



Memorandum

To: Driving a Strong Economy
Committee

From: Michael W. Ross, CEO
Team San Jose

Re: Team San Jose & Access San Jose

Date: April 29, 2005

Approved by:

Date:

Background

On June 22, 2004, the City Council approved a Management Agreement with Team San Jose (TSJ) to manage and operate the Convention Center and Cultural Facilities (facilities) for a five-year period, beginning July 1, 2004. Since the approval, the California Theatre and South Hall (the expansion to the Convention Center) have been added to the list of facilities under TSJ's responsibility. Following the City Council's direction to improve the overall performance of the facilities, TSJ achieved significant financial gains and savings and operational and implemented infrastructure improvements.

Financial Gains and Improvements

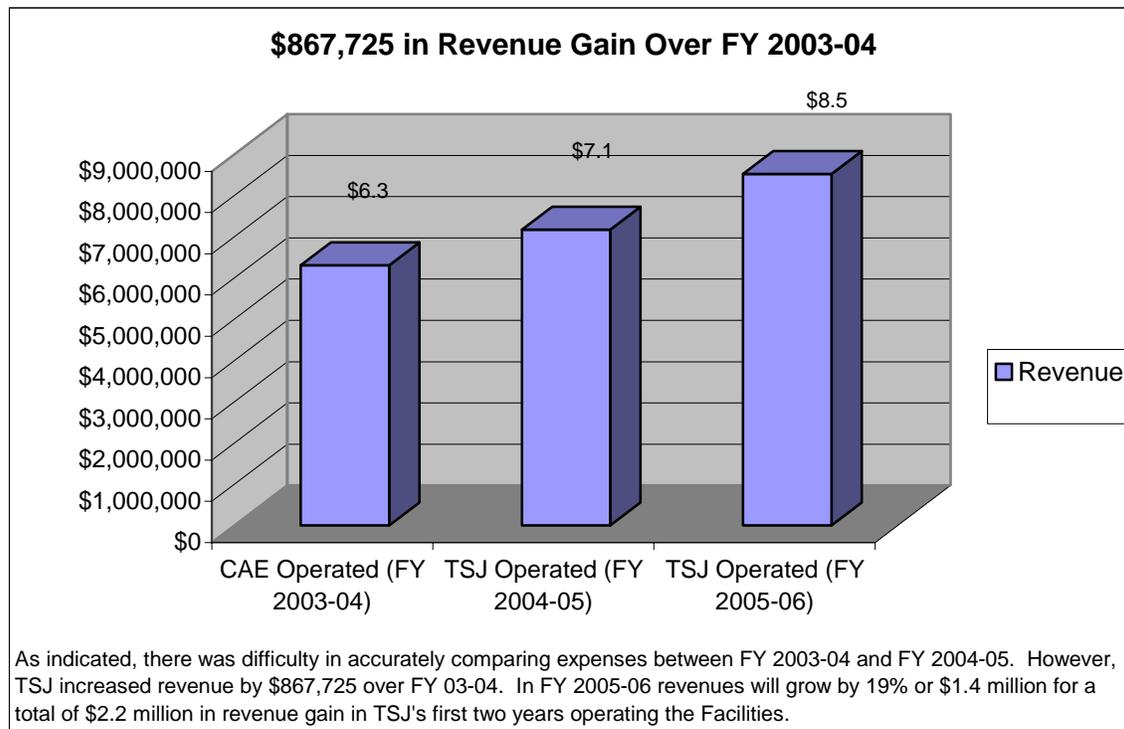
Since assuming the management and operational responsibility of the facilities, TSJ focused on achieving greater financial success and operational efficiencies. TSJ attributes its success to the innovation and flexibility of our model.

A comparison between fiscal years 2003-04 and 2004-05 revealed a 14% increase in revenue or \$867,725 over the previous FY 2003-04.¹ For FY 2005-06 we are projecting to increase our revenues by 19% (\$8.5 million in total revenue) over the current fiscal year. With the new fiscal year beginning in July, many booking opportunities are being explored and contracts negotiated.

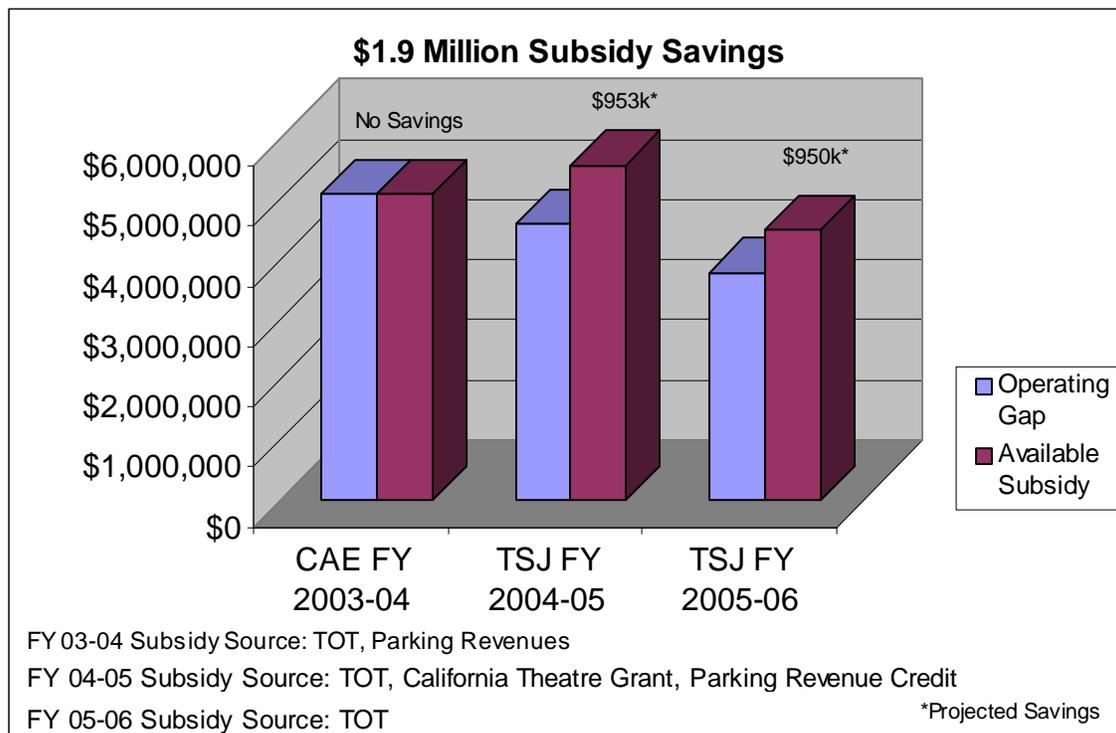
There was difficulty and inconsistencies in accurately comparing expense reductions from FY 2003-04 to FY 2004-05 so an expense comparison was not done. Previously, the Convention and Cultural Facilities fell under two separate budgets but reported under one City department, Convention Arts and Entertainment budget (CAE). The first budget was for the Office of Cultural

¹ There are sixty days remaining in this fiscal year and there is approximately \$150,000 in business opportunities being negotiated with potential clients, which the sales team is focused on realizing.

Affairs (OCA), which included the Center for Performing Arts, Montgomery Theatre, portions of Parkside Hall and Civic Auditorium, and OCA staff. The Convention and Cultural Facilities (CCF) was the second budget, which included the Convention Center, Center for Performing Arts, portions of Parkside Hall and Civic Auditorium and staff. All of the facilities – including the California Theatre, which was not included in FY2003-04 - are under TSJ's budget except for costs related to OCA.



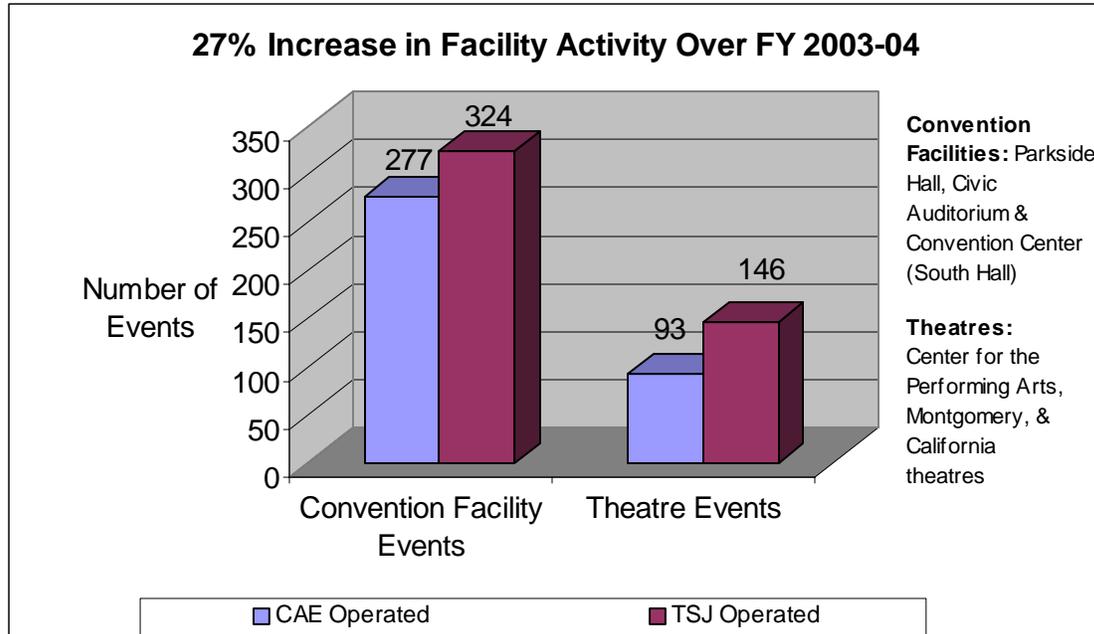
The facilities receive an operating subsidy from the Transient Occupancy Tax (TOT) fund to support the administration, maintenance, and operations. The facilities receive fifty percent of the TOT, which is ordinance driven. A comparison between fiscal years 2003-04 and 2004-05 revealed a 19% or \$1.1 million reduction in operating subsidy required to cover the gap, which is the difference between earned revenues and expenditures. FY 03-04 required a \$5.7 million subsidy (from TOT and parking revenues, which TSJ no longer receives as a revenue source) and TSJ is projecting a \$4.6 million planned deficit to its FY 04-05 budget (\$5.5 million is available from TOT, parking credit, and California Theatre grant) resulting in a projected \$953,000 savings. We credit this success to focusing on cost efficiencies that included reducing energy costs and contract labor and general operational improvements.



In FY 2005-06 we are projecting a 16% savings in the subsidy required to cover the operating gap (TOT is projected to be \$4.75 million and our net loss to be \$3.8 million). Our goal is to reinvest the savings from the TOT into facility upgrades and maintenance efforts. Please note that in FY 2004-05 a one-time \$750,000 grant from the Redevelopment Agency was allocated to the California Theatre and in FY 2005-06 the parking credit was not been factored in, which explains the difference in the subsidy savings between fiscal years 04-05 and 05-06.

In addition to improving the financial performance of the facilities, we have increased event activity at the facilities by 27% over FY 2003-04. Though event activity increased and we exceed our economic impact goal, it did not result in the mix of business types from the market segments that yield higher revenues.² Efforts to bring more entertainment events for local residents, for example the concert series at the Civic Auditorium, and major conventions have contributed to the increase in events.

² The mix of visitor types and the amount that each typically spends on a single day are exhibitors (\$215.21), out of town (\$142.44) and local visitors (\$81.67).



The increased event activity has resulted in \$90.2 million in economic impact to the local economy.³ For every dollar used in subsidizing the operational gap, \$19.49 in economic impact is produced (total economic impact divided by the operating subsidy equals the return on investment). TSJ's goal was to bring 577,000 visitors to San Jose in FY 2004-05. At the end of this March, we exceeded our goal by bring 180,861 visitors over the goal and achieving the targets for each visitor type. The total number of visitors will continue to increase since there are 63 events remaining in the fiscal year that have not occurred. These events will bring people to downtown San Jose to visit one of the facilities for an event and contribute to the local economy.

The San Jose Convention and Visitors Bureau is the lead organization for generating hotel room nights. TSJ is a strong and active partner in supporting the CVB to secure business opportunities. All the marketing and sales efforts for the facilities are consolidated under a strategically focused team with common goals in achieving results. Because of our collaborative relationship, there is continues communication and evaluation of market segments and needs of customers to strategically market and sale the facilities. The FY 2004-05 goal for booking room nights is 188,333 (80% of this goal has been achieved with strong indication that it will be met as the sales team continues to book more business).

³ The \$90.2 million in economic impact is an estimate for the end of FY 2004-05. There are 63 events scheduled at the facilities that have not occurred. The attendance numbers for these events are based on the projections given to us by the client (some cultural art events consist of multiple performances), which we use to calculate the economic impact of an event.

Accomplishments

TSJ has successfully improved the financial performance of the facilities, increased activity, implemented major operational improvements and invested in upgrades to the Convention Center. The facilities are better positioned to be more competitive in attracting more event business to San Jose.

The addition of 80,000 square feet of convention space with South Hall will help draw major events to San Jose. For example, Photonics West decided to stay in San Jose (potential loss of \$5 million worth of economic activity) because of the additional space. In 2006 RSA Security Systems, Embedded Systems, and Game Developers will return to San Jose. These groups previously left San Jose for Moscone West in San Francisco, a fierce competitor of San Jose since it opened. The additional space was necessary to bringing these customers back. These groups represent an estimated 20,000 hotel room nights and \$16 million in economic activity for San Jose. We are excited about the revenue and economic opportunities that will be realized through South Hall.

The following are some of the major accomplishments from FY 2004-05. These accomplishments are representative of our commitment to making the facilities more competitive, driving economic activity and achieving operational efficiencies:

- A \$1 million investment in facility upgrades to be completed by the end of this summer to include new paint and carpeting throughout the Convention Center. The upgrades will give an immediate “burst” to attracting more business. The marketing team is preparing a direct mail campaign to inform clients of the improvements. The convention center has not had a significant upgrade since it was built in 1989.
- Investment in an Event Business Management Software (EBMS) will create a common technology platform to enable a more seamless booking and communication system with all hotel partners, which is now being integrated. The program will allow better management of space inventory to help maximize revenue potential. The current system is outdated and no longer used in the industry.
- Our board’s cultural arts group is in the process of developing a comprehensive box office for the cultural facilities that meets the needs of

the small and large arts organizations. The box office is projected to open towards the end of this year.

- The concert series at the Civic Auditorium will bring 30 – 40 concerts in each of the following four years. We are excited about this relationship as it evolves into a concert series that is recognized, drives economic activity, and gives San Jose residents more entertainment choices.
- We've assembled a management team of industry leaders that represent over 80 years of knowledge and expertise. This team, with the active participation of board members and staff, has implemented the innovative practices and programs that are making the facilities more efficient and customer driven.
- The Marketing Department is currently in the process of redesigning and integrating the CVB, Team San Jose and the Convention Center and Cultural Facilities websites into one that is focused on customer service needs. The improved website will align all department services, allow customers to easily obtain information in planning their event, and inform potential customers of the services and benefits gained from using one of the facilities.

Challenges and Opportunities

A constant challenge for any convention center is remaining competitive in an industry that is driven by market shifts, customer services and demands and newer, more updated facilities. The opportunity that exists for these facilities is to reinvest the savings gained from the dedicated TOT subsidy into the facilities. We are projecting to save \$950,000 next fiscal year.

It is evident that TSJ's model is resonating with customers and generating economic activity. We strongly believe that we need to continue building on this year's accomplishments and begin reinvesting in the facilities to continue attracting business opportunities. This industry is competitive and clients have more choices than ever before.

By the middle of this June we will have a completed \$1.4 million in upgrades to the Convention Center. The next phase would be to reinvest the gained savings from the TOT subsidy into capital improvements throughout the other facilities to help increase business. We've submitted a four-year capital improvement

budget to the City Managers office that strategically places on a timeline all of the major projects for the facilities. We are aware of the difficult budgetary challenges that municipalities are experiencing. The resources for the capital improvements already exist in a dedicated fund for the facilities and it does not impact City services, but it does result in greater economic activity that feeds into other city revenue streams (sales tax, TOT, etc.).

We are ready to meet with the City on developing a process for allocating the savings to use in upgrading the facilities.

Access San Jose

The San Jose Convention and Visitors Bureau introduced Access San Jose in 2003 as an innovative and convenient customer focused service to attract larger events to San Jose. The program increases our City's capacity to host major conventions of up 25,000 people, but can be customized to an event of any size. The program incorporates the following concepts:

- Integrates San Jose's downtown meeting venues
- Opens the door to meeting outside the "box" and utilizing public spaces
- Streamlines the entire planning process for clients
- Expands dining options for attendees that extend into downtown restaurants
- Offers clients "ownership" of the downtown area

Access San Jose is an example of collaboration between City departments, TSJ, SJCVB and local businesses to attract events to San Jose. City's involvement is critical to the planning process and success of an event. The following City departments and partners played an instrumental roll in attracting eBay to San Jose and launching Access San Jose:

- Office of Economic Development
- City Manager's Office
- Department of Transportation
- Mayor's Office
- Local hotel community
- Downtown Merchants



Access San Jose has proven to be successful as eBay is the first client to utilize it to accommodate their projected 10,000 attendees. Our sales team is currently working to book a second event that is projected to bring 14,000 people to San Jose. The client has expressed interest in using Access San Jose.

As a result of eBay being the first client to use Access San Jose, we will evaluate the program. The process has been successful, but we believe there are improvements that can be made. The program has the potential to attract millions in economic activity. In addition, it allows us to leverage our assets in competing against larger venues. We will continue to provide updates on this program as it evolves and have an evaluation of the entire program once eBay has its event.