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**Office of the City Auditor**

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**Report to the City Council  
City of San José**

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**TEAM SAN JOSE  
PERFORMANCE FY 2019-20**

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November 16, 2020

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

**Team San Jose Performance FY 2019-20**

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's Convention and Visitors Bureau (CVB). In both of these management agreements between the City and TSJ, an annual performance audit by the City Auditor's Office is required to determine whether, and how well, TSJ achieved the agreed-upon performance targets that are the basis for the City's incentive payment.

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. As a result, all events at TSJ-managed facilities were canceled for the rest of FY 2019-20. 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 2019-20 dropped 37 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, But Exceeded Its Adjusted CVB Performance Targets for FY 2019-2.** In FY 2019-20, TSJ booked over 100,000 hotel room nights, had an estimated economic impact of \$62.7 million, held 369 days of events at its cultural facilities, and received 98 percent satisfaction ratings on its customer service surveys. However, TSJ did not meet the adjusted target for Gross Operating Results. Overall, TSJ's weighted incentive fee score fell below 100 percent. Based on the adjusted targets, TSJ did not qualify for the management fee of \$250,000.

We will present this report at the November 23, 2020 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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# 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 City National Civic (formerly known as Civic Auditorium)
- 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 host performing arts, concerts, and events. These include, but are not limited to, performances by Symphony Silicon Valley and Opera San José (at the California Theatre), the Children's Musical Theater of San José (at the Montgomery Theater), and Broadway San José and Nederlander Concerts (at the Center for the Performing Arts).

**Exhibit I: Team San Jose Managed Facilities**

**San José McEnergy Convention Center**



**California Theatre**



**Center for Performing Arts**



**City National Civic**



**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 16-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 to conduct an annual audit of the performance measures in the agreement.

In June 2004, the City Council approved the first five-year Management agreement with TSJ. The Management Agreement directed this Office to conduct a performance audit of TSJ against established performance measures on an annual basis. The Management Agreement also created an annual management fee of \$150,000, with provisions that enabled the City to delete the management fee in the final two years of the agreement if TSJ did not meet its performance measure targets.

In January 2009, the City Council approved a new five-year Management Agreement with TSJ beginning July 1, 2009 and ending June 30, 2014. The new agreement added additional performance measures and incentive measures for use in determining whether TSJ would receive an incentive fee, and increased the maximum incentive fee to \$500,000. This agreement was subsequently amended in FY 2010-11 to change the maximum incentive fee to \$350,000.<sup>1</sup>

In June 2014, the City and TSJ entered into a new Management Agreement for the period of July 1, 2014 through June 30, 2019, with two additional five-year options. With this Agreement, TSJ gained the ability to modify its adopted budget, the theater performance measures changed, the management fee and incentive fee amounts changed, and TSJ took charge of standard capital improvements and repairs.

In 2016, the City contracted with Conventions, Sports, and Leisure International (CSL), an independent consulting firm, to examine the current performance and incentive fee measures, and develop enhanced metrics. Based on those recommendations, in October 2017, the City Council authorized the City Manager to negotiate and execute an amendment to the Management Agreement with TSJ to revise the performance measures and enhance reporting requirements. The amendment was finalized November 2, 2018, with changes retroactively effective

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<sup>1</sup> Under this agreement, the incentive fee that TSJ received was scaled based on its performance relative to the performance measure targets. Depending on whether TSJ exceeded the overall weighted incentive target and by how much, TSJ was eligible for increasing incentive fees that maxed out at \$500,000, or \$350,000 when the agreement was amended in FY 2010-11.

for FY 2017-18. A second amendment was finalized on July 11, 2019 to extend the term to cover June 20, 2019 through June 30, 2024.

*Team San Jose has Managed the Convention Visitor's Bureau since 2009*

In addition, the City and TSJ have separate agreements under which TSJ provides Convention and Visitors Bureau (CVB) services on behalf of the City, staffs the Visitors Information Booth at the Mineta San José International Airport (Airport), and provides destination marketing services for the Airport under a separate agreement.

A separate nonprofit entity, San Jose Convention Visitors Bureau previously ran CVB services from 2000 through 2009, when TSJ and the former San Jose CVB merged into a single nonprofit entity. TSJ was the surviving entity and carried out the term of this agreement.

In 2012 the City and TSJ entered into an Agreement for Convention and Visitors Bureau Services for the period January 1, 2012 through June 30, 2014, to address the merger of TSJ and San Jose CVB, to make the term of this Agreement coincide with the term of the Management Agreement, and to make other changes as relates to the Convention and Visitors Bureau Services.

In 2014, the City and TSJ entered into a new Agreement for the period of July 1, 2014 through June 30, 2019, with two additional five-year options. On July 11, 2019, the City and TSJ extended the expiration date of the Agreement to June 30, 2024.

### **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 TSJ 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

financials, economic impact, theater occupancy, and customer survey results.<sup>2</sup> For each measure, the weighted percent is calculated by taking the percent of the target achieved multiplied by the assigned percent. The sum of these measures equals the weighted incentive fee score. The incentive fee is granted for scores reaching 100 percent or more.

### Exhibit 2: Incentive Fee Measures and Their Weighting

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

Source: Management Agreement between the City and TSJ

#### *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.<sup>3</sup> 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 2019-20 dropped 37 percent below what was expected. Therefore, the Management Agreement allows all the performance measures to be adjusted 37 percent downward. In this report we present both the original performance measures (agreed upon before COVID-19) and the adjusted performance measures (37 percent smaller due to COVID-19 hotel tax revenue losses).

#### *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:

<sup>2</sup> 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.

<sup>3</sup> Hotel taxes are formally known as Transient Occupancy Taxes (TOT).

- **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 estimated to generate 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. As a result, we have issued 14 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 and that all businesses with a facility in the County were required to cease most activities. As a result, all events at TSJ-managed facilities were cancelled for the rest of FY 2019-20.

According to TSJ, the impacts of COVID-19 on TSJ operations and performance occurred during the busiest months of the fiscal year: March, April, May, and June. TSJ reported that many vendors canceled large events during these four months, including Facebook, NVIDIA, CLEO, Apple, Anime, and SaaS. TSJ estimates that about \$8.3 million (58 percent) of their budgeted Gross Operating Results target was set to occur from March through June.

TSJ reported that they took steps to reduce their operating expenses, including laying off about 60 employees in March and April. However, TSJ reports that fixed expenses like general liability insurance, software subscriptions, maintenance contracts, and security staffing could not be reduced the same amount as projected revenue losses.

To pivot and provide ongoing community services in partnership with the City, TSJ reused the convention center facilities to shelter and prepare meals for individuals experiencing homelessness during the pandemic. The City Administration reports that South Hall and Parkside Hall were used for these purposes and provided 305 beds. Additionally, during FY 2019-20, TSJ prepared up to 21,000 meals for week for homeless shelters. According to TSJ, this reuse resulted in the employment of 24 union members with varying hours.

TSJ also reduced its performance targets for FY 2020-21 to account for pandemic-related and travel restrictions. The City Administration reports that TSJ engaged a hotel and industry advisor to assess national trends and local indicators for the development of sales and marketing strategies and FY 2020-21 performance targets.

# Finding I Team San Jose Did Not Meet Its Weighted Incentive Fee Score, But Exceeded Its Adjusted CVB Performance Targets for FY 2019-20

## Summary

In FY 2019-20, TSJ booked over 100,000 hotel room nights, had an estimated economic impact of \$62.7 million, held 369 days of events at its cultural facilities, and received 98 percent satisfaction ratings on its customer service surveys. However, TSJ did not meet the adjusted target for Gross Operating Results. Overall, TSJ's weighted incentive fee score fell below 100 percent. Based on the adjusted targets, TSJ does not qualify for the management fee of \$250,000.

As described in the Background, we present both the original performance measures (agreed upon before COVID-19) and the adjusted performance measures (37 percent smaller due to COVID-19 hotel tax revenue losses).

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

Measures	Original Target	Adjusted Target	Actual	Weighted Incentive Fee Score Percentage - Adjusted Target
Gross Operating Results (40%)	\$14,326,389	\$8,980,973	\$1,868,915	8.3%
Hotel Nights (20%)	160,000	100,301	105,975	21.1%
Estimated Economic Impact (20%)	\$89,419,560	\$56,055,624	\$62,653,106	22.4%
Theater Occupancy (10%)	87%	55%	64%	11.7%
Satisfaction Rate (10%)	95%	60%	98%	16.4%
Total Weighted Incentive Fee Score				79.9%

Source: Auditor Analysis of data from TSJ, agreements between the City and TSJ, Community and Economic Development Committee documents, and Mayor's Budget Addendum outlining performance targets.

However, TSJ's performance exceeded its adjusted targets for its agreement for the management of the Convention and Visitor's Bureau.

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

Measures	Original Target	Adjusted Target	Actual	Weighted Incentive Fee Score Percentage - Adjusted Target
Hotel Nights (50%)	160,000	100,301	105,975	52.8%
Direct Visitor Spending (50%)	\$89,419,560	\$56,055,624	\$62,653,106	55.9%
<b>Total Weighted Performance Score</b>				<b>108.7%</b>

Source: Auditor Analysis of data from TSJ, agreements between the City and TSJ, Community and Economic Development Committee documents, and Mayor's Budget Addendum outlining performance targets.

**Gross Operating Results – 21 % of Adjusted Target**

The Management Agreement defines gross operating results<sup>4</sup> as gross revenues from operating the Facilities, plus hotel tax revenue,<sup>5</sup> plus revenue from the parking garage at the Convention Center, less certain direct and indirect expenses for operating the Facilities.

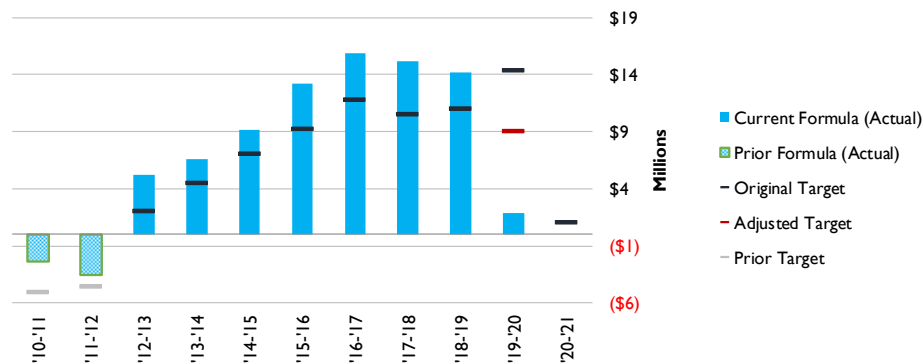
The calculation does not include City-directed expenses, including City oversight, fire insurance premiums, emergency capital repairs and maintenance, depreciation, and the management fee paid by the City to TSJ.

For FY 2019-20, TSJ's gross operating results were \$1.9 million, compared to an adjusted target of \$9 million. This was 21 percent of the adjusted target.

<sup>4</sup> The amendment 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.

<sup>5</sup> Hotel taxes are formally known as Transient Occupancy Taxes (TOT). Only the portion that the City transfers to the Convention and Cultural Affairs Fund (Fund 536) counts towards Gross Operating Results. The City Manager's Office reported that the City collects a tax of 10 percent of the rent that a hotel operator charges to a hotel guest (\$35.3 million in FY 2019-20). Four percent goes into the General Fund (\$14.1 million). Six percent goes into the Transient Occupancy Tax Fund (Fund 461, \$21.2 million). Per Municipal Code, about half of the TOT Fund's portion subsidizes the operation and maintenance of, and capital improvements to, the Convention and Cultural Facilities (\$10.6 million). About a quarter of the TOT Fund's portion funds the Convention and Visitors Bureau (\$5.3 million) and about another quarter funds cultural grants (\$5.3 million).

### 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, and prior TSJ audits.

Note: In 2012-13, the calculation method changed. The blue bars show the old formula, the light blue bars the new formula. The old formula was: Operating revenues – Operating expenses (excluding: depreciation, oversight, fire insurance, fixed executive management fee, repairs, and maintenance).

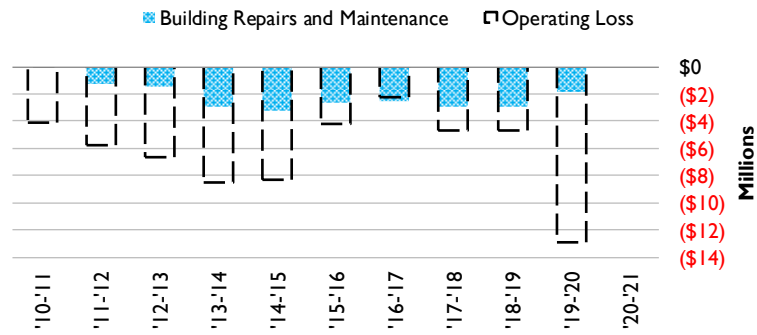
### The Financial Statements Show an Operating Loss Which Is Funded by Hotel Taxes

The audited financial statements for the Convention and Cultural Facilities show an operating loss of about \$12.9 million in FY 2019-20, 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.

We note that TSJ' operating revenues were 44 percent smaller than last year (FY 2018-19), while their operating expenses were only 28 percent smaller. TSJ lost revenue due to the COVID-19 shutdowns: Food and Beverage Service revenues were \$12.9 million smaller (46 percent), and Event Production labor revenues were \$9.1 million smaller (47 percent) than FY 2018-19. The expenses for these categories were proportionally smaller: food and beverage costs were \$1.9 million smaller (40 percent), and the cost of event production labor was \$7.6 million smaller (46 percent) than last year. We note that TSJ's administrative and general salaries expenses were \$4.9 million smaller (20 percent) than FY 2018-19.

Exhibit 6 shows a 10-year history of operating losses in accordance with GAAP. In FY 2019-20, the \$12.9 million loss recognized on the financial statements included \$1.9 million in repairs and maintenance for upkeep of the City-owned facilities.

**Exhibit 6: Operating Loss in Accordance with Generally Accepted Accounting Principles**



Source: Audited financial statements for the Convention and Cultural Facilities. Beginning with FY 2011-12, we show building repairs and maintenance as separate expenses.

Exhibit 7 reconciles the audited financial statements to the Management Agreement's definition of gross operating revenue.



**Exhibit 7: Reconciliation of Management Agreement Performance Measure  
of Gross Operating Results to Audited Financial Statements**

	<b>Audited Financial Statements</b>	<b>Adjustments for Gross Operating Results per Management Agreement</b>	
<b>Operating Revenues:</b>			
Building rental	\$ 6,712,459		
Food and beverage services	\$ 14,917,328		
Commission revenue	\$ 969,903		
Event electrical/utility services	\$ 262,426		
Networking Services	\$ 1,363,869		
Audio/visual services	\$ 196,864		
Ticketing services	\$ 498,587		
Telecommunications services	\$ 115,623		
Equipment rentals	\$ 30,648		
Event production labor revenues	\$ 10,456,366		
Other revenues	\$ 77,234		
Bad Debt Expense		\$ (317,615)	A
<b>Total Operating Revenues</b>	<b>\$ 35,601,307</b>		
<i>Transient Occupancy Tax revenue to Convention and Cultural Affairs Fund</i>		\$ 10,947,006	A, B
<i>Parking garage revenue</i>		\$ 2,529,404	A
<b>Revenues for gross operating results calculation</b>		<b>\$ 48,760,102</b>	
<b>Operating Expenses:</b>			
Administrative and general salaries – TSJ	\$ 19,700,961		
Cost of event production labor	\$ 8,993,414		
Utilities	\$ 2,953,054		
Food and beverage costs	\$ 2,931,085		
Bad debt expense	\$ 317,615	\$ (317,615)	A
Contracted outside services	\$ 4,471,179		
Professional services	\$ 667,026		
Operating supplies	\$ 504,814		
Depreciation	\$ 129,392	\$ (129,392)	A
Repairs and maintenance	\$ 1,879,494		
Insurance	\$ 327,557		
City of San José oversight	\$ 747,249	\$ (747,249)	A
Ticketing costs	\$ 32,396		
Workers' compensation insurance premiums	\$ 732,853		
Fire insurance	\$ 336,388	\$ (336,388)	A
Management and incentive fee – Team San Jose	\$ 1,250,000	\$ (1,250,000)	C, D
Equipment rentals	\$ 111,027		
City Free Use	\$ 60,325	\$ (60,325)	A
Other expenses	\$ 2,323,785		
<b>Total Operating Expenses</b>	<b>\$ 48,469,614</b>		
<i>Less: City Worker's Compensation</i>		\$ (30,178)	A
<i>Parking garage expenses</i>		\$ 1,292,720	A
<b>Expenses for gross operating results calculation</b>		<b>\$ 46,891,187</b>	
<b>Gross Operating Profit or (Loss)</b>	<b>\$ (12,868,307)</b>	<b>\$ 1,868,915</b>	

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 7:

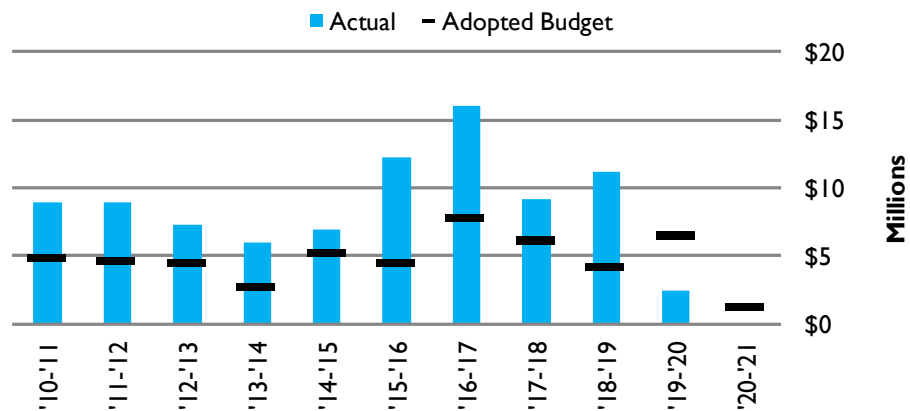
A. The Management Agreement defines gross operating results to include or exclude these items.

- B. Consistent with prior year's practice and for purposes of Team San Jose performance measurement, hotel tax was calculated as follows: FY 2019-20 allocation of \$11,191,378 to the Convention and Cultural Affairs Fund, plus \$198,129 attributable to FY 2018-19 hotel activity but allocated to the Fund in FY 2019-20, minus \$442,501 attributable to hotel activity in FY 2019-20 but allocated to the Fund in FY 2020-21. Any hotel tax received in a given year above (or below) the budgeted amount is reconciled and distributed to the Convention and Cultural Affairs Fund in accordance with the San José Municipal Code.
- C. The management fee shown here includes the \$1 million management fee for FY 2019-20 and a \$250,000 incentive fee paid for FY 2018-19. According to the Management Agreement, the incentive fee for 2018-19 should have been \$200,000. The City's Administration is looking at how to address this oversight moving forward.
- 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, 2020 was \$2.4 million – a decrease of about \$8.7 million from the prior year. We also note that on April 28, 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. According to the City Manager's Office, these rebalancing actions liquidated reserves (\$9.0 million) in the Convention and Cultural Affairs Fund and Convention and Cultural Affairs Capital Fund to offset revenue losses (\$4.4 million) and provide additional funding for the operation of the convention and cultural facilities (\$6.3 million). 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. Exhibit 8 shows a ten-year history of the Fund's ending balance of the Convention and Cultural Affairs Fund at the end of the fiscal year.

**Exhibit 8: Ending Balance of the Convention and Cultural Affairs Fund (Fund 536)**

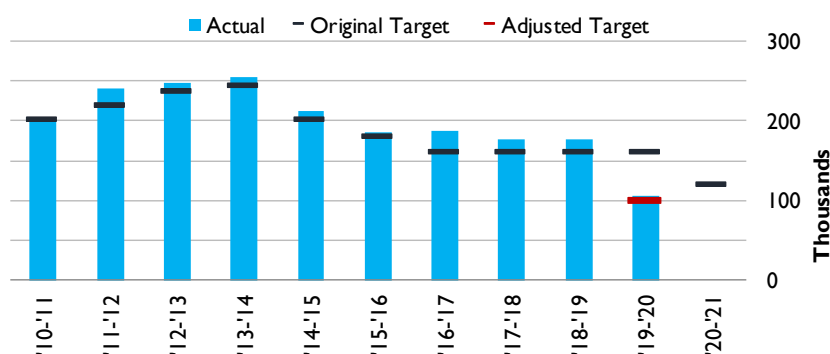


Source: Source and Use Statements in Adopted Budgets and actual fund balance for FY 2019-20.

## Hotel Room Nights – 106 % of Adjusted Target

Hotel room nights, as shown in Exhibit 9, 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 9: Future Hotel Room Nights Booked**



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

TSJ met its hotel night target in each of the last ten years. In FY 2019-20, the hotel room nights booked were above the adjusted target—105,975 hotel room nights<sup>6</sup> were booked compared to an adjusted target of 100,301 nights. This was 106 percent of the adjusted target.

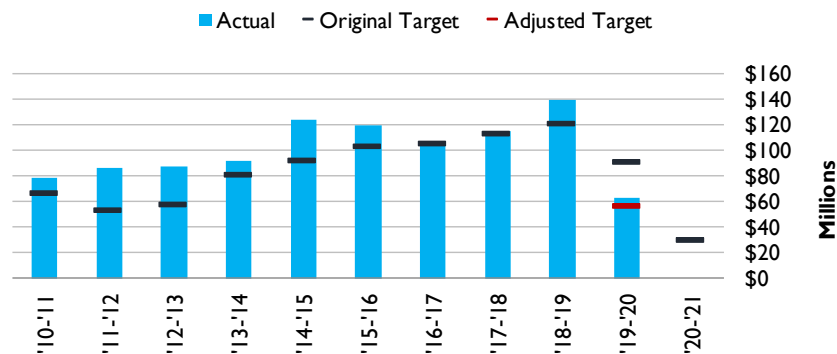
This measure is also used to determine performance of TSJ for CVB services.

<sup>6</sup> Although 105,975 hotel room nights were booked during the fiscal year, between July 2020 and October 2020, 13,571 hotel rooms were canceled. Based on the terms of the agreement, these rooms were not removed from the total booked in the fiscal year.

## Estimated Economic Impact – 112 % of Adjusted Target

Estimated economic impact is an estimation of 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 10 shows the results for estimated economic impact.

**Exhibit 10: 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 2019-20, the estimated economic impact was above the adjusted target—\$62.7 million in estimated economic impact compared to an adjusted target of \$56.0 million.<sup>7</sup> This was 112 percent of the adjusted target.

The five events with the highest estimated economic impact contributed 27.3 percent towards TSJ's estimated economic impact (\$17.1 million). These events, in alphabetical order included:

- Crunchyroll Expo
- Oculus Connect 2019
- QuickBooks Connect 2019
- Rock 'n' Roll Half Marathon 2019
- Silicon Valley Comic Con 2019

TSJ has met its estimated economic impact targets every year in the last ten years.

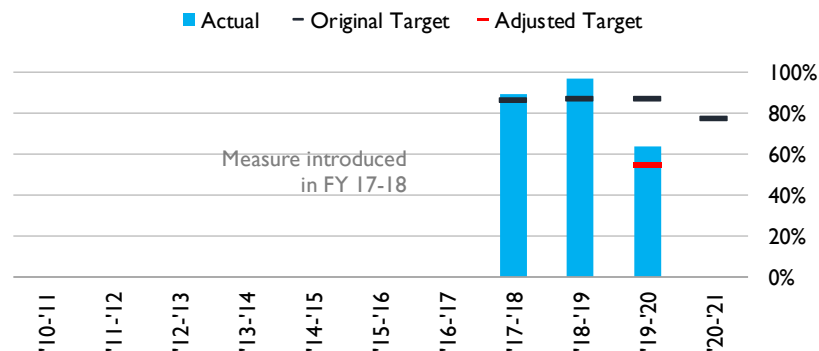
This measure, also referred to as Direct Visitor Spending, is also used to determine performance of TSJ for CVB services.

<sup>7</sup> TSJ updated its estimated economic impact target in January 2020 to account for reducing the reported attendance figures for one large consumer show that took place in January 2020. TSJ coordinated this target change with the City.

## Theater Occupancy – 117 % of Adjusted Target

Theater occupancy was introduced as a new measure in the Amendment to the Management Agreement in FY 2017-18. It is measured by the number of occupancy days, divided by available days<sup>8</sup> at the four Cultural Facilities (the City National Civic, the Center for the Performing Arts, the California Theatre, and the Montgomery Theater). This includes dances, theater shows, sports events, musicals, and comedy shows, speakers, and cultural performances generally available for the public.

**Exhibit I I: Theater Occupancy**



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

The City's Cultural Facilities were occupied on 369 of 579 available use days (64 percent). The 579 available use days include 187 days that the Cultural Facilities were closed due to the COVID-19 shelter-in-place order.<sup>9</sup>

The Center for Performing Arts held the most performances and special events (137), followed by the Montgomery Theater (114), the California Theatre (98), and the City National Civic (72).

<sup>8</sup> The Management Agreement defines available days as: (a) the number of Thursdays, 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. In prior years, available use days included 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.

<sup>9</sup> The Management Agreement does not include language that allows the number of available days to be reduced due to unforeseen circumstances like a pandemic. We note that if the 187 days the Cultural Facilities were closed due to COVID-19 are removed from the Theater Occupancy calculation, TSJ would have had an occupancy rate of 94 percent, or 173 percent of the adjusted target.

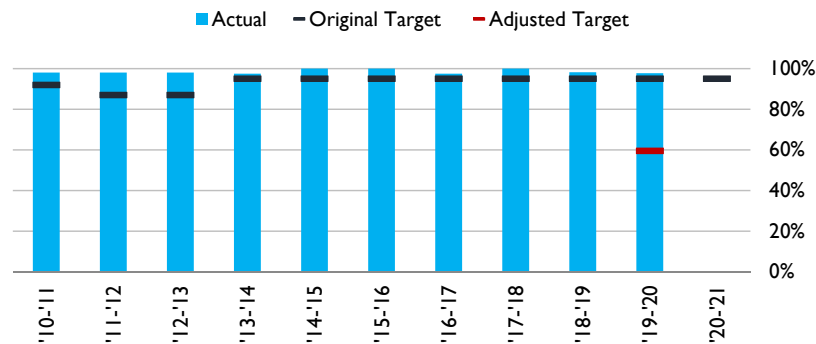
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## Customer Satisfaction – 164 % of Adjusted Target

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Customer satisfaction, as shown in Exhibit 12, 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 12: Customer Satisfaction**



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

In FY 2019-20, customer satisfaction was above the adjusted target—98 percent customer satisfaction compared to an adjusted target of 60 percent.<sup>10</sup> This was 164 percent of target.

The response rate was 34 percent.<sup>11</sup> For customer satisfaction, TSJ has met or exceeded its targets for the past ten years. According to TSJ and the City, the industry standard is 90 percent.

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<sup>10</sup> We reviewed the accuracy of the survey results by sampling actual customer survey responses for September 2019 and February 2020.

<sup>11</sup> Because all events at TSJ-managed facilities were cancelled after the March 2020 shelter-in-place order, TSJ only received responses through February 2020.

## Conclusion

Team San Jose (TSJ) did not meet its weighted incentive fee score for FY 2019-20. However, TSJ did meet its adjusted CVB performance targets for FY 2019-20. In FY 2019-20, TSJ booked over 100,000 hotel room nights, had an estimated economic impact of \$62.7 million, held 369 days of events at its cultural facilities, and received 98 percent satisfaction ratings on its customer service surveys. However, TSJ did not meet the adjusted target for Gross Operating Results.

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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) 2020-21 Audit Work Plan, we have completed an audit of Team San Jose, Inc.'s (TSJ) management of the City's Convention and Cultural Facilities. Our audit purpose was to determine whether Team San Jose met 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 2019-20*.

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, the City Attorney's Office, and the City Manager's Office for their time, information, insight, and cooperation during the audit process.

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## 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 2019-20. 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 2019-20 audited financial statement for the Facilities,<sup>12</sup> parking garage revenue and expense reports, Budget Office Source and Use reports for the

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<sup>12</sup> 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 2020.

Convention and Cultural Affairs Fund (Fund 536), the Transient Occupancy Tax (TOT) Fund (Fund 461), the Convention Center Facilities District Revenue Fund (Fund 791), TSJ's estimated economic impact based on event attendance, theater occupancy records, the agreed-upon procedures for hotel-room night bookings, and TSJ's customer service surveys for the fiscal year.

- 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 Theater Occupancy Days for theaters, estimated economic impact based on event attendance, customer service survey results, and 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 2019-20 and the Amendment to the Management Agreement's methodologies.
- Reviewed public health orders from the County of Santa Clara related to COVID-19 and determined their impact on TSJ activities.