CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

TEAM SAN JOSE PERFORMANCE FY 2020-21

Report 21-06
November 2021

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor
Joe Rois, City Auditor

November 15, 2021

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Team San Jose Performance FY 2020-21

Since 2004, the San José McEnery Convention Center and several other City-owned facilities have been operated on the City's behalf by Team San Jose, Inc. (TSJ). Additionally, since 2009, TSJ has operated the San José Convention and Visitors Bureau (CVB). The City Auditor's Office, under the terms of the management agreements between the City and TSJ, is required to perform an annual performance audit to determine whether, and how well, TSJ achieved agreed-upon performance targets that are the basis for an incentive payment from the City.

The COVID-19 pandemic has had a large impact on TSJ's activities. On March 16, 2020, Santa Clara County issued a shelter-in-place order, providing that individuals could only leave their residence to perform essential activities. All events at TSJ-managed facilities were canceled for the rest of FY 2019-20 and all of FY 2020-21. The Management Agreement allows for adjustments to the performance targets if hotel tax revenues change by 15 percent above or below the amount forecasted in the adopted operating budget. Due to COVID-19 shutdowns, the hotel tax revenue in FY 2020-21 dropped 40 percent below what was expected. Therefore, the performance targets were adjusted similarly downward in accordance with the agreement.

Team San Jose Did Not Meet Its Weighted Incentive Fee Score Or Its Adjusted CVB Performance Targets for FY 2020-21. Due to restrictions by the State of California and the County of Santa Clara related to COVID-19, TSJ did not have any events within its facilities for FY 2020-21. As a result, TSJ did not meet adjusted targets for the following performance areas:

- Estimated economic impact (EEI)
- Occupancy rate of the convention center
- Theater occupancy
- Customer satisfaction
- Gross operating results

In FY 2020-21, TSJ booked nearly 83,000 hotel room nights, which was above its adjusted target; however, TSJ's weighted incentive fee score fell below 100 percent because of not meeting the other targets. Based on the adjusted targets, TSJ does not qualify for the incentive fee of $250,000.

The City Overpaid Team San Jose's 2018-19 Incentive Fee: In FY 2019-20, the City paid Team San Jose $250,000 for their FY 2018-19 incentive fee. However, according to the Management Agreement, the incentive fee should have been $200,000 for FY 2018-19, and $250,000 for the following year. This overpayment was caused by a budgeting oversight. We recommend that the City work to recoup that overpayment.

We will present this report at the November 22, 2021 meeting of the City Council's Community and Economic Development Committee. We would like to thank Team San Jose and the City Manager's Office for their time and cooperation during the audit process.

Respectfully submitted,



Joe Rois
City Auditor

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This report is also available online at www.sanjoseca.gov/audits

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Background

The San José Convention and Cultural Facilities (the Facilities) are City-owned and consist of:

- The San José McEnery Convention Center
- South Hall
- Parkside Hall
- The San Jose Civic (formerly known as City National Civic)
- The Center for the Performing Arts
- The California Theatre
- The Montgomery Theater

The Convention Center, South Hall, and Parkside Hall generally host trade shows, conventions, corporate meetings, social events, and consumer shows. The Cultural Facilities generally host performing arts, concerts, and events.

Exhibit 1: Team San Jose Managed Facilities

San José McEnery Convention Center



California Theatre



San José Civic



Center for Performing Arts



Montgomery Theater



Source: Team San Jose, Inc.

Team San Jose Has Managed the Facilities Since 2004

Team San Jose, Inc. (TSJ), a 501(c)(6) non-profit corporation, was formed in 2003 in response to the City's request for proposal (RFP) for the management and operations of the Convention Center, which had previously been managed by City staff in the former Department of Convention, Arts, and Entertainment. TSJ has a 15-member board of directors that includes representatives from local hotels, arts, business, and labor. It also includes a City Council liaison and an ex-officio member from the City Manager's Office. The City's Management Agreement with TSJ requires the City Auditor's Office conduct an annual audit of the performance measures in the agreement.

The City entered into a Management Agreement with TSJ in 2004, and subsequent agreements in 2009 and 2014. In July 2019, the City and TSJ used the first option to extend the 2014 Agreement to June 30, 2024.

Furthermore, the City and TSJ have an agreement under which Team San Jose provides Convention and Visitors Bureau (CVB) services on behalf of the City, including tourism and marketing public relations, and convention sales, services, marketing, and public relations. TSJ has been providing CVB services since 2009.

The Performance-Based Agreement between the City and Team San Jose Establishes Performance/Incentive Measures

The 2014 Management Agreement provides that the City pays TSJ a fixed Management Fee of $1 million per year "to provide, without limitation, for payment of a portion of the expenses incurred by TSJ for the management of the operations and maintenance of the City's Facilities, as determined by the TSJ Board of Directors." If certain performance targets are met, the City also pays Team San Jose a $250,000 incentive fee.

Incentive fees, such as the incentive fee from the City's Management Agreement with TSJ, have been common in government for several decades. The purpose is to ensure that contractors have the freedom to determine how to meet agreed-upon performance objectives and are incentivized to exceed those targets. Under the Management Agreement, TSJ proposes targets, and then the City reviews and approves them. The Agreement requires the City to approve targets prior to the beginning of each fiscal year.

The November 2018 Amendment to the Management Agreement (referred to later as the Management Agreement) outlines five measures that track TSJ's financial, economic impact, theater occupancy, and customer survey results.[1] For each measure, the weighted percent is calculated by taking the percent of the

[1] Because construction of the facilities managed by TSJ was financed through tax-exempt debt, the Management Agreement cannot include an incentive pay provision that is based on return on investment or net profit. Hence, the incentive fee measures used to determine TSJ's incentive pay differ slightly from the general performance measures.

target achieved multiplied by the assigned percentage. The sum of these measures equals the weighted incentive fee score. The incentive fee is granted if the weighted incentive score totals 100 percent or more.

Exhibit 2: Incentive Fee Measures and Their Weighting

Incentive Fee Measures	
Gross Operating Results	**40%**
Economic Impact	**40%**
Hotel Room Nights (20%)	
Estimated Economic Impact (20%)	
Theater	**10%**
Theater Occupancy (10%)	
Customer Satisfaction	**10%**
Total	**100%**

Source: Management Agreement between the City and Team San Jose

The Management Agreement Allows for Adjustments to the Performance Measures

The Management Agreement allows for adjustments to the Performance Measures if hotel tax revenues change by 15 percent above or below the amount forecasted in the adopted operating budget.[2] If this happens, the Management Agreement states that "the performance measures for the subject operating year may be concurrently adjusted commensurate with the additional or reduced funding."

Due to COVID-19 shutdowns that began in March 2020, the hotel tax revenue in FY 2020-21 dropped 40 percent below what was expected. Therefore, the Management Agreement allows all the performance measures to be adjusted 40 percent downward. In this report we present both the original agreed upon performance measures and the adjusted performance measures (40 percent smaller due to hotel tax revenues being below expectations).

Performance Measures for the Convention and Visitors' Bureau Agreement

Additionally, the agreement for management of the Convention and Visitors Bureau outlines two measures that evaluate their performance. Each measure has a weight of 50 percent. These are:

- **Hotel Room Nights**: The same measure as used in the incentive fee score, this measure is calculated based on the total booked hotel rooms as a result of events at the convention center and cultural facilities.
- **Direct Visitor Spending**: Calculated in the same manner as estimated economic impact—based on the estimated spending activity

[2] Hotel taxes are formally known as Transient Occupancy Taxes (TOT).

estimated to be generated based on daily attendance at the events held at the Convention Center and cultural facilities.

The City Auditor's Office has audited TSJ's performance consecutively since 2005. We have issued 15 reports with 38 recommendations in total. Each of those recommendations has since been implemented.

Team San Jose COVID-19 Impacts and Response

COVID-19 has had a large impact on TSJ's activities. On March 16, 2020, Santa Clara County issued a shelter-in-place order, providing that individuals could only leave their residence to perform essential activities. All events at TSJ-managed facilities were canceled for the rest of FY 2019-20, and all of FY 2020-21. TSJ reports that the first event back in the theaters occurred on July 30, 2021.

At the September 2021 meeting of the City Council's Community and Economic Development Committee, TSJ reported the following:

> *The COVID-19 pandemic caused severe impacts to the travel and hospitality industry throughout… FY 2020-21. Due to the… necessary mitigation tactics employed by the State and County, TSJ's managed venues were prohibited from hosting events and were effectively shuttered for the entire fiscal year. Likewise, for most of the first three quarters of the fiscal year, Santa Clara County had severe restrictions on non-essential travel into the County – thereby limiting opportunities for TSJ to market San Jose to travelers…*
>
> *TSJ pivoted to provide as much assistance as possible to the community and local businesses. In partnership with the City, two facilities were transitioned into shelter space for San Jose's unhoused residents. TSJ also contracted with the City to provide meals to the homeless shelters both in TSJ-managed facilities and elsewhere. Through July 2021, TSJ prepared 980,000 meals. The meal program also provided 37,000 hours of work for union employees, which [helped recover] a fraction of the hours lost by 15 months' worth of canceled events.*
>
> *The [TSJ] marketing team… also pivoted to focus efforts on connecting locals with local businesses through the #SanJoseLove page which highlights messages of community support and "shop local" promotions. In addition, the team assisted in securing hotel rooms and support during the wildfires that struck the area in August/September 2020. With the resumption of non-essential travel to the area in March, the marketing team launched a leisure campaign focused on high-intent travelers to the region…*
>
> *TSJ… [developed] performance targets for FY 2021-22 informed by national industry trends and local indicators, which also informed the*

development of TSJ's sales and marketing strategies. …The emergence of the COVID-19 Delta variant and …mitigation efforts such as the City's vaccination mandate for City-owned facilities may impact attendance for events or alternatively increase consumer confidence. It is unknown what lingering effects COVID-19 will have on attendee and conference organizer behavior in planning and attending large-scale conference events.

Finding 1 Team San Jose Did Not Meet Its Weighted Incentive Fee Score Or Its CVB Performance Targets for FY 2020-21

Summary

In FY 2020-21, TSJ did not meet its performance goals, even when adjusted for the decline in hotel tax revenue as allowed in their current Management Agreement. This was due to a lack of convention and cultural facility business as a result of COVID-19. TSJ reported zero activity for estimated economic impact and theater occupancy. They also did not conduct any customer surveys so did not meet the customer satisfaction rate target. Although TSJ did book about 83,000 future hotel nights and had a gross operating result of about $70 thousand, its weighted incentive fee score was below 100 percent. Based on the adjusted targets, Team San Jose does not qualify for the incentive fee of $250,000.

As described in the Background, we present both the original agreed-upon performance measures and the adjusted performance measures (40 percent smaller due to hotel tax revenues being below expectations).

Exhibit 3: Weighted Incentive Fee Score for the Convention and Cultural Facilities

Measures	Original Target	Adjusted Target	Actual	% of Adjusted Target Achieved	Weighted Incentive Fee Score Percentage - Adjusted Target
Gross Operating Results (40%)	$1,025,128	$612,830	$70,111	11.4%	4.6%
Hotel Nights (20%)	119,820	71,629	82,953	116%	23.2%
Estimated Economic Impact (20%)	$28,707,785	$17,161,748	$0	0%	0.0%
Theater Occupancy (10%)	77%	46%	0%	0%	0.0%
Satisfaction Rate (10%)	95%	57%	0%	0%	0.0%
Total Weighted Incentive Fee Score					**27.7%**

Source: Auditor Analysis of data from Team San Jose, agreements between the City and Team San Jose, and Mayor's Budget Addendum outlining performance targets.

TSJ's performance also fell below its adjusted targets for its agreement with the Convention and Visitor's Bureau.

Exhibit 4: Weighted Performance Score for the Convention Visitor's Bureau

Measures	Original Target	Adjusted Target	Actual	% of Adjusted Target Achieved	Weighted Incentive Fee Score Percentage - Adjusted Target
Hotel Nights (50%)	119,820	71,629	82,953	116%	57.9%
Direct Visitor Spending (50%)	$28,707,785	$17,161,748	$0	0%	0.0%
		Total Weighted Performance Score			**57.9%**

Source: Auditor Analysis of data from Team San Jose, agreements between the City and Team San Jose, and Mayor's Budget Addendum outlining performance targets.

Lastly, in FY 2019-20, the City inadvertently overpaid TSJ for its FY 2018-19 incentive fee by $50,000. We recommend that the City work to recoup that overpayment.

Gross Operating Results - 11% of Adjusted Target

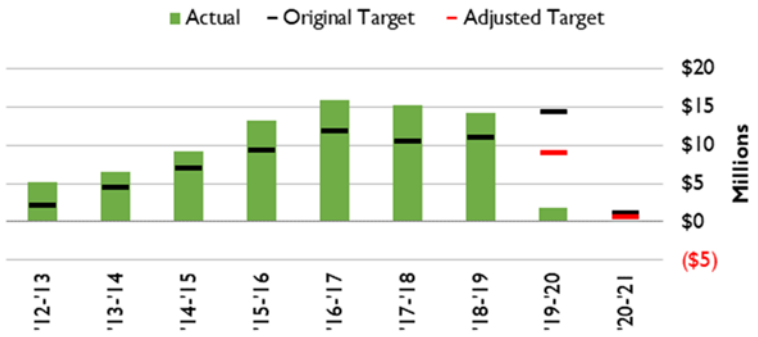
The Management Agreement defines gross operating results[3] as gross revenues from operating the Facilities, plus hotel tax revenue, plus revenue from the parking garage at the Convention Center, less certain direct and indirect expenses for operating the Facilities.

The calculation does not include City-directed expenses, including City oversight, fire insurance premiums, emergency capital repairs and maintenance, depreciation, and the management fee paid by the City to TSJ.

For FY 2020-21, TSJ's gross operating results were $70,111, compared to an adjusted target of $612,830. This was 11 percent of the adjusted target. In FY 2020-21, due to the restrictions by the State of California and the County of Santa Clara related to the COVID-19 virus, TSJ did not have any events within its facilities, which greatly impacted the financial performance of TSJ. TSJ reports that all its operating revenues were derived from TSJ's pivot to provide meals to the City's homeless shelters.

[3] The first amendment to the Management Agreement changed the name of "Gross Operating Profit" to Gross Operating Results. However, the calculation of this measure remained the same in the 2014 Management Agreement.

Exhibit 5: Gross Operating Results



Source: Auditor analysis of the Management Agreement, audited financial statements for the Convention and Cultural Affairs Fund, parking garage revenue and expense reports, Budget Office reports for the Convention and Cultural Affairs Fund, Convention and Cultural Affairs Capital Fund, and prior TSJ audits.

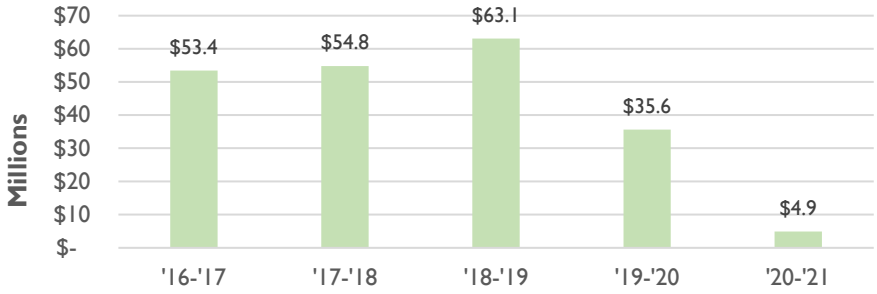
Note: Prior to 2012-13, a different calculation was used for Gross Operating Results.

The Financial Statements Show an Operating Loss

The audited financial statements for the Convention and Cultural Facilities show an operating loss of about $9.9 million in FY 2020-21, calculated in accordance with Generally Accepted Accounting Principles (GAAP). The Facilities generally operate at a loss, thus requiring an operating subsidy funded by hotel taxes.

As we note in Exhibit 6, TSJ's operating revenues have fallen drastically in the past two years. TSJ' operating revenues in FY 2020-21 were 86 percent smaller than the prior year, and 92 percent smaller than FY 2018-19, the last full fiscal year before COVID-19. In FY 2020-21, TSJ did not collect any revenue for networking services or equipment rentals, which had been about $3 million in FY 2018-19. Furthermore, event production revenue fell from about $20 million to $3,396 over the same period.

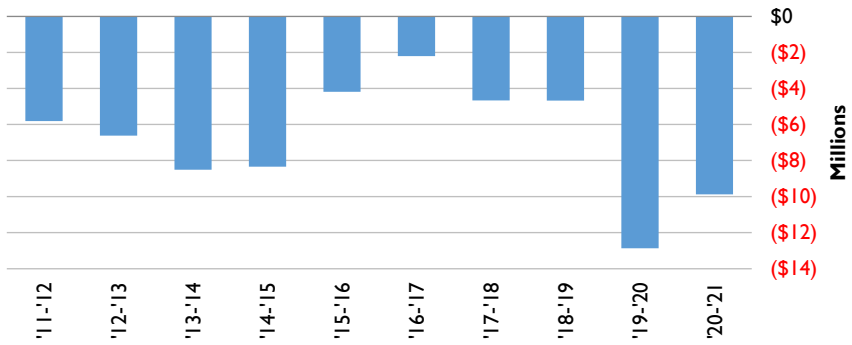
Exhibit 6: Team San Jose's Operating Revenues



Source: Audited financial statements for the Convention and Cultural Facilities

Exhibit 7 shows a 10-year history of operating losses in accordance with GAAP. In FY 2020-21, the $9.9 million loss recognized on the financial statements included $0.7 million in repairs and maintenance for upkeep of the City-owned facilities.

Exhibit 7: Operating Loss in Accordance with Generally Accepted Accounting Principles



Source: Audited financial statements for the Convention and Cultural Facilities.

Exhibit 8 reconciles the audited **financial** statements to the **Management Agreement's** definition of gross operating revenue.

Exhibit 8: Reconciliation of Management Agreement Performance Measure of Gross Operating Results to Audited Financial Statements

	Audited Financial Statements		Adjustments for Gross Operating Results per Management Agreement		
Operating Revenues:					
Building rental	$	415,700			
Food and beverage services	$	3,366,051			
Commission revenue	$	390			
Event electrical/utility services	$	189,436			
Networking Services	$	0			
Audio/visual services	$	700			
Ticketing services	$	23			
Telecommunications services	$	118,938			
Equipment rentals	$	0			
Event production labor revenues	$	3,396			
Other revenues	$	788,415			
Bad Debt Expense	$	0	$	0	A
Total Operating Revenues	$	**4,883,049**			
Contribution from the Transient Occupancy Tax fund			$	*7,633,198*	A,B
Parking garage revenue			$	*958,174*	A
Revenues for gross operating results calculation			$	***13,474,421***	
Operating Expenses:					
Administrative and general salaries – TSJ	$	4,786,048			
Cost of event production labor	$	0			
Utilities	$	2,069,527			
Food and beverage costs	$	1,486,815			
Bad debt expense	$	0	$	0	A
Contracted outside services	$	1,749,844			
Professional services	$	176,305			
Operating supplies	$	189,032			
Depreciation	$	99,469	$	(99,469)	A
Repairs and maintenance	$	725,706			
Insurance	$	360,813			
City of San José oversight	$	733,466	$	(733,466)	A
Ticketing costs	$	0			
Workers' compensation insurance premiums	$	293,633			
Fire insurance	$	401,033	$	(401,033)	A
Management fee – Team San Jose	$	1,000,000	$	(1,000,000)	C, D
Equipment rentals	$	14,824			
City Free Use	$	0	$	0	A
Other expenses	$	675,797			
Total Operating Expenses	$	**14,762,312**			
CVB expenses paid by Convention and Cultural Affairs Fund			$	*0*	A
Less: City Worker's Compensation			$	*(12,101)*	A
Parking garage expenses			$	*888,067*	A
Expenses for gross operating results calculation			$	***13,404,310***	
Gross Operating Profit or **(Loss)**	$	**(9,879,263)**	$	**70,111**	

Source: Auditor analysis of audited financial statements for the San José Convention and Cultural Facilities, the Management Agreement, parking garage revenue and expense reports, and Budget Office reports for the Convention and Cultural Affairs Fund.

Notes to Exhibit 8:

A. The Management Agreement defines gross operating results to include or exclude these items.

B. This year, Convention Facilities Operations were supported by transfers from both the Transient Occupancy Tax Fund and the Convention and Cultural Affairs Capital Fund. This marks a change from last year, when the Convention and Cultural Affairs Capital Fund was not used to support operations. Contributions from the Transient Occupancy Tax fund were calculated from the audited financial statements for the San José Convention and Cultural Facilities.

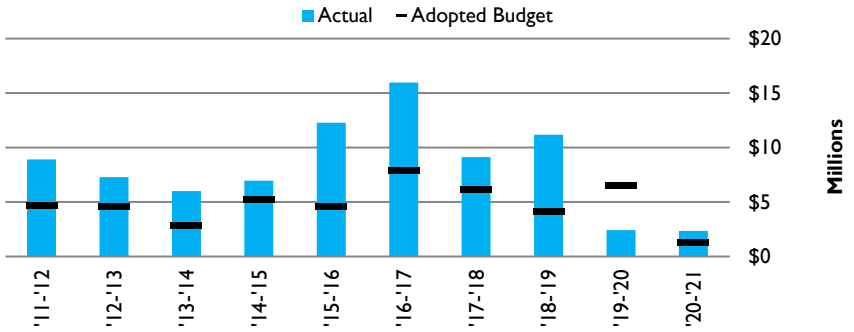
C. The management fee shown here includes the $1 million management fee for FY 2020-21, but no incentive fee paid for FY 2019-20 under the Management Agreement.

D. The City's approved target included these items.

The Ending Balance in the Convention and Cultural Affairs Fund Has Decreased in the Last Year

The ending balance of the Convention and Cultural Affairs Fund on June 30, 2021 was $2.3 million – about the same as last year, but a decrease from $11.2 million at the end of FY 2018-19. As we reported last year, in April 2020 the City Council approved budget actions to adjust the General Fund for Transient Occupancy Tax losses, and to rebalance the recipient Special and Capital funds, including the Convention and Cultural Affairs Fund. These adjustments were made necessary by the severity and timing of the fiscal impacts of the COVID-19 pandemic, as well as the requirement that the City maintain a balanced budget through the remainder of FY 2019-20. The Convention and Cultural Affairs Fund has not yet recovered to pre-COVID-19 levels. Exhibit 9 shows a ten-year history of the Fund's ending balance of the Convention and Cultural Affairs Fund.

Exhibit 9: Ending Balance of the Convention and Cultural Affairs Fund (Fund 536)



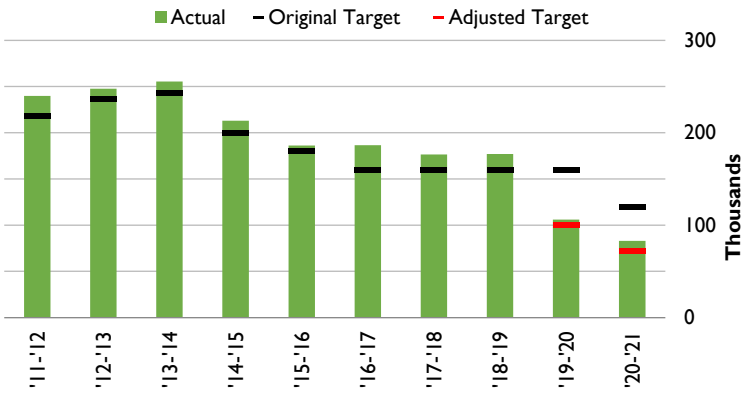
Source: Source and Use Statements in Adopted Budgets and actual fund balance for FY 2020-21.

Hotel Room Nights – 116% of Adjusted Target

Hotel room nights, as shown in Exhibit 10, is measured as the number of future hotel room nights booked by TSJ over the course of the fiscal year. The Management Agreement specifies that the total number of hotel room nights

will be measured as 1) the total number of hotel room nights committed by the CVB over the course of the fiscal year and 2) the total number of hotel room nights that can be directly or indirectly attributed to activities at the Facilities.

Exhibit 10: Future Hotel Room Nights Booked



Source: Auditor analysis of the Management Agreement, TSJ's hotel room night's production report, and our prior TSJ audits.

TSJ met its hotel night target in each of the last ten years. In FY 2020-21, the hotel room nights booked were above the adjusted target—82,953 hotel room nights[4] were booked compared to an adjusted target of 71,629 nights. This was 116 percent of the adjusted target.

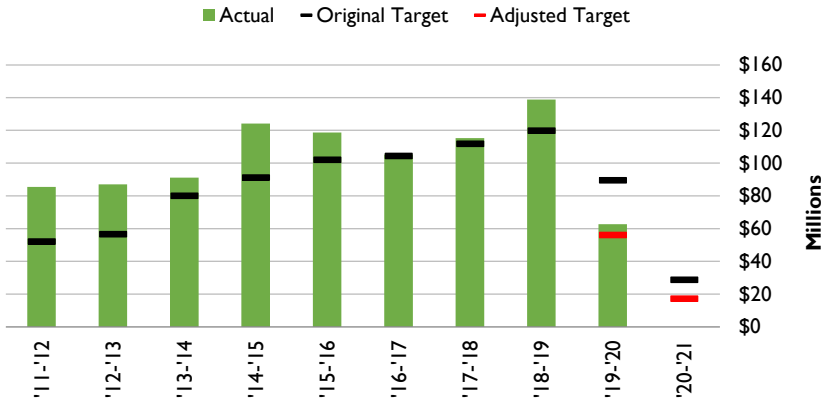
This measure is also used to determine performance of TSJ for CVB services.

Estimated Economic Impact – 0 % of Adjusted Target

Estimated economic impact is an estimation of an average daily spending rate multiplied by event attendance and duration. Average daily spending rates vary depending on event type (i.e., conventions and meetings, spectator sports and demonstrations, and participant sports and competitions) and attendee type (i.e., local/social visitors, out-of-town visitors, and exhibitors). Event attendance and the assumed spending rates drive this measure. Exhibit 11 shows the results for estimated economic impact for the last 10 years.

[4] Although 82,953 hotel room nights were booked during the fiscal year, between July 2021 and October 2021, 953 hotel rooms were canceled. Based on the terms of the agreement, these rooms were not removed from the total booked in the fiscal year.

Exhibit 11: Estimated Economic Impact



Source: Auditor analysis of the Management Agreement and TSJ event attendance reports, TSJ's estimated economic impact calculations, and our prior TSJ audits.

In FY 2020-21, due to the restrictions by the State of California and the County of Santa Clara related to the COVID-19 virus, TSJ did not have any events within its facilities. Therefore, the Estimated Economic Impact is $0. The adjusted target for Estimated Economic Impact was $17,161,748 for FY 2020-21. FY 2020-21 is the only year TSJ has not met its adjusted estimated economic impact target in the last ten years.

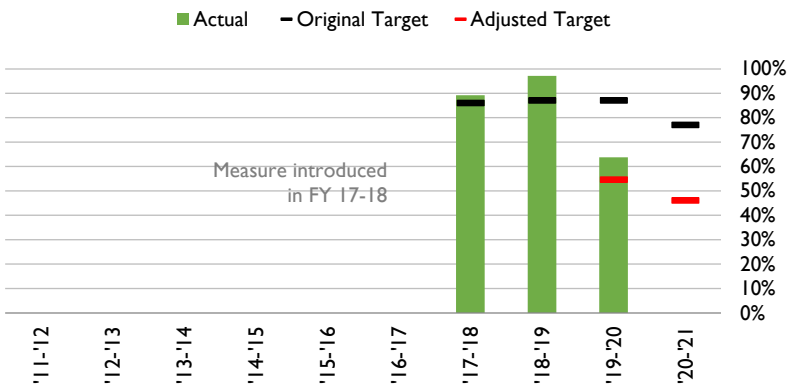
This measure, also referred to as Direct Visitor Spending, is also used to determine performance of TSJ for CVB services.

Theater Occupancy – 0 % of Adjusted Target

Theater occupancy is measured by the number of occupancy days, divided by available days[5] at the four Cultural Facilities (the San José Civic, the Center for the Performing Arts, the California Theatre, and the Montgomery Theater). This includes dances, theater shows, sports events, musicals, comedy shows, speakers, and cultural performances generally available for the public.

[5] The Management Agreement defines available days as: (a) the number of Thusdays, Fridays, and Saturdays within a fiscal year, minus (b) any such days that fall within a United States holiday period, and minus any such days that are blocked-out for facility repairs. The Management Agreement does not include language that allows the number of available days to be reduced due to unforseen circumstances. In prior years, available use days include calendar days that are both available and suitable for booking performances and special events excluding move-in and move-out days, typically unsellable weekdays, unsellable holiday periods, and dates held by resident art partners.

Exhibit 12: Theater Occupancy



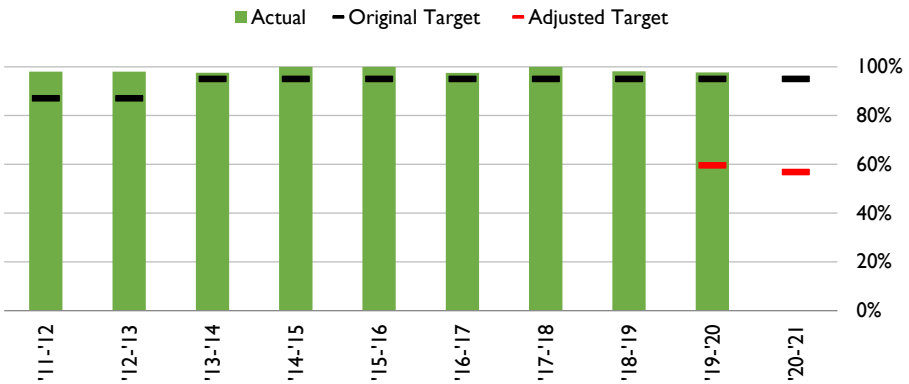
Source: Auditor analysis of the Management Agreement TSJ's theater occupancy records, and prior TSJ audits.

Due to the restrictions by the State of California and the County of Santa Clara related to the COVID-19 virus, TSJ did not have any events within its facilities. Therefore, the City's Cultural Facilities were occupied on 0 of 432 available use days (0 percent). The 432 available use days were calculated by excluding the first three months of FY 2020-21, during which TSJ forecasted that the theaters would remain closed due to COVID-19.

Customer Satisfaction – 0% of Adjusted Target

Customer satisfaction, as shown in Exhibit 13, is the percentage of event coordinators who responded to a customer survey with an overall satisfactory rating of the product and services provided. Responses of "excellent," "very good," or "good" are considered satisfactory.

Exhibit 13: Customer Satisfaction



Source: Auditor analysis of the Management Agreement and its amendment, TSJ's customer service survey results, prior TSJ audits.

Due to the restrictions by the State of California and the County of Santa Clara related to the COVID-19 virus, TSJ did not have any events within its facilities. Therefore, TSJ did not issue or receive any customer satisfaction surveys. In FY 2020-21, TSJ had an adjusted target of 57 percent; however, because TSJ did not issue or receive any customer satisfaction surveys, it did not meet this target.

The City Overpaid the FY 2018-19 Incentive Fee to TSJ

We noted in last year's performance review that the City had overpaid TSJ's FY 2018-19 incentive fee by $50,000. Specifically, in FY 2019-20, the City paid TSJ $250,000 for their FY 2018-19 incentive fee. A new five-year agreement with TSJ began effective July 1, 2019, which raised the incentive fee from $200,000 to $250,000. However, as the incentive fee in FY 2019-20 was based on FY 2018-19 performance, the incentive fee payment should have been $200,000. The Administration previously acknowledged this oversight and had planned to recoup the $50,000 overpayment through a deduction of a future incentive fee payment; however, the incentive fee appropriation was required to be eliminated in both FY 2020-21 and FY 2021-22 in consideration of continued pandemic impacts. We recommend that the City take steps to recoup this overpayment in the future.

Recommendation:

1: The Office of Economic Development and the City's Budget Office should work to recoup the $50,000 overpayment of Team San Jose's Fiscal Year 2018-19 incentive fee.

Conclusion

Team San Jose (TSJ) did not meet its weighted incentive fee score or its CVB performance targets for FY 2020-21. Due to the restrictions by the State of California and the County of Santa Clara related to COVID-19, TSJ did not have any events within its facilities. Therefore, TSJ reported zero activity for estimated economic impact, theater occupancy, and customer satisfaction rate. TSJ also did not meet the adjusted target for gross operating results. Overall, the weighted incentive fee score fell below 100 percent. Based on the adjusted targets, Team San Jose does not qualify for the management fee of $250,000.

In FY 2019-20, the City overpaid Team San Jose's incentive fee by $50,000. The administration is still working on a way to recoup this overpayment.

RECOMMENDATION

Finding 1: Team San Jose Did Not Meet Its Weighted Incentive Fee Score Or Its Adjusted CVB Performance Targets for FY 2020-21

Recommendation 1: The City Manager's Office and the Budget Office should work to recoup the $50,000 overpayment of Team San Jose's 2018-19 incentive fee.

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Appendix A

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability and our audit reports provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's fiscal year (FY) 2021-22 Audit Work Plan, we have completed an audit of Team San Jose, Inc.'s (TSJ) management of the City's Convention and Cultural Facilities and the Convention and Visitors Bureau. Our audit objective was to determine whether Team San Jose met their performance measures and the incentive fee measures specified in the *First Amendment to the Agreement for the Management of the San José Convention Center and Cultural Facilities between the City of San José and Team San Jose* and *the First Amendment to the Agreement for Convention and Visitors Bureau Services between the City of San José and Team San Jose* for FY 2020-21.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this audit report.

We thank Team San Jose and the City Manager's Office for their time, information, insight, and cooperation during the audit process.

Audit Objective, Scope, and Methodology

The objective of our audit was to determine whether Team San Jose met its performance and incentive fee measures for FY 2020-21. To do so we:

- Reviewed relevant documents including: the 2014 Management Agreement, the 2018 First Amendment to the Management Agreement, the 2019 Second Agreement to the Management Agreement, Council-adopted performance targets, TSJ's performance reports, the FY 2020-21 audited financial statement for the Facilities,[6] parking garage revenue and expense reports, Budget Office Source and Use reports for the

[6] The financial audit of the City's Convention and Cultural Facilities, by the independent accounting firm of Macias Gini, and O'Connell was completed in October 2021.

Convention and Cultural Affairs Fund (Fund 536), the Convention and Cultural Affairs Capital Fund (Fund 560), the Transient Occupancy Tax (TOT) Fund (Fund 461), the Convention Center Facilities District Revenue Fund (Fund 791), TSJ's reported activity for estimated economic impact, theater occupancy, and customer service surveys, and hotel-room night bookings.

- Interviewed management and staff from TSJ, as well as from the City Manager's Office of Economic Development and Budget Office about the performance measures and TSJ's accomplishments for the fiscal year.
- Tested the accuracy and completeness of TSJ's recording of the number of hotel room nights booked during the year.
- Tested the accuracy of TSJ's computation of gross operating results using the audited financial statements for FY 2020-21 and the Amendment to the Management Agreement's methodologies.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

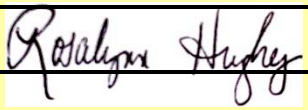
Memorandum

TO: JOE ROIS
CITY AUDITOR

FROM: Nanci Klein
Jim Shannon

SUBJECT: **TEAM SAN JOSE PERFORMANCE FY 2020-21**

DATE: November 10, 2021

Approved  Date 11/12/2021

BACKGROUND

The City Auditor conducted its annual audit of Team San Jose (TSJ) for Fiscal Year 2020-2021 in accordance with the management agreements between Team San Jose and the City. As acknowledged in the audit, TSJ was deeply impacted by the lingering COVID-19 pandemic and, as a result, did not meet the previously set performance targets. The audit contains one recommendation related to an overpayment of the 2019-2020 incentive for performance in 2018-2019. The Administration responds to the recommendation below.

Consistent with other priority-setting processes, the City Council adopted a new framework for the Administration's response to audit recommendations in May 2015. As with other priority processes, the green, yellow, and red-light system is used to convey the Administration's operational readiness to undertake workload demands.

RECOMMENDATION AND RESPONSE

Recommendation #1: The Office of Economic Development and Cultural Affairs and the City Manager's Budget Office should work to recoup the $50,000 overpayment of Team San Jose's Fiscal Year 2018-19 incentive fee.

Administration Response: The Administration agrees with this recommendation.

Green – The Administration agrees with the recommendation to recoup the overpayment. As described in the audit, a new five-year agreement with TSJ began effective July 1, 2019, which raised the incentive fee from $200,000 to $250,000. However, as the incentive payable in 2019-2020 was based on 2018-2019 performance, the incentive fee payment should have been $200,000. The Administration previously acknowledged this oversight and had planned to recoup the

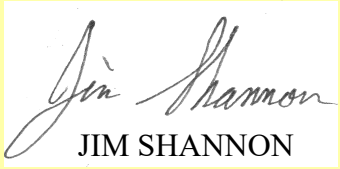
$50,000 overpayment through a deduction of a future incentive fee payment; unfortunately, the incentive fee appropriation was required to be eliminated in both 2020-2021 and 2021-2022 in consideration of continued pandemic impacts. The Administration anticipates recouping the $50,000 overpayment through either the incentive fee paid in 2022-2023 for 2021-2022 performance or recouping the incentive fee payment directly, if 2021-2022 performance falls below target.

Target Date for Completion: December 2022

CONCLUSION

The Administration thanks the Auditor's Office for its review of Team San Jose's performance for Fiscal Year 2020-2021 and looks forward to their contributions in future years.

/s/
NANCI KLEIN
Director of the Office of Economic Development and Cultural Affairs



JIM SHANNON
Budget Director