



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**

PREFACE

Presented herein are the City Auditor's Executive Summary, Team San Jose's response, and the City Administration's response to *The 2005-06 and 2006-07 Annual Performance Audit Of Team San Jose, Inc.* This summary is intended to reduce the City's cost of printing and distributing audit reports. If you would like a copy of the full report, please call the City Auditor's Office at (408) 535-1250; we will be happy to send you a complete report.

The full report can also be viewed via the internet at:

<http://www.sanjoseca.gov/auditor/AuditReports/0705/0705report.pdf>

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
<i>Gross Revenues</i>					
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%)
<i>Net Loss</i>					
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%)
<i>Economic Impact</i>					
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%
<i>Customer Services Results</i>					
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)

This Page Was Intentionally Left Blank

Memorandum

TO: STEVEN HENDRICKSON,
INTERIM CITY AUDITOR

FROM: Scott P. Johnson

SUBJECT: SEE BELOW

DATE: November 2, 2007

Approved

Kay Wines

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:

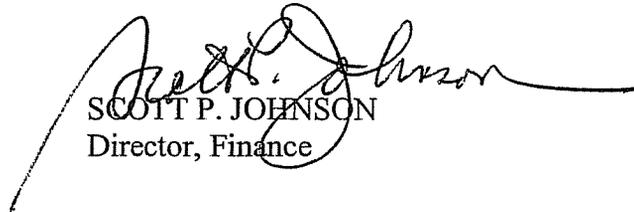
- Performance measure targets will be tied to the annual budget process, requiring TSJ to achieve a certain percentage of budgeted revenue and expense to maintain compliance with the Agreement.
- A performance measure will be added to evaluate TSJ's performance in generating revenues and controlling 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



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

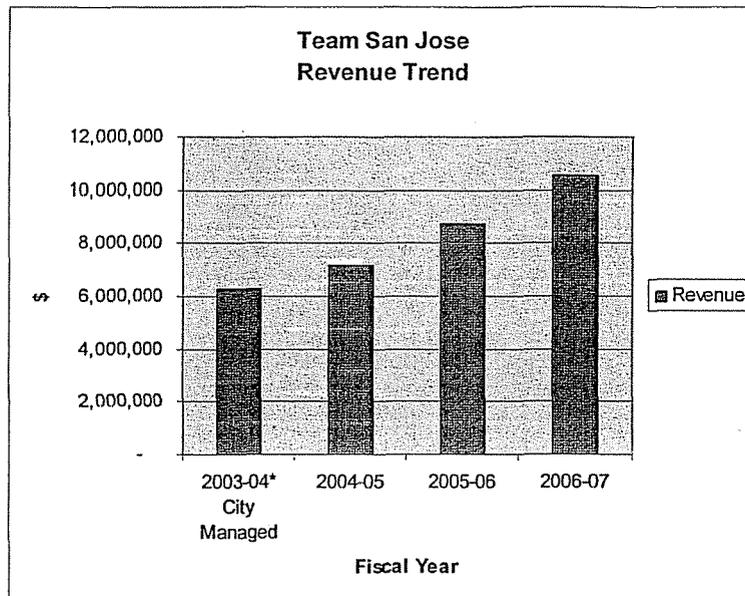
Background

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:

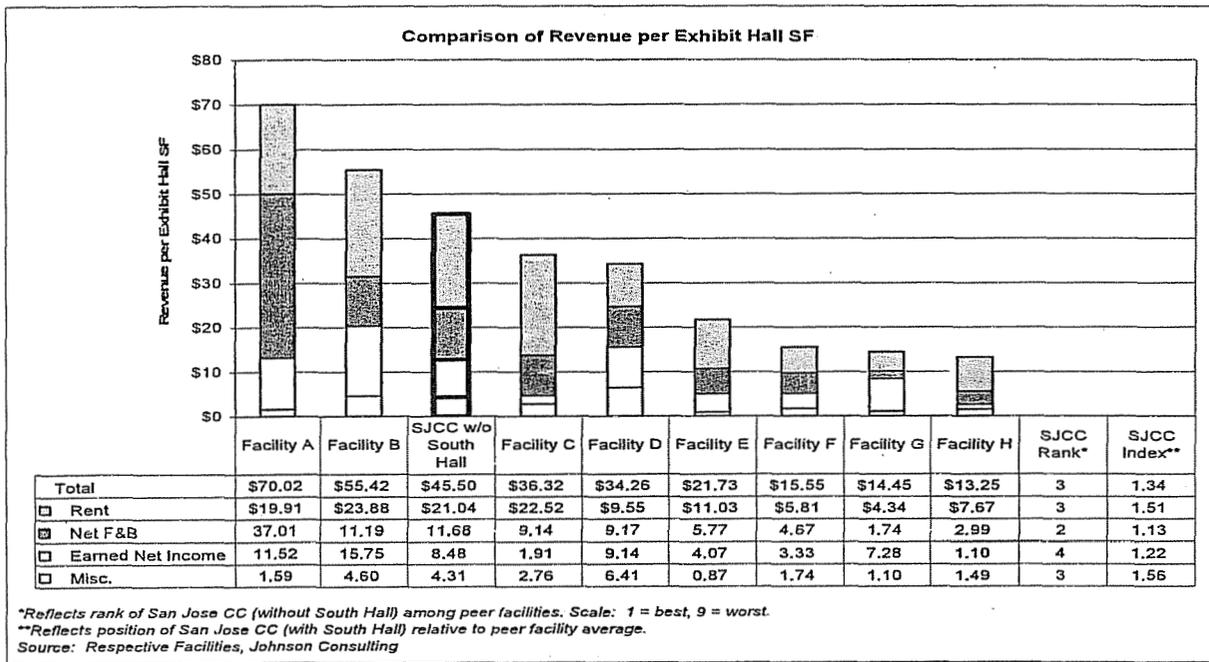
- Oregon Convention Center
- Austin Convention Center
- Sacramento Convention Center
- Washington State Convention Center
- The Salt Palace (Salt Lake City, Utah)
- Kansas City Convention Center
- Long Beach Convention Center
- Reno Convention Center

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.

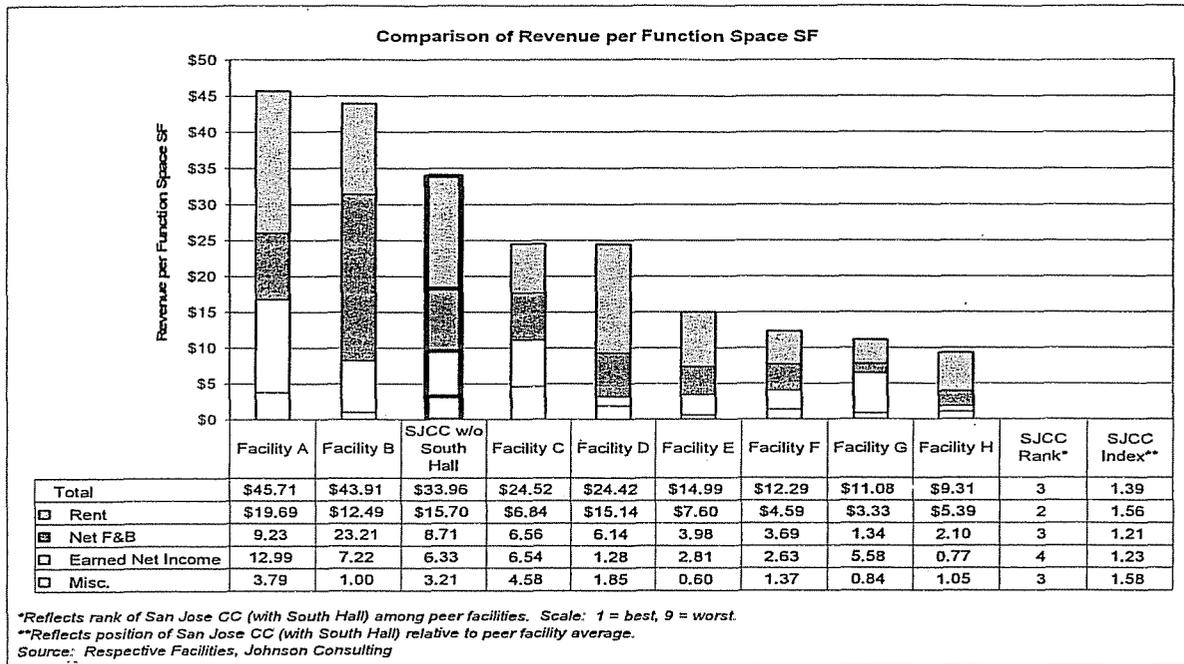
Study Results on revenue comparisons include:

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



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.



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.

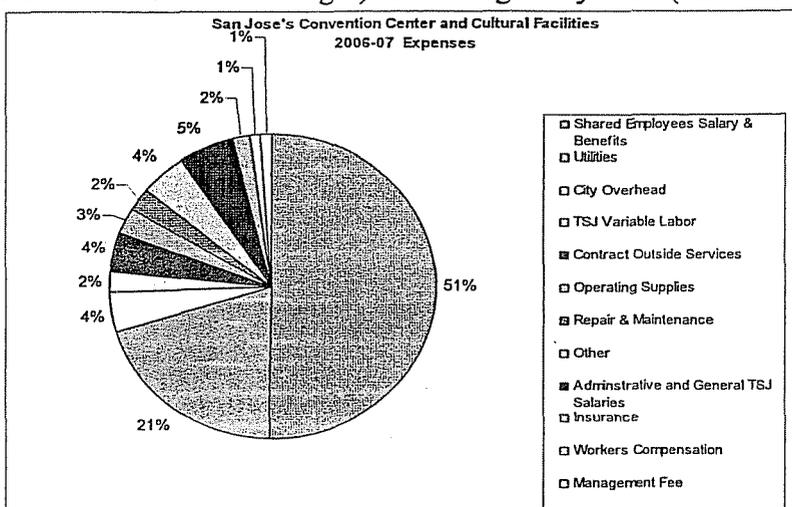
Both of these items demonstrate the increase in efficiency of the operation since 2004 under Team San Jose's management of the convention center and cultural facilities.

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.

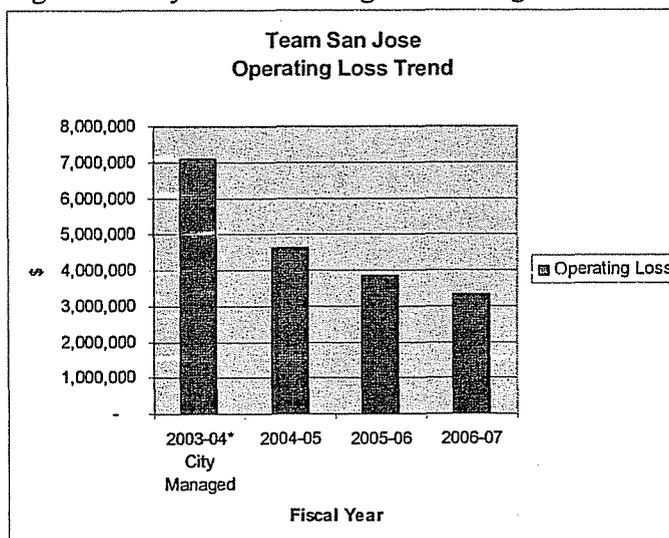
Seventy-six percent of the Convention Center and cultural facilities operating expenses are either city controlled (shared civil service employee salary and benefits, city administrative fees and overhead charges) or building utility costs (unaudited).



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

In addition to overhead 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.

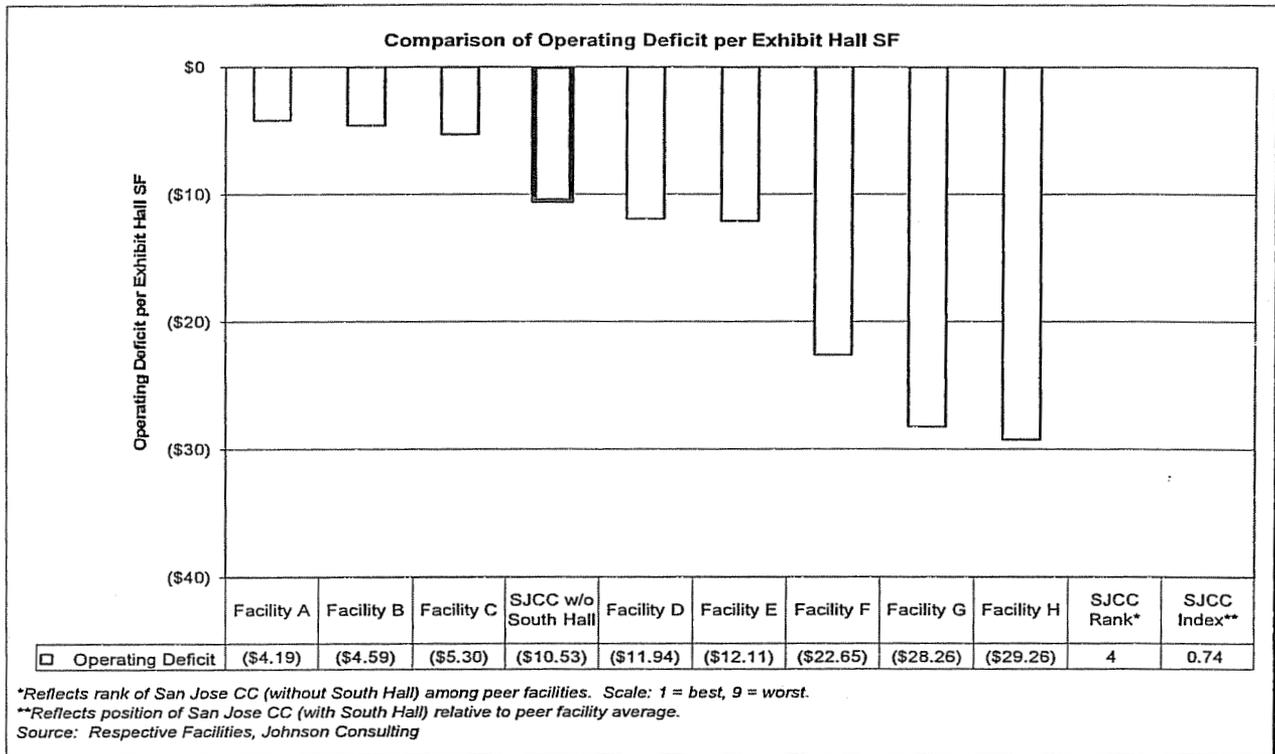


FY 2003-2004 reflects CAE's operating loss from operations.

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.

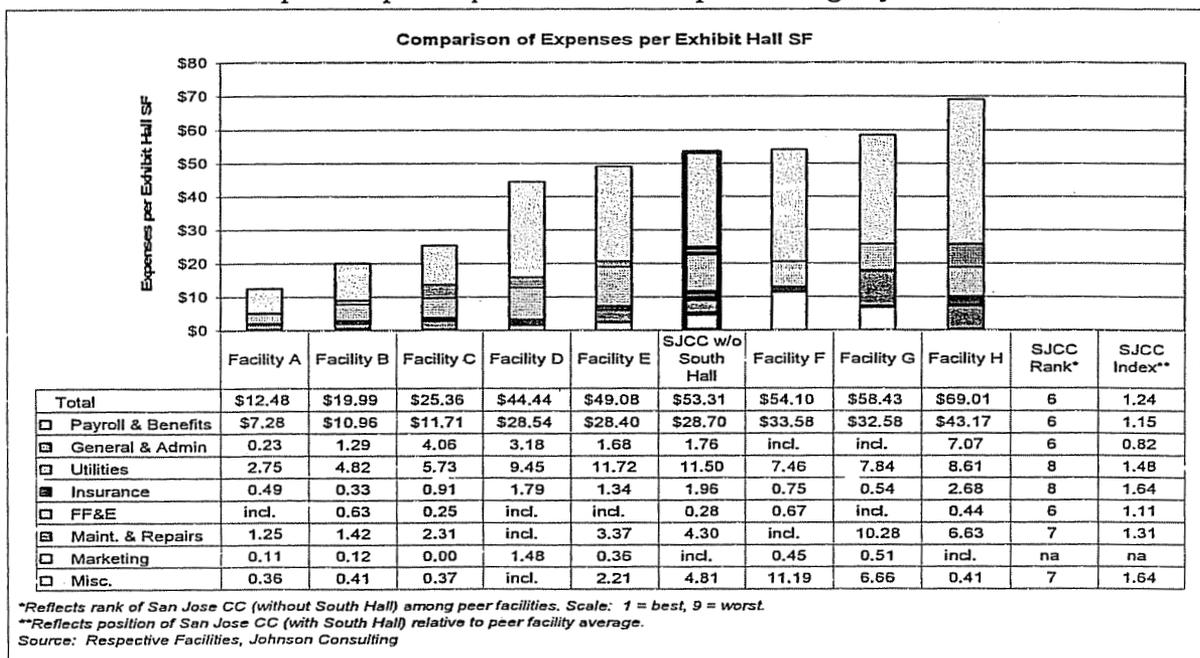
Comparing San Jose's Expenses to Competing Convention centers

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.



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

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



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.

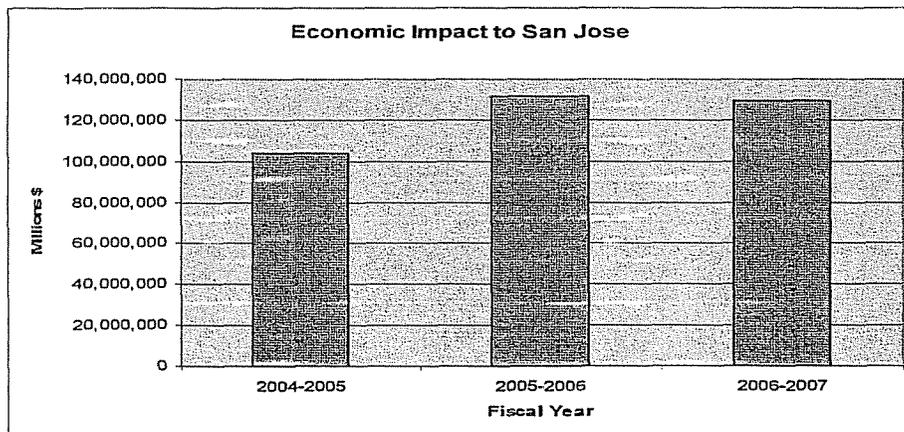
Economic Impact Performance Measure Target

Increasing Visitors to San Jose

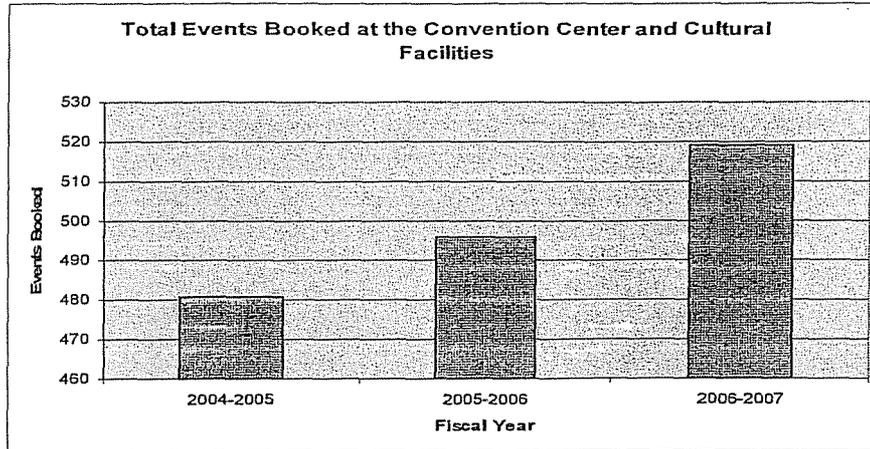
Team San Jose continues to increase visitor economic impact year over year. In 2004, Team San Jose developed targets based on economic data available at the time and were reasonable and sound based on information known at the time. Year over year, Team San Jose and the San Jose Convention and Visitors 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.

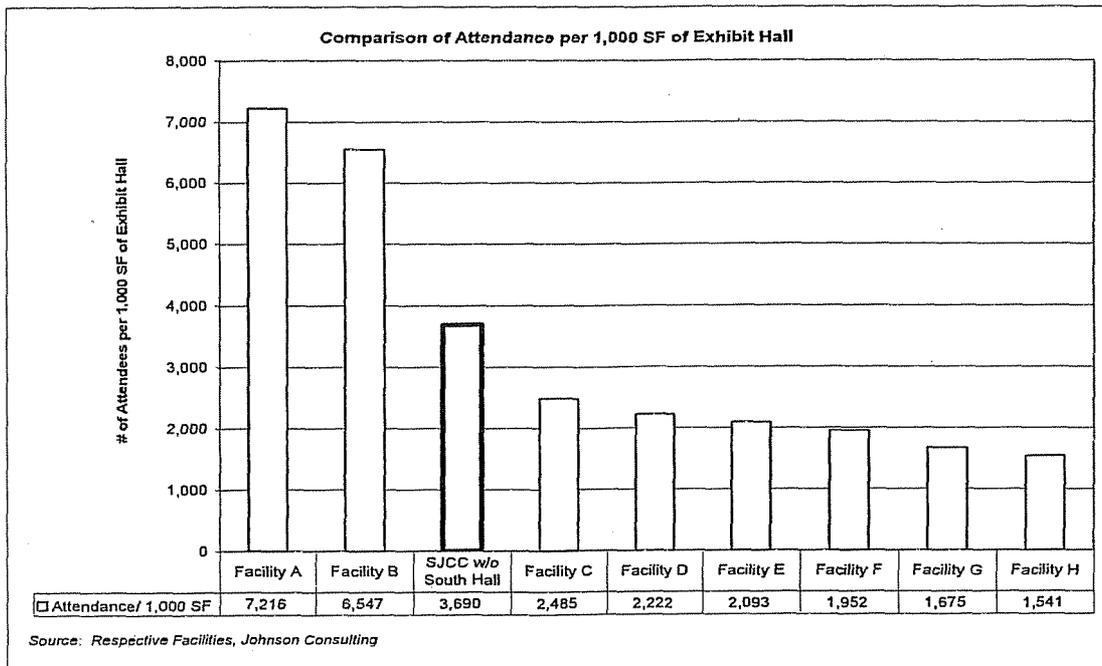


For Fiscal Year 2006-2007, 519 events were held at the Convention Center and cultural facilities, compared to 496 events in FY 2005-2006.

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%.

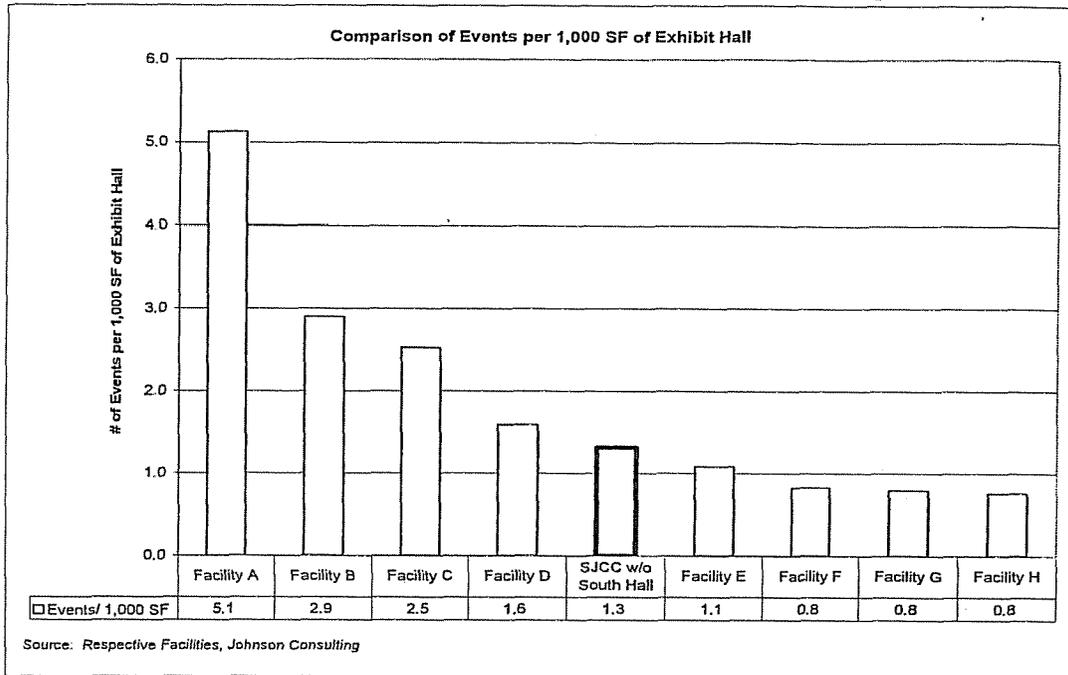
Comparing San Jose to Competing Destinations

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 Managers 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.

