



Office of the City Auditor

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

**2008-09 ANNUAL
PERFORMANCE AUDIT OF
TEAM SAN JOSE, INC.**

**Team San Jose Met Three of Its Four
Performance Measurement Targets in
FY 2008-09**

**One of the Three Audit Recommendations
Has Been Implemented and Two Are
Partly Implemented**

**Report 10-01
January 2010**

January 13, 2010

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

Transmitted herewith is the report *2008-09 Annual Performance Audit Of Team San Jose, Inc.* This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. Team San Jose's response is shown on the yellow pages before Appendix A.

This report will be presented at the January 21, 2010 meeting of the *Public Safety, Finance & Strategic Support Committee*. If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Steve Hendrickson and Carolyn Huynh.

Respectfully submitted,

Sharon W. Erickson

Sharon W. Erickson
City Auditor

finaltr
SE:bh

cc: Dan Fenton
Paul Krutko
Debra Figone
Deanna Santana
Brian Doyle
Scott Johnson
Dan Cunningham



Office of the City Auditor

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

**2008-09 ANNUAL
PERFORMANCE AUDIT OF
TEAM SAN JOSE, INC.**

Table of Contents

Executive Summary	i
Introduction	1
Background	1
Objective, Scope, and Methodology	2
Finding I	
Team San Jose Met Three of Its Four Performance Measurement Targets in FY 2008-09	5
TSJ Met Its Gross Revenue Target for FY 2008-09	6
TSJ Did Not Meet Its Net Loss Target for FY 2008-09	9
TSJ Relies on Operating Contributions from the Transient Occupancy Tax and Parking Funds	12
Overall, TSJ Did Meet Its Economic Impact Target for FY 2008-09 for Total Number of Attendees	13
TSJ Did Meet Its Customer Service Performance Target for FY 2008-09	14
Finding II	
One of the Three Audit Recommendations Has Been Implemented and Two Are Partly Implemented	15
Status of Recommendations from the FY 2007-08 Annual Performance Audit of Team San Jose, Inc.	15
Status of Recommendations from the FY 2004-05 Annual Performance Audit of Team San Jose, Inc.	15
Team San Jose’s Response	17
Appendix A	
Definition Of Priority 1, 2, And 3 Audit Recommendations	A-1

Table of Exhibits

Exhibit 1: TSJ FY 2008-09 Performance Summary	6
Exhibit 2A: Comparison of TSJ's Management Agreement Gross Revenues Target to Actual from FY 2004-05 to 2008-09	7
Exhibit 2B: Comparison of TSJ's Management Agreement Gross Revenues Target to Actual (in dollars) from FY 2004-05 to 2008-09.....	7
Exhibit 3: Comparison of TSJ's Operating Revenues from Year One to Year Five	8
Exhibit 4A: Comparison of TSJ's Management Agreement Net Loss Targets to Actual (in dollars) from FY 2004-05 to 2008-09	9
Exhibit 4B: Comparison of TSJ's Management Agreement Net Loss Targets to Actual (in dollars) from FY 2004-05 to 2008-09	9
Exhibit 5: Comparison of Operating Expenses TSJ Incurred For Year One to Year Five	11
Exhibit 6: Source and Uses for the Fund 536 (Convention and Cultural Affairs Fund) from FY 2004-05 through 2008-09	12
Exhibit 7: Yearly Comparison of Management Agreement Attendance Targets to TSJ's Actual Attendance	13
Exhibit 8: FY 2004-05 to 2008-09 Customer Service Survey Results	14

Executive Summary

In accordance with the City Auditor's 2009-2010 Workplan, we audited Team San Jose, Inc. (TSJ) to determine whether it met the performance measures and other requirements specified in the Agreement for the Management of the San Jose Convention Center and Cultural Facilities between the City of San José and Team San Jose, Inc. (Management Agreement) for FY 2008-09.

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 and 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. We limited our work to those areas specified in the Objectives, Scope, and Methodology section of this audit report.

The City Auditor's Office would like to thank Team San Jose, Inc., the Finance Department, the City Manager's Office, and the Budget Office, who gave their time, information, insight, and cooperation during the audit process.

Finding I Team San Jose Met Three of Its Four Performance Measurement Targets in FY 2008-09

The 2004 Management Agreement outlined four key performance measures and required TSJ to submit a monthly report to the City. The performance measures track revenue and financial performance, economic impact, and customer service.

1. **Gross Revenues:** TSJ will focus on increasing gross revenues for the Facilities. Gross revenues will be aggregated from all sources for all Facilities and detailed by category, including rental income, food and beverage commissions, services, and other revenue streams.
2. **Net Profit or Loss Financial Performance:** TSJ will focus on reducing the City's operational subsidy to support the Convention and Cultural Facilities.
3. **Economic Impact:** TSJ will focus on increasing the total attendance for events held at the Convention and Cultural Facilities.
4. **Customer Service Results:** TSJ will ask the decision-maker of each event to rate their overall satisfaction with the product and services provided.

We found for FY 2008-09, TSJ:

- Exceeded its gross revenues performance measure by \$611,975;
- Experienced a net loss of \$5,421,399 which was \$4,585,399 more than its target;
- Overall, surpassed its economic impact performance measure by 366,610 attendees ; and
- Exceeded its customer service results performance measure by six percentage points.

Exhibit I below summarizes TSJ's performance:

Exhibit I: TSJ FY 2008-09 Performance Summary

2008-09 Performance Measures	Management Agreement Target	Actual	Variance of Actual to Agreement	% Variance of Actual to Agreement	Performance Measure Met ?
Gross Revenues	\$11,739,000	\$12,350,975	\$611,975	5.2%	Yes
Net Loss	\$836,000	\$5,421,399	-\$4,585,399	-548.5%	No
Economic Impact (Attendees)	821,300	1,187,910	366,610	44.6%	Yes
Customer Service Results	91%	97%	6 percentage points	6.6%	Yes

While TSJ increased its gross revenues by 2.8% from the previous year, its net loss increased by 83.5%. Overall attendance decreased by 29.3% and customer service survey results decreased by one percentage point. We should note that since 2004 when TSJ took over management and operations of the Facilities, it has performed better as compared to the City's past operation of the Facilities. The Agreement states that if in Year Four (July 1, 2007 through June 2008) through Year Five (July 1, 2008 to June 30, 2009) of the term of the Management Agreement, TSJ fails to meet the performance measures set fourth in Section 4.8, the City shall have the right to delete the fixed payment of \$150,000 from the preset management fee. Even though, TSJ has not met the four performance metrics in FY 2008-09, the City has already waived its right to delete the fixed payment of \$150,000 from the preset management fee for year five. This report contains no new recommendations.

Finding II One of the Three Audit Recommendations Has Been Implemented and Two Are Partly Implemented

The Office of the City Auditor has issued three previous audit reports for FY 2004-05 to FY 2007-08 to determine whether TSJ met the performance measures and other requirement specified in the Management Agreement.

The Office of the City Auditor prepares a semi-annual report on the status of outstanding audit recommendations. As of June 30, 2009, there was one recommendation which has been implemented and two outstanding audit recommendations remaining. The following provides a summary of the current status of these three recommendations (for period ending June 30, 2009). This report contains no new recommendations.

Introduction

In accordance with the City Auditor's 2009-2010 Workplan, we audited Team San Jose, Inc. (TSJ) to determine whether it met the performance measures and other requirements specified in the Agreement for the Management of the San Jose Convention Center and Cultural Facilities between the City of San José and Team San Jose, Inc. (Management Agreement) for FY 2008-09.

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 and 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. We limited our work to those areas specified in the Objectives, Scope, and Methodology section of this audit report.

The City Auditor's Office would like to thank Team San Jose, Inc., the Finance Department, the City Manager's Office, and the Budget Office, who gave their time, information, insight, and cooperation during the audit process.

Background

Team San Jose, Inc. is a private, non-profit corporation that was created specifically to manage and operate the Convention and Cultural Facilities (the Facilities). TSJ is a joint effort between TSJ staff, the San Jose Convention & Visitors Bureau (CVB), Centerplate (TSJ's food and beverage concessionaire), City employees, and other contracted employees. Effective June 24, 2009, Team San Jose terminated its relationship with Centerplate and started to provide food and beverage services to its customers directly.

The Facilities include three convention facilities and four cultural facilities. The convention facilities are: San Jose McEnery Convention Center, South Hall, and Parkside Hall. The cultural facilities are Center for the Performing Arts, Montgomery Theater, San Jose Civic, and California Theater.

On June 22, 2004, the San Jose City Council approved a Management Agreement with TSJ to manage and operate the Facilities for a five-year period, beginning July 1, 2004 and ending June 30, 2009. This audit of FY 2008-09 performance concludes the final year of the five-year term of that Management Agreement.

On December 17, 2007, the City Council approved moving forward with a new five-year Management Agreement beginning July 1, 2009 and ending June 30, 2014, with two additional three-year options. Subsequently, the City and TSJ entered into an addendum to the contract in summer 2009.

The new agreement requires TSJ to submit information on the following new Special Reporting Metrics: Theatre Operations, Benchmark Convention Business, and Impressions, Marketing/Branding. It also contains provisions for performance measures including a management fee that is performance and incentive-based. The Agreement requires TSJ to submit its annual targets for the following performance measures to be weighted as follows:

- Economic Impact Measures – 40%
- Gross Operating Profit – 35%
- Theatre Performance – 15%
- Customer Service Survey Results – 10%

The performance targets for 2009-2010 have been reduced as compared to the targets from the 2004-09 Management Agreement. According to the Office of Economic Development (OED), *The targets for the performance measures assumed that the downturn in the economy would last through the entire fiscal year, and also accounts for the potential expansion plans for the Convention Center. OED further states, For example, for 2009-2010, the target for gross operating profit is a loss of \$6,800,000. Factors that contribute to this figure are low building rental revenues due to the economic downturn and construction impacts from the Convention Center expansion project...*

The new agreement also states that the performance audit will be conducted and completed by an independent certified public accounting firm mutually selected by the City and the Operator.

Objective, Scope, and Methodology

The objectives of our audit were to determine whether TSJ met its performance measures as specified in the Management Agreement for FY 2008-09 as well as provide the status of the outstanding audit recommendations from the FY 2004-05, 2005-06 & 2006-07, and 2007-08 annual performance audits of Team San Jose, Inc.

We limited our scope to reviewing the performance measures and explaining significant variances to FY 2007-08 information. We also provide an update of the status of open audit recommendations from previous years' reports. To determine whether TSJ met its performance measures for gross revenues, net loss, economic impact, and customer service results, we did the following:

- Reviewed the Management Agreement for target gross revenues, net loss, economic impact, and customer service results;
- Obtained and reviewed the audited financial statements for FY 2008-09;

- Interviewed TSJ's external auditor, Macias, Gini, & O'Connell, LLP (MGO), Finance Department, Budget Office, and TSJ staff on financial & accounting-related information;
- Observed testing on accuracy of attendance reporting data for FY 2008-09;
- Obtained and reviewed TSJ's customer service surveys for FY 2008-09; and
- Reviewed TSJ's annual report and sample month-end report to the City.

This page was intentionally left blank

Finding I Team San Jose Met Three of Its Four Performance Measurement Targets in FY 2008-09

The 2004 Management Agreement outlined four key performance measures and required TSJ to submit a monthly report to the City. The performance measures track revenue and financial performance, economic impact, and customer service.

1. Gross Revenues: TSJ will focus on increasing gross revenues for the Facilities. Gross revenues will be aggregated from all sources for all Facilities and detailed by category, including rental income, food and beverage commissions, services, and other revenue streams.
2. Net Profit or Loss Financial Performance: TSJ will focus on reducing the City's operational subsidy to support the Convention and Cultural Facilities.
3. Economic Impact: TSJ will focus on increasing the total attendance for events held at the Convention and Cultural Facilities.
4. Customer Service Results: TSJ will ask the decision-maker of each event to rate their overall satisfaction with the product and services provided.

We found for FY 2008-09, TSJ:

- Exceeded its gross revenues performance measure by \$611,975;
- Experienced a net loss of \$5,421,399 which was \$4,585,399 more than its target;
- Overall, surpassed its economic impact performance measure by 366,610 attendees; and
- Exceeded its customer service results performance measure by six percentage points.

Exhibit I below summarizes TSJ's performance:

Exhibit I: TSJ FY 2008-09 Performance Summary

2008-09 Performance Measures	Management Agreement Target	Actual	Variance of Actual to Agreement	% Variance of Actual to Agreement	Performance Measure Met ?
Gross Revenues	\$11,739,000	\$12,350,975	\$611,975	5.2%	Yes
Net Loss	\$836,000	\$5,421,399	-\$4,585,399	-548.5%	No
Economic Impact (Attendees)	821,300	1,187,910	366,610	44.6%	Yes
Customer Service Results	91%	97%	6 percentage points	6.6%	Yes

While TSJ increased its gross revenues by 2.8% from the previous year, its net loss increased by 83.5%. Overall attendance decreased by 29.3% and customer service survey results decreased by one percentage point. We should note that since 2004 when TSJ took over management and operations of the Facilities, it has performed better as compared to the City's past operation of the Facilities. The Agreement states that if in Year Four (July 1, 2007 through June 2008) through Year Five (July 1, 2008 to June 30, 2009) of the term of the Management Agreement, TSJ fails to meet the performance measures set fourth in Section 4.8, the City shall have the right to delete the fixed payment of \$150,000 from the preset management fee. Even though, TSJ has not met the four performance metrics in FY 2008-09, the City has already waived its right to delete the fixed payment of \$150,000 from the preset management fee for year five. This report contains no new recommendations.

TSJ Met Its Gross Revenue Target for FY 2008-09

The first performance measure requires TSJ to achieve specific gross revenue targets for each fiscal year of the Agreement. As shown below, in FY 2008-09, TSJ's gross revenues were \$12,350,975 or 5.2% greater than the gross revenues target specified in the Management Agreement.¹ Exhibit 2A & 2B compares the Management Agreement gross revenues performance measure to TSJ's actual gross revenues from 2004-2009.

¹ For purposes of determining TSJ's actual gross revenues for performance measurement purposes, City of San José credits for facility usage and power charges are included.

Exhibit 2A: Comparison of TSJ's Management Agreement Gross Revenues Target to Actual from FY 2004-05 to 2008-09

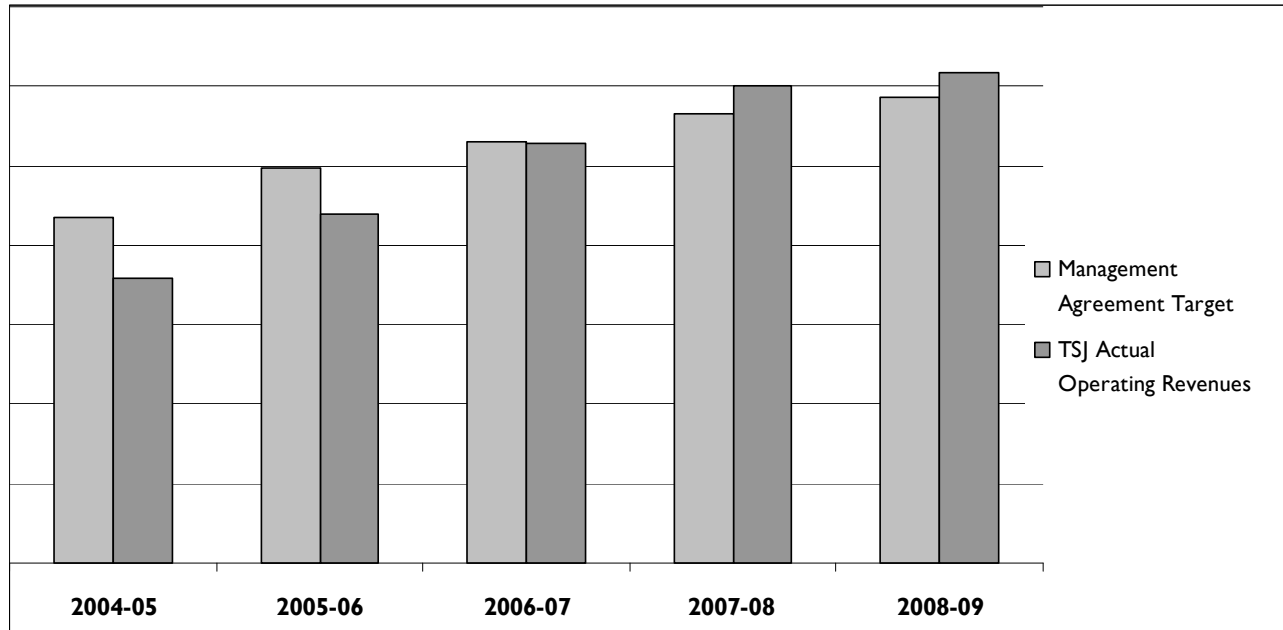


Exhibit 2B: Comparison of TSJ's Management Agreement Gross Revenues Target to Actual (in dollars) from FY 2004-05 to 2008-09

Fiscal Year	Management Agreement Target	TSJ Actual Operating Revenues	Variance of Actual to Management Agreement Target	% Variance of Actual to Management Agreement Target
2004-05	\$8,698,000	\$7,158,813	-\$1,539,187	-17.7%
2005-06	\$9,943,000	\$8,774,322	-\$1,168,678	-11.8%
2006-07	\$10,600,000	\$10,554,562	-\$45,438	-0.4%
2007-08	\$11,303,000	\$12,013,456	\$710,456	6.3%
2008-09	\$11,739,000	\$12,350,975	\$611,975	5.2%

As Exhibit 2B above shows, operating revenues increased from \$12,013,456 to \$12,350,975 (or 2.8%) from FY 2007-08 to 2008-09. A number of categories had significant variances in revenues from the previous year. These variances are shown in more detail in Exhibit 3 below. TSJ provided the following explanations for increases (or decreases) in the following revenue items from FY 2007-08 to 2008-09.

- Building rental: According to TSJ, due to the economic downturn and cancellation of a number of events, TSJ saw a subsequent decline in

building rental along with other ancillary services which include: food and beverage, event electrical/utility, networking and telecommunication services.

- Heat and power: Heat and power service charges to adjacent buildings (i.e. Hilton Hotel and for MLK library) also decreased due to a reduction in their uses.
- Other revenues: TSJ increased its other revenues which include: advertising and signage, lease of its marshalling yard (used for surplus parking/loading), first-aid services, merchandising revenue, ATM commissions, summer & winter movie series, and other miscellaneous revenue. However, these revenues were offset by a decrease in other revenues.
- Labor/event production labor revenues: In FY 2007-08, TSJ signed new contracts with various labor unions (e.g. event production and food & beverage). Event production labor revenues were realized in the following FY 2008-09 year from these contracts.

In FY 2008-09, TSJ presented a new category of revenues: Ticketing services. TSJ signed a new business contract in which it took over the ticketing services from the American Musical Theater.

Exhibit 3: Comparison of TSJ's Operating Revenues from Year One to Year Five

Operating Revenues	Year One 2004-05	Year Two 2005-06	Year Three 2006-07	Year Four 2007-08	Year Five 2008-09	% Variance From Yr 4 to 5
Building rental	\$ 4,194,140	\$ 4,489,668	\$ 5,078,075	\$ 5,855,214	\$ 5,281,338	-9.8%
Food and beverage services	1,209,721	2,048,213	2,521,900	2,760,809	2,008,242	-27.3%
Event electrical/utility services	460,927	619,297	737,676	834,180	695,084	-16.7%
Heat and power services charges	551,427	520,262	771,870	794,488	580,649	-26.9%
Networking services	245,000	481,584	482,964	450,086	380,334	-15.5%
Audio/visual services	266,438	298,588	431,674	475,843	446,967	-6.1%
Other revenues	59,772	140,084	294,046	184,369	364,404	97.6%
Telecommunications services	99,731	90,226	117,310	118,295	80,465	-32.0%
Equipment rentals	56,988	46,262	59,977	65,773	58,159	-11.6%
Labor/Event Production Labor Revenues	14,669	40,138	59,070	474,399	2,331,468	391.5%
Ticketing Services					123,865	100.0%
TOTAL OPERATING REVENUES	\$ 7,158,813	\$ 8,774,322	\$10,554,561	\$ 12,013,456	\$12,350,975	2.8%
AGREEMENT TARGET	\$8,698,000	\$9,943,000	\$10,600,000	\$11,303,000	\$11,739,000	
DIFFERENCE BETWEEN ACTUAL AND TARGET	-\$1,539,187	-\$1,168,678	-\$45,439	\$710,456	\$611,975	
% VARIANCE	-17.7%	-11.8%	-0.4%	6.3%	5.2%	

Note: Yellow highlight denotes items with significant variance. Blue denotes new revenue item.

TSJ Did Not Meet Its Net Loss Target for FY 2008-09

The second performance measure requires TSJ to achieve specific net loss targets for each fiscal year of the Agreement. As mentioned earlier, TSJ’s net loss increased 83.5% from the previous year.² Exhibit 4A & 4B compares the Management Agreement net loss performance measure to TSJ’s actual net loss from 2004 to 2009.

Exhibit 4A: Comparison of TSJ’s Management Agreement Net Loss Targets to Actual (in dollars) from FY 2004-05 to 2008-09

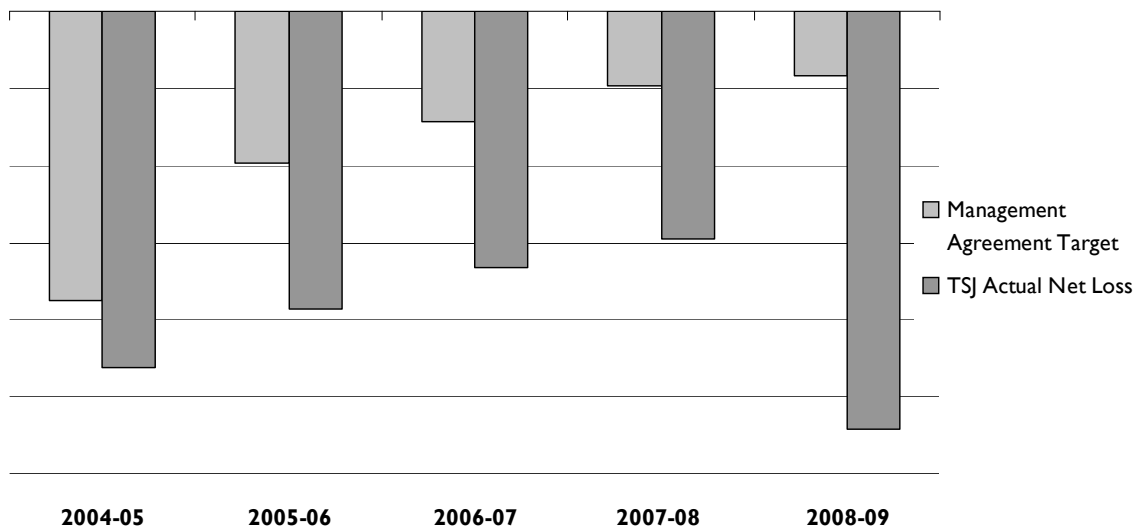


Exhibit 4B: Comparison of TSJ’s Management Agreement Net Loss Targets to Actual (in dollars) from FY 2004-05 to 2008-09

Fiscal Year	Agreement Net Loss Target	TSJ Actual Net Loss	Variance of Actual to Agreement	% Variance of Actual to Agreement
2004-05	\$3,745,000	\$4,629,067	-\$884,067	-23.6%
2005-06	\$1,966,000	\$3,868,899	-\$1,902,899	-96.8%
2006-07	\$1,432,000	\$3,332,155	-\$1,900,155	-132.7%
2007-08	\$975,000	\$2,954,557	-\$1,979,557	-203.0%
2008-09	\$836,000	\$5,421,399	-\$4,585,399	-548.5%

² For the purposes of performance measurement purposes, expenses do not include depreciation, fire insurance, City oversight, and City-funded repairs and maintenance.

Exhibit 5 below breaks out TSJ's operating expenses by category from FY 2004-05 to 2008-09. Operating expenses increased from \$14,968,013 to \$17,772,374 (or 18.7%) from FY 2007-08 to 2008-09. TSJ had significant variances in the following items in FY 2008-09 as compared to last year. TSJ provided the following explanations for increases (or decreases) in the following expense items. These items include:

- Contracted outside services: This expense increased 27.1% from last year. These expenses included temporary employment agency commission and audio/visual design services and staging.
- Repairs and maintenance: TSJ reduced cost in this area, repairing and maintaining the minimum needed.

In FY 2008-09, TSJ presented several new categories of expense. One of the categories includes cost of event production labor. Professional services, bad debt, and equipment rentals were previously categorized under *other expenses*. As a result, the total for *other expenses* has decreased.

- Event Production Labor Costs: According to TSJ, the event production labor costs due to new contracts is also associated with a sharp increase in labor production revenues as mentioned on page 8.
- Professional Services: There were increases in new expenses for professional services such as legal and consulting services related to new contracts (e.g. Nederlander Producing Co., food & beverage service, Civic Center renovation, etc.).
- Bad debt: TSJ reports an allowance for estimated uncollectible accounts.
- Equipment rentals: Includes computers, bathroom rentals, lighting, and other event-related equipment.

Exhibit 5: Comparison of Operating Expenses TSJ Incurred For Year One to Year Five

Operating Expenses:	Year One 2004-05	Year Two 2005-06	Year Three 2006-07	Year Four 2007-08	Year Five 2008-09	% Variance from Yr 4 to 5
City of San Jose management and administrative charges ³	\$ 6,228,160	\$ 5,820,023	\$ 6,645,397	\$ 6,754,513	\$ 6,662,719	-1.4%
Utilities	2,335,139	2,467,647	2,535,946	2,595,186	2,561,984	-1.3%
Administrative and general salaries - Team San Jose	645,366	872,271	1,237,668	1,972,234	1,923,319	-2.5%
Contracted outside services	516,980	714,818	461,066	421,067	535,234	27.1%
Other expenses	317,857	668,446	763,447	869,202	645,780	-25.7%
Overhead - City of San Jose	542,368	555,116	865,262	911,940	883,727	-3.1%
Operating supplies	302,600	410,711	420,768	455,786	469,809	3.1%
Repairs and maintenance	231,123	392,837	394,565	375,380	299,702	-20.2%
Insurance	276,064	280,854	282,330	287,093	257,948	-10.2%
Workers' compensation insurance premiums	124,820	226,559	130,268	175,612	219,996	25.3%
Management Fee - Team San Jose	150,000	150,000	150,000	150,000	150,000	0.0%
Contracted services - City of San Jose	117,403	83,939				
Cost of event production labor					1,967,629	100%
Bad debt expense					567,751	100%
Professional Services					509,676	100%
Equipment Rentals					117,100	100%
TOTAL OPERATING EXPENSES	\$11,787,880	\$12,643,221	\$13,886,717	\$14,968,013	\$17,772,374	18.7%
TOTAL OPERATING REVENUES	\$7,158,813	\$8,774,322	\$10,554,562	\$12,013,456	\$12,350,975	
OPERATING LOSS	\$4,629,067	\$3,868,899	\$3,332,155	\$ 2,954,557	\$ 5,421,399	83.5%
AGREEMENT NET LOSS TARGET	\$3,745,000	\$1,966,000	\$1,432,000	\$975,000	\$836,000	
DIFFERENCE BETWEEN ACTUAL AND TARGET	-\$884,067	-\$1,902,899	-\$1,900,155	-\$1,979,557	-\$4,585,399	
% VARIANCE	-24%	-97%	-133%	-203%	-548%	

Note: Yellow highlight denotes items with significant variance. Blue denotes new expense items.

³ Includes payroll of City employees who work for the Facilities.

TSJ Relies on Operating Contributions from the Transient Occupancy Tax and Parking Funds

The Facilities, under the management of TSJ, generate revenues which help fund the operations. However, to continue its operations, TSJ relies on the City for operating contributions. The City operating contributions are transferred from the Transient Occupancy Tax Fund, the General Purpose Parking Fund, and the General Fund. Exhibit 6 below illustrates the different funding sources for the operation of the Facilities. According to OED, the operating transfer from the Transient Occupancy Tax (TOT) Fund is determined by using a formula where a portion of the TOT tax receipts are transferred to the Convention and Cultural Affairs Fund. As shown below, transfers from the TOT Fund to the Convention and Cultural Affairs Fund total \$6.7 million. The transfer from the General Purpose Parking Fund is based on the amount of revenue collected at the Convention Center garage, less the amount of any capital repairs at the garage. The General Fund only transfers money to the fund when such a transfer is necessary to keep the fund afloat.

Exhibit 6: Source and Uses for the Fund 536 (Convention and Cultural Affairs Fund) from FY 2004-05 through 2008-09

	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Actual
SOURCE OF FUNDS					
Beginning Fund Balance	-491,171	-101,660	728,779	4,402,575 ⁴	8,295,598
Operating Revenues	6,719,361	8,750,372	10,236,913	11,544,681	11,612,668 ⁵
Transfers from General Fund	1,725,000		1,145,857		
Transfers from General Purpose Parking	620,000	892,823	583,000	1,249,973	833,000
Transfers from Transient Occupancy Tax	3,813,083	4,922,103	6,338,040	7,213,565	6,732,085
Other	480	3,625	20,145	16,213	
TOTAL	12,386,773	14,467,263	19,052,734	24,427,007	27,473,351
USES OF FUNDS					
Operating Expenditures	\$12,279,487	\$13,541,254	\$14,419,553	15,617,301	\$16,891,497 ⁶
Other	208,946	197,230	214,393	514,108	243,868
TOTAL	\$12,488,433	\$13,738,484	\$14,633,946	16,131,409	\$17,135,287
Ending Fund Balance	-101,660	728,779	4,418,788	8,295,598	10,338,064

Source: Finance and Budget Departments.

⁴ According to the Finance Department, the discrepancy of \$16,213 from the 2006-07 ending fund balance and the 2007-08 beginning fund balance is due to a timing difference representing interest income as reported in the 2007-08 Comprehensive Annual Financial Report.

⁵ Difference in total operating revenues differs from that in Exhibit 3 due to the adjustments made for performance measurement purposes.

⁶ Difference in total operating expenditures differs from that in Exhibit 5 due to the adjustments made for performance measurement purposes.

As shown above, in FY 2008-09, the Convention and Cultural Affairs Fund had an ending balance of \$10,338,064. According to OED, the reason the ending fund balance has been allowed to grow over the past five years is 1) to support the fund through the proposed Convention Center expansion; 2) to build a sinking fund to support capital needs at various facilities; and 3) due to the volatile nature of the Fund, to protect the General Fund from having to transfer more money due to operating deficits.

The San Jose Convention and Cultural Facilities Notes to Financial Statements for the Year Ended June 30, 2009 include the following statement:

In order for [TSJ] to continue its operations, it relies on the City for operating contributions...Accordingly, any significant changes in the TOT or parking garage revenues or decision to change the amount of support could greatly affect [TSJ's] ability to continue as a going concern.

Overall, TSJ Did Meet Its Economic Impact Target for FY 2008-09 for Total Number of Attendees

The third performance measure, economic impact, requires TSJ to achieve specific attendee day figures for local/social visitors, out-of-town visitors, and exhibitors for each year of the Management Agreement. Exhibit 7 shows a yearly comparison of TSJ's attendance targets to actual attendance from FY 2004-05 to 2008-09. Although TSJ exceeded its target for local visitors and met its target for total number of attendees in FY 2008-09, TSJ did not meet its targets for out-of-town visitors and exhibitors.

Exhibit 7: Yearly Comparison of Management Agreement Attendance Targets to TSJ's Actual Attendance

Fiscal Year	2004-05		2005-06		2006-07		2007-08		2008-09	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Local Visitors	507,000	996,478	515,100	1,194,109	600,400	1,118,794	660,000	1,555,793	690,400	1,077,522
Out of Town Visitors	60,200	93,635	87,300	109,651	92,700	132,506	103,600	108,008	108,000	94,857
Exhibitors	10,000	31,591	18,500	33,914	19,700	21,029	22,000	15,948	22,900	15,531
Total Attendees	577,200	1,121,704	620,900	1,337,674	712,800	1,272,329	785,600	1,679,749	821,300	1,187,910

TSJ overall attendance decreased 29.3% from the previous year. According to TSJ, the drop in number of events in FY 2008-09 was due primarily to the economic downturn. Short-term meetings markets were the largest hit as many corporate organizations froze meetings and events all together. Likewise, social events (i.e. holiday parties, some public dances, etc) were also cancelled. Another factor in the decline in total number of events was due to the dissolution of the American Musical Theater.

TSJ Did Meet Its Customer Service Performance Target for FY 2008-09

The fourth performance measure, customer service survey results, in the Management Agreement is stated as follows:

The Operator will create a standard survey instrument containing a series of product and service rating metrics including the following summary question, Based on the services provided, please rate our overall performance...Using 81% as the baseline, Operator will increase its customer service results by an additional 2% per year until Operator reaches a success rate of 91%.

In accordance with the Management Agreement, TSJ submits a monthly report to the Deputy City Manager. As part of this monthly report, TSJ provides the survey response rate and percentage of respondents who would book an event again at one of the convention and cultural facilities. For FY 2008-09, TSJ received a response rate of 19% for its customer service surveys. Among the event planners, 97% rates either “Excellent,” “Very Good,” or “Good” on overall experience. Exhibit 8 below illustrates the FY 2008-09 customer service survey results.

Exhibit 8: FY 2004-05 to 2008-09 Customer Service Survey Results

Customer Service Results	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Total Number of Events	481	496	519	434	344
Total Number of Surveys	46	90	117	78	68
Response Rate	10%	18%	23%	18%	19%
% Who Rated Excellent/Very Good/Good	91%	93%	97%	98%	97%
Performance Measure Met?	Inconclusive ⁷	Yes	Yes	Yes	Yes

As shown above, TSJ met the customer service results target for the past four years.

⁷ Inconclusive due to insufficient number of surveys.

Finding II One of the Three Audit Recommendations Has Been Implemented and Two Are Partly Implemented

The Office of the City Auditor has issued three previous audit reports for FY 2004-05 to FY 2007-08 to determine whether TSJ met the performance measures and other requirement specified in the Management Agreement.

The Office of the City Auditor prepares a semi-annual report on the status of outstanding audit recommendations. As of June 30, 2009, there was one recommendation which has been implemented and two outstanding audit recommendations remaining. The following provides a summary of the current status of these three recommendations (for period ending June 30, 2009). This report contains no new recommendations.

Status of Recommendations from the FY 2007-08 Annual Performance Audit of Team San Jose, Inc.

#1 (City Manager) - Request that the City Council ratify the decision by the Administration to waive its right to delete the fixed payment of \$150,000 from the preset management fee for year four and, potentially, year five of the current Management Agreement. (Priority 1)

IMPLEMENTED. On 3-3-09, the City Council voted unanimously to ratify the Administration's decision to waive the City's right under the current agreement with Team San Jose, Inc. for the management of the San Jose Convention Center and Cultural Facilities to delete the fixed payment of \$150,000 from the management fee for year four of the agreement and authorize the City Manager to exercise this waiver for year five of the agreement.

Status of Recommendations from the FY 2004-05 Annual Performance Audit of Team San Jose, Inc.

#14 (Team San Jose, Inc.) - Work with the Office of Equality Assurance and provide required documentation in order to fully meet the City's Living Wage and Prevailing Wage Policies as required in the Management Agreement. (Priority 3)

PARTLY IMPLEMENTED. The director of OEA met with representatives from Team San Jose on 2/25/09 to discuss Team San Jose's obligations as it relates to prevailing wage and living wage requirements in their contract with the City.

Additionally, OEA provided TSJ with wording to include in their quotes and service orders as it relates to prevailing wage or living wage as well as soft copies of relevant forms and instructions. As a follow-up to this meeting, TSJ has provided the Office of Equality Assurance with all of its contracts for review. However, OEA has not yet completed its review of these contracts to ensure that TSJ has complied with the City's Living Wage & Prevailing Wage policies.

#16 (Team San Jose, Inc.) - Develop and implement a workplan to correct ADA noncompliant items and notify the City accordingly. (Priority 3)

PARTLY IMPLEMENTED. The previous Management Agreement between the City and TSJ required that TSJ develop a work plan to correct or avoid any violations of the Americans Disabilities Act of 1990 (ADA). TSJ has completed the ADA accessibility survey in November 2008. The Redevelopment Agency will coordinate with various City departments to complete the review of TSJ's ADA Assessment and begin developing a workplan and timeline. Some items will be addressed during the expansion process with improvement and upgrades, however all other ADA items will be identified and addressed as funding becomes available.



408 Almaden Boulevard | San Jose, California 95110 | www.sanjose.org

To: Honorable Mayor and City Council

From: Dan Fenton, CEO, Team San Jose



Date: January 11, 2010

Subject:

Team San Jose Response to the 2008-2009 Annual Performance Audit of Team San Jose, Inc.

Team San Jose appreciates the opportunity to respond to the Annual Performance Audit (“Audit”) completed by the Office of the City Auditor. The Audit reviewed FY 2008-2009 and demonstrates solid growth in revenue, and continued success in serving our customers.

Since 2004, Team San Jose, Inc. and its over 1000 employees have served the City of San Jose and the local community through an innovative approach to customer service. Team San Jose, a non-profit corporation, has a direct impact on San Jose’s local economy and impacts business downtown through a unique local partnership between hoteliers, labor, business and the arts community. Team San Jose acts at the convention bureau.

The Audit is categorized into two sections, Finding I and Finding II. Our response below provides a brief discussion of each finding.

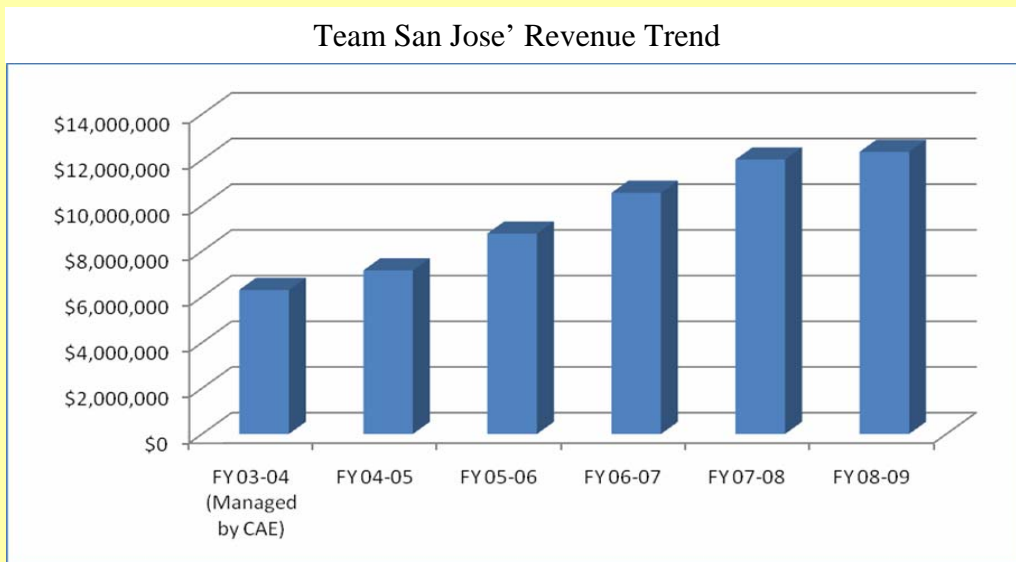
Finding I: Team San Jose met meet three of its four performance measure targets in 2008-2009.

Gross Revenues Performance Measure Target

Increasing Revenue

Team San Jose has increased revenue to \$12,350,975 or 95.8% since the City’s last year of operation in 2004 in which revenue was \$6,307,804.

The chart below provides year over year revenue trends demonstrating solid results to drive more business to the convention center and cultural facilities.



Net Loss Performance Measure Target

Since 2004 Team San Jose has reduced the San Jose McEnery Convention Center and Cultural Facilities. However, in FY 2008-2009, the operating loss increased significantly due to the increase of outside contract services, event production labor costs and bad debt.

As shown in the chart below, reductions in expenses include:

- City of San Jose Management and Administrative Charges have decreased 33.1 percentage points, as a percent of revenue, during the five years of operations.
- Utilities as a percent of revenue have decreased 11.9 percentage points over the same period.

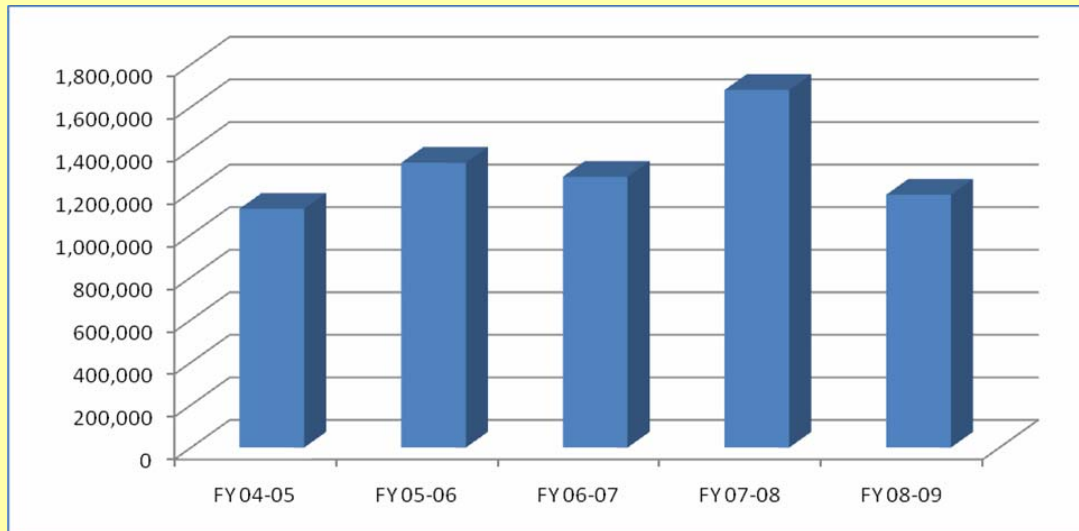
Both of these items demonstrate the increase in efficiency of the operation since 2004 under Team San Jose's management of the convention center and cultural facilities.

	Year One 2004-05	% of Revenue	Year Two 2005-06	% of Revenue	Year Three 2006-07	% of Revenue	Year Four 2007-08	% of Revenue	Year Five 2008-09	% of Revenue
Revenue	7,158,813	100.00%	8,774,322	100.00%	10,554,562	100.00%	12,013,456	100.00%	12,350,975	100.00%
City of San Jose Management and Administrative Charges	6,228,160	87.00%	5,820,023	66.30%	6,645,397	63.00%	6,754,513	56.00%	6,662,719	53.90%
Utilities	2,335,139	32.60%	2,467,647	28.10%	2,535,946	24.00%	2,595,186	21.60%	2,561,984	20.70%
Administrative and General Salaries - Team San Jose	645,366	9.00%	872,271	9.90%	1,237,668	11.70%	1,972,234	16.40%	1,923,319	15.60%
Contracted Outside Services	516,980	7.20%	714,818	8.10%	461,066	4.40%	421,067	3.50%	535,234	4.30%
Other Expenses	317,857	4.40%	668,446	7.60%	763,447	7.20%	869,202	7.20%	645,780	5.20%
Overhead - City of San Jose	542,368	7.60%	555,116	6.30%	865,262	8.20%	911,940	7.50%	883,727	7.20%
Operating Supplies	302,600	4.20%	410,711	4.70%	420,768	4.00%	455,786	3.70%	469,809	3.80%
Repair and Maintenance	231,123	3.20%	392,837	4.50%	394,565	3.70%	375,380	3.10%	299,702	2.40%
Insurance	276,064	3.90%	280,854	3.20%	282,330	2.70%	287,093	2.30%	257,948	2.10%
Workers' Compensation Insurance Premiums	124,820	1.70%	226,559	2.60%	130,268	1.20%	175,612	1.40%	219,996	1.80%
Management Fee - Team San Jose	150,000	2.10%	150,000	1.70%	150,000	1.40%	150,000	1.20%	150,000	1.20%
Contracted Services - City of San Jose	117,403	1.60%	83,939	1.00%	-	0.00%				
Cost of Event production	-	-	-	-	-	-	-	-	1,967,629	15.90%
Bad Debt expense	-	-	-	-	-	-	-	-	567,751	4.60%
Professional Services	-	-	-	-	-	-	-	-	509,676	4.10%
Equipment Rentals	-	-	-	-	-	-	-	-	117,100	0.90%
Total Operating Expenses	11,787,880	164.70%	12,643,221	144.10%	13,886,717	131.60%	14,968,013	124.60%	17,772,374	143.80%
Operating Loss	-4,629,067	-64.70%	-3,868,899	-44.10%	-3,332,155	-31.60%	-2,954,557	-24.60%	-5,421,399	-43.80%

Economic Impact Performance Measure Target

For FY 2008-2009, 1.18 million visitors visited San Jose, generating \$117.7 million in economic impact. Even though the total is a 29.3% drop over last year, it is still 144% of our target for this fiscal year. The decrease is mainly due to the lower attendance in both theater and convention events.

Total Attendance at the Convention & Cultural Facilities



Customer Service Results Performance Measure Target

Customer service is a key component of keeping current customers and gaining new business. Customer Satisfaction survey results indicate:

- 98% of customers reported excellent, very good or good when rating their overall customer experience.
- 97% of customers provided a strong indication they would return to San Jose in the future.

Team San Jose continues to evaluate ways to use survey data submitted to respond to business trends and customer needs. Team San Jose is a unique model with one point of contact for customers and meeting planners. As an industry standard, convention centers and convention and visitors bureaus have challenges working together to provide a seamless experience for customers.

Team San Jose's approach provides customers with one point of contact from booking to executing their event, creating flexibility and saving time for the client. The customer survey results continue to validate that this approach is what clients need to deliver successful events.

Finding II: One of the three audit recommendation has been implemented and two are partially implemented.

#1 (City Manager) - Request that the City Council ratify the decision by the Administration to waive its right to delete the fixed payment of \$150,000 from the preset management fee for year four and, potentially, year five of the current Management Agreement. (Priority 1)

IMPLEMENTED

#14 Work with the Office of Equality Assurance and provide required documentation in order to fully meet the City's Living Wage and Prevailing Wage Policies as required in the Management Agreement. (Priority 3)

Team San Jose agrees with the Auditor's opinion to work with the Office of Equality Assurance to ensure that compliance has been achieved. Team San Jose has submitted the information needed to the Office of Equality Assurance and are waiting to hear back on other information the office might need to address this section.

#16 Develop and implement a work plan to correct ADA noncompliant items and notify the City accordingly. (Priority 3)

Team San Jose agrees with the Auditor's opinion to work The Redevelopment Agency to coordinate with various City departments to complete the review of the Assessment and begin developing a work plan and timeline. Some of the non complaint issues in the parking garage will be addressed during the resurfacing project currently underway.

Conclusion

Team San Jose is proud of the accomplishments to date; increased revenue, decreased and managed expenses, and support our local community through our partnership with hotels, arts leadership, local labor, Centerplate and the San Jose Convention & Visitors Bureau.

Specific results include:

- Team San Jose has increased revenue by 94% since 2004.
- 98% of customers reported excellent, very good or good when rating their overall customer experience.
- 97% of customers provided a strong indication they would return to San Jose in the future.
- For FY 2008-2009 1.18 million visitors visited San Jose.
- For Fiscal Year 2008-2009, 344 events were held at the Convention Center and cultural facilities,

Team San Jose looks forward to continuing a strong partnership with the City as we work together make San Jose a great place to live, work, visit and play.

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class¹	Description	Implementation Category	Implementation Action³
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring. ²	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists. ²	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

¹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

² For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

³ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.