



Memorandum

**TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Kerry Adams Hapner

SUBJECT: SEE BELOW

DATE: March 13, 2020

Approved

/s/

Kim Walesh

Date

3/11/20

SUBJECT: TEAM SAN JOSE MID-YEAR UPDATE

RECOMMENDATION

It is recommended that the Committee accept a mid-year report on Team San Jose's, (a) July to December Performance Measures for Fiscal Year 2019 – 2020, and (b) its sales and marketing activities.

BACKGROUND

Team San Jose (TSJ) is an innovative nonprofit organization unifying the San Jose Convention and Visitors Bureau (CVB), hotels, arts, labor, and venues to deliver a high-quality visitor experience. TSJ manages the San Jose McEnery Convention Center, Parkside Hall, and South Hall as well as theater venues including the California Theatre, Center for the Performing Arts, Montgomery Theater, and the San Jose Civic. Per the municipal code, the City provides 4.5% of the collected 10% Transient Occupancy Tax (TOT) to TSJ to operate the convention and cultural facilities venues and manage the CVB. The TOT is collected from visitors to San Jose hotels.

ANALYSIS

Per the master agreement between the City and TSJ, semi-annual updates on TSJ's performance on Council-approved target measures are presented to the Committee. To support a greater understanding of TSJ's strategies and activities, TSJ also presents on its sales and marketing activities to the Committee. Included in the report is a dashboard of metrics that, while not part of TSJ's performance, provide insight into industry trends and the local environment. The presentation will focus on TSJ's major goals and the major workplan activities to meet them. The Committee will also be updated on the impacts of and response to COVID-19.

Mid-Year Performance Metrics & Mid-Year Rebudget Rebalancing

As outlined in Attachment A, the performance measures report includes TSJ's unaudited results for the first half of FY 2019 – 2020. Each year, the City Auditor reviews the final reported metrics as part of an annual report to the full Council at the end of the calendar year.

TSJ reports an overall strong performance for July through December of FY 2019 – 2020. Through the end of December 2019, TSJ was on track to achieve its goals in the Estimated Visitor Spending, Theater Occupancy, Gross Operating Results and Customer Satisfaction. However, TSJ reports a softening of Future Hotel Room Nights Booked. TSJ is developing strategies to increase facility bookings and room night bookings by working with convention center event organizers to reduce the number of move-in dates in the exhibition hall and explore shifting event show dates to enable increased availability of the convention center.

As part of the Mid-Year Budget Review on February 11, 2020, Council approved a rebalancing of estimated TOT revenue, reducing it by \$2.5 million or by 2.7 percent. Through December 2019, TOT collections were 2.7% below the prior year level due to declining occupancy rates (78.5% to 74.1%) and softening of the average daily rate from \$195.08 to \$191.58, which is partly attributed to a 450-hotel room increase in late summer 2019. City staff is continuing to closely monitor TOT revenue performance and is reevaluating projections for the remainder of the fiscal year as data becomes available, as further slowing of economic activity in response to the 2020 COVID-19 public health threat is expected to drive hotel booking activity and revenues lower.

COVID-19 Impacts and Response

Not reflected in this mid-year performance data, the early 2020 COVID-19 public health threat has resulted in the cancellation of numerous events at TSJ-managed facilities. To date, this includes thirteen conferences and twenty-eight theater cancellations. TSJ has increased communication to its clients and disinfection at its facilities. However, due to the County Health Department's moratorium on mass gatherings, TSJ closed the San Jose Theaters until April 1, 2020 to all public performances in support of the efforts to reduce the number of people infected and to protect those who are vulnerable. This includes the California Theatre, Montgomery Theater, San Jose Civic, and the Center for Performing Arts.

The loss of business will have an economic impact. To date, the accumulated revenue lost due to these cancellations is approximately \$14.6 million. This loss of business will result in the loss of 79,000 projected employee work hours in TSJ-managed buildings. In addition to these losses, an estimated \$18 million* has been lost in projected direct spending—that is spending in the business community around San Jose and not inclusive of revenues within the TSJ facilities. There is also a projected loss of an estimated additional \$8.6 million¹ in indirect spending—the

¹ Source: *The Economic Impact estimates are derived the industry standard Destinations International Event Impact Calculator – developed by Tourism Economics (a division of Oxford Economics)*

ripple effect of incremental spending within the community that would have occurred from the direct spending in local businesses. Because the COVID-19 situation is evolving, a current report will be provided at the meeting.

Sales and Marketing Activities

In addition to the performance metrics, TSJ will present to the Committee highlights of its sales and marketing activities, including industry trends as outlined in Attachment A. TSJ, operating as “Visit San Jose,” seeks to increase visitation to San Jose. As outlined in Attachment A, key strategies will be presented including convention and event sales; marketing programs directed at convention attendees and “Bleisure and Leisure” travelers; public relations strategies; and initiatives to increase attendance to TSJ-managed theaters. All of the strategies are research-driven with the goal of meeting the Council-approved performance goals. TSJ will also report out on its retail partnership with OED to sell the San Jose “mark.”

Contract Amendment Recommendations

The Administration and TSJ have been working together to recommend amendments to its existing Convention Center and Cultural Facilities Management Agreement and the Convention and Visitor Bureau Agreement. It is anticipated that these recommendations will be presented to the full Council this fiscal year.

TSJ will be expanding upon the attached presentation at the Committee meeting.

COORDINATION

This memo was coordinated with TSJ, the City Manager’s Budget Office, and the City Attorney’s Office.

/s/
KERRY ADAMS HAPNER
Director of Cultural Affairs

For questions, contact Kerry Adams Hapner, Director of Cultural Affairs, at (408) 793-4333.

Attachment A: TSJ CEDC Report – Mid-Year FY 2019 – 2020