Economic Development,  
Chief Strategist

For questions please contact Lee Wilcox, Assistant to the City Manager, at 408-535-8172.