



MEMORANDUM

TO: PUBLIC SAFETY, FINANCE AND
STRATEGIC SUPPORT
COMMITTEE

FROM: BILL SHERRY, CEO,
TEAM SAN JOSE

SUBJECT: TEAM SAN JOSE
QUARTERLY PERFORMANCE
REPORT, ENDING June 30, 2011

DATE: August 16, 2011

RECOMMENDATION

It is recommended that the Public Safety, Finance and Strategic Support Committee approve the June 2011 Year-to-Date quarterly status report on performance measure results.

EXECUTIVE SUMMARY

Team San Jose has seen very positive change in the last eight months. The report below outlines performance for the fourth quarter of FY 2010-2011¹. This executive summary focuses on organizational changes and provides a high-level summary of results for the Fiscal Year.

Organizational Changes: Business Focus and Increased Transparency

The significant governance/management changes of the eight months have increased transparency, oversight and focus at Team San Jose. The board of directors has been restructured, board meetings are held monthly and Team San Jose has more board engagement than ever before. The addition of a Council liaison and City Manager's Office liaison to the Board of Directors has proven to be invaluable to the Board discussions.

In addition, Team San Jose is pleased to announce that Chuck Toeniskoetter will continue his term as Chairman for another year. With his strong leadership of a fully engaged board, we will benefit from increased focus on business, transparency and improved city relationships.

At the beginning of 2011, we announced a new CEO, Bill Sherry, who continues to serve as the City's Aviation Director and comes to Team San Jose with over \$4 billion in construction project management experience and a strong background in public accounting and public administration. We also announced a new COO, Dave Costain, who comes to Team San Jose with over thirty-five years of hospitality, operations experience working with well known hotel brands like Hilton and Wyndham. With our new CFO, Janette Sutton, Team San Jose has seen tremendously improved financial reporting. These additions to an already strong Senior Team have proven to be a great asset in re-establishing the organization's foundation and vision for the future.

¹ Unaudited, subject to City Auditor Performance Measure Audit

Fiscal Year Results: Solid Results for San Jose's Economic Recovery

Team San Jose's fiscal Year-end results demonstrate that this organization is the right recipe for San Jose's economic success. Our new budget reflects conservative economic and fiscal projections, particularly in light of construction impact of convention center expansion. Our clients – the hospitality industry, arts groups, labor and the city – appear to be pleased with our service and performance.

Solid fiscal and economic results for FY 2010-2011 have strengthened our financial foundation. Key positive performance indicators demonstrating that the organization is stronger and more focused than ever before include:

- Met and exceeded 7 of 9 performance measures.
- Grew revenue to \$18.7 million - \$4.8 million over the adopted budget.
- The last six months Team San Jose has reported a profit as a result of growing revenue and managing expenses. Gross Operating Profit budgeted goal for the year was <\$5.1> million. As a result of operational success Gross Operating Profit budget actual is <\$1.8> million. A 279% favorable variance to budget.
- Customer service continue to be strong, with a year to date result of 98% overall customer service rating.
- Transient Occupancy Tax (TOT) revenue, which supports operations, exceeded the budgeted goal by 8.7% which equates to additional TOT transfers to Fund 536 of \$435,836.
- The fund balance of Fund 536 will finish at significantly higher levels than assumed in the adopted budget due to added TOT growth and improved TSJ operations, improving Fund 536 by \$3.3m.

IMPORTANT HIGHLIGHTS

City Council approved the following appropriation adjustments for FY 2010-2011 in June:

- Revenue expectation adjustment by \$3,900,000
- Non-Personal appropriation increase by \$1,605,000
- Personal Expense appropriation increase by \$250,000
- City Worker's Compensation appropriation increase by \$225,000

BACKGROUND

Team San Jose (TSJ) is a non-profit corporation charged on the city's behalf to sell San Jose as a destination and to manage the Convention Center and various theaters. Team San Jose's mission is to help spur economic activity in San Jose, particularly at the city's hotels, restaurants and arts venues.

Team San Jose's operations are funded in part by a tax on hotel guests, with the remainder generated by the revenue Team San Jose creates through operations. Customer service is a key ingredient to Team San Jose's success in attracting business to San Jose. Team San Jose customers – from corporations to meeting planners -- say our unique service model is a strong point of differentiation and improvement from most other destinations' models. San Jose has one team for all event needs, so we make it much easier for customers to plan and execute their gatherings. The consistent positive rating from our clients demonstrates the effectiveness of the seamless service model.

The following report is the fourth quarter report for the fiscal year, ending June 30, 2011 to the Public Safety, Finance & Strategic Support Committee outlining Team San Jose's performance measure results. This report is in response to the City Auditor's recommendation to brief the City Council quarterly on Team San Jose.

This report is separated into five sections:

- Operating drivers
- Economic drivers
- Customer service and Theater Performance
- New bookings and calendar of events
- Sales, Marketing and Communications Efforts

The weighting for performance and incentive measures were revised in March 2011 by the City Council, based on the City Auditor's recommendations approved in December of 2010.

The new weighting includes the following:

Economic Impact = 40%

Gross Operating Profit/Revenue = 40%

Theater Performance = 10%

Client Satisfaction = 10%

JUNE 2011 YEAR TO DATE PERFORMANCE REPORT

OPERATING DRIVERS

Operating Drivers: Measurement of success relating to operating all facilities

	YTD Actual	YTD Goal	% of Variance to Goal
Operating Revenue	\$ 18,678,252	\$ 13,900,000	134.4% Favorable
TOT Revenue	\$ 5,193,000	\$ 4,757,000	109.2% Favorable
Gross Operating Profit/Loss	\$ (1,832,287)	\$ (5,118,127)	279.3% Favorable
Est. Change to Fund from TSJ Operations	\$ 3,360,713	\$ (361,127)	Favorable

Revenue

- Revenue as of the month of June 2011 YTD *exceeded goal/budget by \$4.8m and is 134.4% of goal.*
- During the budgeting process, it was anticipated that FY2011 would be more difficult than the prior year. Some of the contributing factors in forecasting for FY 2011 were as follows:
 - Hotel Partners reported a 5% to 8% anticipated decline in hotel occupancy and average daily room rate
 - Contracted events were 20% lower than in prior years, due to anticipated launch of the Convention Center expansion and renovation project.
 - In-house Food and Beverage business was still a new venture and was budgeted in alignment with the anticipated decline in contracted events.
 - Event coordinators/Clients anticipated and contracted smaller bookings reflective of their apprehension that events will experience reduced attendance due to the continued economic downturn.
- Contributing factors in revenue growth were as follows:
 - Growth in short-term bookings
 - Growth in Food and Beverage revenue per event
 - Slight rebound in the corporate market
 - Stronger-than-anticipated event attendance
- Revenue Streams that experienced the strongest growth:
 - Building Rental came in at \$1m, or 129% of budget
 - Food and Beverage Revenue came in at \$2.8m, or 151% of budget,
 - In June 2011, TSJ exceeded revenue budget expectations by \$890k. Federated Computing, Broadway Mamma Mia, and JAX 2011 were stronger- than-anticipated events, delivering exceptional Food and Beverage Revenues. June 2011 Food and Beverage exceeded budget by \$640k.
 - Labor Revenue exceeded budget expectations by \$712k. Labor revenue is generated by Team San Jose managing payroll, providing our clients with one invoice for this service.

Food and Beverage Revenue

The second full year of the in-house food and beverage services has demonstrated a strong growth in revenue and has helped TSJ compete more effectively for new convention business. FY 2010-2011 food and beverage revenue generated more than \$1 million for Fund 536.

Team San Jose's service model increases San Jose's competitive edge by ensuring customers have all the necessary facilities and services at their fingertips. Food and Beverage is a core business offering for theater event promoters and convention meeting planners.

In addition to added revenue and profit, there are other important reasons why in-house food and beverage makes sense for San Jose, including:

1. **One Team, One Bill:** Customers can work with one team and receive one consolidated bill, instead of working with several entities to put on a meeting, conference or event. This includes food and beverage services.
2. **Competitive Edge:** Managing food and beverage provides San Jose with a competitive edge over other providers who have specific policies and procedures designed to maximize profit margins. Planners often have line-item budgets that are inflexible.
3. **San Jose Works with Any Event:** TSJ considers the total spend of the customers' budget and has complete control and flexibility, allowing us to work within almost any budget.
4. **Great, Smooth and Easy Customer Service:** One negotiation, one contract, one deposit and one invoice vs. two points of contact (sometimes three or four), one contract, deposit and one final invoice.
5. **Food Quality:** San Jose takes pride in its food quality. From convention food to theater concessions, our quality starts with a top notch, award-winning chef, Vincent Lai and his Culinary Team. Third-party food and beverage providers are profit driven and lack the flexibility of TSJ.
6. **Menu Creativity:** Clients are looking for more value and creativity. We are able to tailor any cuisine to their budget while maintaining the quality that has made us known for unconventionally good convention food.
7. **Flexibility:** Team San Jose offers more flexibility in menu, pricing and service options.
8. **Consolidated Purchasing Power:** Consolidated purchasing for food and all other meeting materials affords Team San Jose cost savings equal to those of for-profit vendors. TSJ uses our purchasing power to build menu options for our theater customers that fit their needs both in price and in food quality. So far, this consolidated purchasing has saved \$250,000. This savings is passed on to Fund 536.
9. **Safe Food Handling:** Team San Jose requires quarterly food-handling audits by a third party to ensure quality and safe food handling.
10. **In-House Personnel-Increased Service:** Food and beverage service personnel training is managed by Team San Jose to ensure that our people provide a high level of service for clients. We don't have to worry about the quality of a third-party vendor's employees. Our service rating continues to be strong as a result.

Expenses

- In fiscal year 2011 TSJ generated an additional *\$4.8m in revenue in excess of goal/budget*. Expenses exceeded the budget/original appropriation by \$1.2m in revenue growth efforts, including increased Food and Beverage and labor revenue.
- TSJ worked with City Oversight in Mid-May to request a budget reallocation and City Council approved a \$1.6m increase to non-personal expenses related to the appropriation (Indirect and Direct operational expenses)
 - The increased Food and Beverage Revenue of \$2.8m increased expenses related to food and beverage cost of sales as well as the variable work force needed to service the clients and events.
 - The increased Labor Revenue of \$712k increased expenses related to labor wages mark up, also a direct result of additional events in FY 2010-2011.
- TSJ worked with City Oversight in Mid-May and City Council approved a \$250k increase to expenses related to the appropriation (City Shared wages and benefits). TSJ's expenses related to this appropriation were \$1.9m compared to the adjusted appropriation of \$2m. TSJ worked within the approved appropriation.
- TSJ worked with City Oversight in Mid-May and City Council approved a \$225k increase to City Worker's compensation appropriation. TSJ's expenses related to this appropriation were \$277.6k compared to the adjusted appropriation of \$300k. TSJ worked within the approved appropriation.

Gross Operating Profit (GOP)

- TSJ reported a favorable variance to budget of \$3.28 million as of June 2011 due to increased revenue and lower than expected expenses.

Transit Occupancy Tax (TOT) – Revenue & Fund Balance

- As of June 30, 2011 Hotel Revenue reported an increase of 11.25% over prior year. Hotel revenue is an important trend for the City of San Jose as there is a direct correlation to the TOT tax revenue the city earns which helps to fund critical city services. Hotels have experienced an annual 2.8% increase in rate, as well as an annual average of 3.9% increase in occupancy.
- TOT collections are estimated to exceed budget for July 2010 thru June 2011 by 8.7%, which equates to an estimated additional \$870k in total TOT annual collections and an estimated \$436k to the and Cultural affairs fund (Fund 536). Strong TOT collections also result in increased General Fund tax revenue.

ECONOMIC DRIVERS

Economic Drivers: Measurements of success in supporting local/regional economic growth

	YTD Actual	YTD Goal	% of Variance to Goal	
Attendance (all facilities)	\$ 975,550	\$ 704,850	138.4%	Favorable
Estimated Visitor Spending	\$ 77,763,878	\$ 65,000,000	119.6%	Favorable
Hotel Room Nightes (City wide)	\$ 200,139	\$ 200,000	100.1%	Favorable
Return on Investment	\$ 2.59	\$ 2.21	117.2%	Favorable

Attendance, Visitor Spending & Economic Impact

- As of June 2011 TSJ ended the year with 138.4% of the goal for attendance. Strong attendance for Fanime Conference, Embedded Federated Computing, Jax 2011 and Mamma Mia enabled TSJ to exceed attendance goals for fiscal year 2011.
- Estimated Economic Impact was positively impacted by the added attendance mentioned above as well as from several added short term booking events during the fourth quarter.

Hotel Room Night Generation and New Bookings

- As of June 2011 Team San Jose generated 200,139 (future) room nights definite, putting Team San Jose at 100.1% of the annual goal.

CUSTOMER SERVICE AND THEATER PERFORMANCE

Other Operating Drivers: Measurements of success relating to operating all facilities

	YTD Actual	YTD Goal/Budget	% of Variance to Goal	
Customer Satisfaction	98%	95%	103.2%	Favorable
Theatre performance days				
Occupied Days	624	661	94.4%	Unfavorable
Performance Days	297	312	95.2%	Unfavorable

Customer Service

Customer survey response rates for June 2011 was 100% overall satisfaction for those responding. The lower return rate of 29% is due to the fact that return customers tend to not fill out surveys as much as new customers do.

Theater Performance

The Downtown Theaters are an important aspect of operations and continue to be active. Performance is based on occupied days and performance days. Occupied days are counted from the time a customer loads in until they load out for an event. The definition of performance days is when there are ticketed events in the venue, representing visitors to Downtown San Jose.

Year-to-date occupied days and performance days for all the theaters are slightly lower than projected. Many of our arts partners shortened their seasons to save costs as a result of the continued economic downturn. This decision by arts partners has a negative impact to Team San Jose's performance measures. We work to activate the theaters, partner with a number of arts organizations to secure events, however, existing contracts within the facilities, shorter arts partner seasons and the continued construction at the San Jose Civic have contributed to the lower than anticipated results.

Providing theater options for convention clients and offering theater services for cultural arts customers strengthens San Jose's service model because it provides better options for all customers. Securing high-profile events in San Jose venues adds an air of prestige that will help San Jose's brand. Clients such as Nederlander Concerts and Nederlander Broadway, which complement our current art community, is an indicator of success. The recent announcement of Broadway San Jose's new season line-up is a great addition to San Jose's arts and cultural offerings.

San Jose's consolidated theater district allows Team San Jose to offer clients any venue, or combinations of venues, for their event choice and provides San Jose the opportunity to tailor the venue that fits best for clients needs.

Below is a listing of recent events at San Jose's venues:**

April-June Large Bookings

<u>Event Name</u>	<u>Room Nights</u>	<u>Revenue</u>	<u>Attendance</u>	<u>EEI</u>
TSMC North America Technology Symposium	47	257,629	1,840	170,640
Spring Style Show	876	255,933	15,554	1,565,648
La Cumbre Public Dance	-	325,021	16,661	600,129
LifeScan POA 2 National Training Meeting	893	290,518	430	455,650
Broadway San Jose presents "Stomp"	-	156,654	11,368	240,738
Herbalife	-	92,486	1,550	705,075
Embedded Systems Conference	3,869	407,180	9,785	6,241,080
Adobe 2011 Tech Summit	5,040	1,209,827	2,721	2,568,820
Internet Crimes Against Children	1,080	374,701	1,280	1,069,040
FanimeCon 2011	5,678	183,159	19,250	8,910,288
Hempcon	-	40,775	7,380	280,060
Pri-Med Access	66	99,557	486	43,252
2011 Federated Computing Research Conference	3,730	756,541	2,363	4,817,360
JAX 2011	318	122,276	1,550	41,274
No Dinx Girls Championship	617	81,289	1,875	408,278
Marquez Brothers Public Dance	-	148,944	7,557	136,102
Broadway San Jose presents "Momma Mia"	-	241,286	12,482	224,801

****Please note: This is a small list of events in all venues, not the full calendar listing. Through the first half of the fiscal year, the San Jose Civic and Montgomery Theater have been under renovation. As a result, limited or no events were scheduled in these venues.**

UNAUDITED PERFORMANCE RESULTS

<i>Measures within Team San Jose Control:</i>			
Performance Measure	Goal	Result	Percent to Goal
<i>Fiscal Drivers</i>			
Revenue	\$13.9 million	\$18.7 million	134%
Gross Operating Loss	\$5.1 million	\$1.8 million	279.4%
Estimated Transient Occupancy Tax Revenue	\$10 m	\$10.9 m	109%
Return on Investment	\$2.21	\$2.59	117.2%
<i>Economic Drivers</i>			
Economic Impact	\$65 million	\$78.4 million	120.5%
Attendance	853,000	976,502	114.5%
Room Nights	200,000 room nights	200,139 room nights	100.1%
Customer Service	95%	98%	103.2%

<i>Measures where Team San Jose has limited control:</i>			
Performance Measure	Goal	Result	Percent to Goal
Theater Performance	Occupied Days: 661 Performance Days: 312	Occupied Days: 624 Performance Days: 297	94.4% 95.2%

FUND 536 (Convention and Cultural Affairs Fund)²:

	Fund 536		
Adopted Total TOT Collections For FY 2011	4,757,365		
Total TOT Forecasted Collections for FY 2011	5,193,201		
Total Forecasted TOT excess collections	435,836		
	9.2%		
	Goal	Results	Favorable variance
Adopted Total TOT Collections For FY 2011	4,757,365	4,757,365	-
Total Forecasted TOT excess collections		435,836	435,836
GOP	(5,118,732)	(1,832,288)	3,286,444
Net Change to Fund 536 from TSJ Operations	(361,367)	3,360,913	3,722,280

² City of San Jose Budget fund name for the operations of the Convention Center and Theaters managed by Team San Jose

EVENT CALENDAR

Convention Calendar - July -August- September 2011

July

Start	End	Description	Revenue Venue	Projected Attendance
07/01/11	07/02/11	USA Taekwondo Jr & Sr. National Championships	Convention Center	5,500
07/10/11	07/10/11	San Jose Bodybuilding Fitness and Figure Championship and Expo	Convention Center	1,500
07/13/11	07/13/11	SCCCMA Meeting	Convention Center	20
07/23/11	07/27/11	2011 Acrobatic Gymnastics Championships	Convention Center	1,520

August

Start	End	Description	Revenue Venue	Projected Attendance
08/09/11	08/11/11	Nationwide IRS Tax Forum	Convention Center	1,575
08/20/11	08/20/11	la Cumbre Public Dance	Convention Center	15,000
08/23/11	08/25/11	Database Conference	Convention Center	310
08/27/11	08/29/11	Face & Body Spa & Health Aging Conference & Expo	Convention Center	4,500

September

Start	End	Description	Revenue Venue	Projected Attendance
09/03/11	09/03/11	Tongan Catholic Ex-Student (Alumnia)	Convention Center	500
09/08/11	09/08/11	SVTC Technologies/ULP Symposium 2011	Convention Center	700
09/12/11	09/13/11	Mozilla- All Hands	Convention Center	900
09/13/11	09/13/11	German National Tourist Meeting	Convention Center	100
09/18/11	09/24/11	2011 C.A.R. Business Meetings & California Realtor Expo	Convention Center	7,500
09/27/11	09/30/11	Command Prompt Conference	Convention Center	250

NEW BOOKINGS

New Bookings Added in April-June 2011 for Future Years

Event Name	Room Nights	Revenue	Attendance
NVIDIA GPU Technology Conference (May 2012)	3,575	740,250	3,150
Anthony Robbins Unleash the Power Within (July 2012)	1,575	330,054	4,000
World Financial Group 1st Quarter Convention (February 2012)	1,350	35,618	5,010
IAPP Privacy Academy (October 2012)	1,070	192,486	900
Western District Youth Convention 2012 (April 2012)	475	12,100	2,500
The Northern California Fitness Expo (August 2012)	300	62,275	10,000
GE Planning/ACN (December 2013)	7,500		18,000

SALES, MARKETING AND COMMUNICATIONS EFFORTS

- Team San Jose generated 1.2 million impressions year to date through trade, local, and national news media coverage and advertising and 275,788 unique visitors year to date to the website to increase exposure of San Jose's meeting and convention and leisure offerings.
- Year to date, Team San Jose generated 5149 client touch points at recent tradeshow and events.

DC –CHICAGO SALES/MEDIA MISSION JUNE 6TH – 10TH

Team San Jose coordinated a sales and media mission to the Midwest and East Coast that involved a number of our local hotel partners. It was extremely successful and offered great exposure to clients and leisure media. The team participated in 5 events within the two cities and attended several sales calls and a media call with the Chicago Tribune.

During the course of the week in DC and Chicago, San Jose representatives visited 16 companies, met with more than 70 meeting planners in Chicago and 40 planners in DC who book conventions, citywide. Collectively, these planners represent over 3,000 meetings and hundreds of thousands in room nights. Eighty percent of the planners were unfamiliar with San Jose's offerings.

CONCLUSION

Team San Jose appreciates the opportunity to present performance results to the Public Safety, Finance & Strategic Support Committee.

The Performance Measures reviewed above are developed by the City Manager's Office and Team San Jose and submitted for consideration by the City Council through the City's budget process. The Performance Measures are monitored monthly by the City Manager's Office.

This report has been coordinated with the City Manager's Office and is transmitted by Bill Sherry, CEO, Team San Jose.