

MEMORANDUM

TO: Kerry Adams-Hapner, Contract Manager
City of San Jose

FROM: Karolyn Kirchgesler, CEO,
Team San Jose

DATE: April 5, 2017

SUBJECT: TEAM SAN JOSE
Second Quarter Report - Fiscal YTD 2016-2017 (October 2016 thru December 2016)

EXECUTIVE SUMMARY

Team San Jose is pleased to submit our quarterly report for the Second Quarter. In this report we will review our performance for the quarter, the fiscal year-to-date and compare it to our annual performance goals as well as last year's comparable timeframes. We will also discuss relevant marketing and promotional activities executed by Team San Jose for the promotion of the City as a tourism and travel destination.

Team San Jose Performance Measures:

Q2

FY 2015-16 vs FY 2016-17

| FY 15 - 16 Q2 Results | FY 15 - 16 FYTD Results | FY 16 - 17 Q2 Goal | FY 16 - 17 FYTD Goal | FY 16 - 17 Q2 Results | FY 16 - 17 FYTD Results | FY 16 - 17 Q2 Results | FY 16 - 17 FYTD Results |
|--------------------------|----------------------------|-----------------------|-------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
|--------------------------|----------------------------|-----------------------|-------------------------|--------------------------|----------------------------|--------------------------|----------------------------|

Economic Impact

| | | | | | | | | |
|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|------|------|
| Hotel Room Nights | 31,427 | 107,586 | 56,769 | 80,796 | 62,009 | 112,896 | 109% | 140% |
| Event Attendance | 663,208 | 496,386 | 233,901 | 424,446 | 264,902 | 414,974 | 113% | 98% |
| Estimated Impact | \$ 49,511,003 | \$ 39,678,280 | \$ 23,100,076 | \$ 41,634,696 | \$ 20,612,533 | \$ 37,318,490 | 89% | 90% |
| Return on Investment | \$ 4.07 | \$ 1.97 | \$ 1.94 | \$ 1.80 | \$ 1.79 | \$ 1.74 | 92% | 97% |

Gross Operating Profit / Revenue

| | | | | | | | | |
|-------------------------|---------------|---------------|--------------|---------------|---------------|---------------|------|------|
| Gross Operating Revenue | \$ 10,721,763 | \$ 17,532,372 | \$ 9,637,351 | \$ 16,024,548 | \$ 13,157,328 | \$ 19,554,492 | 137% | 122% |
| Gross Operating Profit | \$ 3,699,860 | \$ 3,882,096 | \$ 3,093,328 | \$ 4,203,105 | \$ 3,748,451 | \$ 4,252,381 | 121% | 101% |

Theatre Performance

| | | | | | | | | |
|-------------------------------------|------|-----|------|-----|------|-----|-----|------|
| % of Sellable Days - Performances | 122% | 97% | 103% | 81% | 101% | 92% | 98% | 114% |
| % of Sellable Days - Special Events | 7% | 5% | 7% | 7% | 4% | 5% | 57% | 71% |

Customer Satisfaction

| | | | | | | | | |
|-------------------|------|------|-----|-----|-----|-----|-----|------|
| Satisfaction Rate | 100% | 100% | 95% | 95% | 88% | 95% | 93% | 100% |
|-------------------|------|------|-----|-----|-----|-----|-----|------|

For the quarter, Team San Jose met and surpassed its target goals in four of nine categories. For the quarter, estimated economic impact, return on investment, theater performances, theater special events and customer satisfaction fell short of goal. Further details are provided below.

Over the first two quarters, Team San Jose met and surpassed its target goals in five of nine categories.

Fiscal year to date, Team San Jose fell short of goal in event attendance, estimated economic impact, return on investment and theater special events. TSJ anticipates that all four measures will recover by end of the fiscal year.

Team San Jose Marketing and Communications

In the second quarter, Team San Jose hosted 5 travel writers as part of either familiarization tours or individual media trips. Year to date TSJ has hosted 32 travel writers.

Year to date, Team San Jose has secured 191 total articles: 174 articles in travel, leisure and lifestyle publications and 17 articles in convention and meetings trade publications.

Team San Jose also continued to build its social media presence. In the second quarter, Twitter followers grew by 2%, Facebook page likes grew by 10%, Pinterest followers increased by 3%, YouTube subscribers grew by 5%, LinkedIn followers increased 9%, and Instagram followers grew by 17%.

PERFORMANCE MEASURES

The following contains a detailed review of Team San Jose's second quarter and year-to-date performance. For a detailed explanation of how goals are set and the budgeting assumptions for this fiscal year, please refer to Appendix B and Appendix C, respectively.

Second Quarter 2016-17 Performance Measure Goals compared to Results and Prior Year:

| | FY 15 - 16 Q2 Results | FY 15 - 16 FYTD Results | FY 16 - 17 Q2 Goal | FY 16 - 17 FYTD Goal | FY 16 - 17 Q2 Results | FY 16 - 17 FYTD Results | FY 16 - 17 Q2 Results | FY 16 - 17 FYTD Results |
|---|--------------------------|----------------------------|-----------------------|-------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| Economic Impact | | | | | | | | |
| Hotel Room Nights | 31,427 | 107,586 | 56,769 | 80,796 | 62,009 | 112,896 | 109% | 140% |
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| Estimated Impact | \$ 49,511,003 | \$ 39,678,280 | \$ 23,100,076 | \$ 41,634,696 | \$ 20,612,533 | \$ 37,318,490 | 89% | 90% |
| Return on Investment | \$ 4.07 | \$ 1.97 | \$ 1.94 | \$ 1.80 | \$ 1.79 | \$ 1.74 | 92% | 97% |
| Gross Operating Profit / Revenue | | | | | | | | |
| Gross Operating Revenue | \$ 10,721,763 | \$ 17,532,372 | \$ 9,637,351 | \$ 16,024,548 | \$ 13,157,328 | \$ 19,554,492 | 137% | 122% |
| Gross Operating Profit | \$ 3,699,860 | \$ 3,882,096 | \$ 3,093,328 | \$ 4,203,105 | \$ 3,748,451 | \$ 4,252,381 | 121% | 101% |
| Theatre Performance | | | | | | | | |
| % of Sellable Days - Performances | 122% | 97% | 103% | 81% | 101% | 92% | 98% | 114% |
| % of Sellable Days - Special Events | 7% | 5% | 7% | 7% | 4% | 5% | 57% | 71% |
| Customer Satisfaction | | | | | | | | |
| Satisfaction Rate | 100% | 100% | 95% | 95% | 88% | 95% | 93% | 100% |

Hotel Room Nights – We continue to see an atypical booking pattern in the current Silicon Valley economy when it comes to future room night sales. On average, room night sales follow a six month peak pattern as the industry sales cycle runs every six months. In normal times, when it is more of a buyer's market, many deals are closed in December and June, as meeting planners can extract the most concessions from competing destinations as they try to meet mid-year and year-end goals.

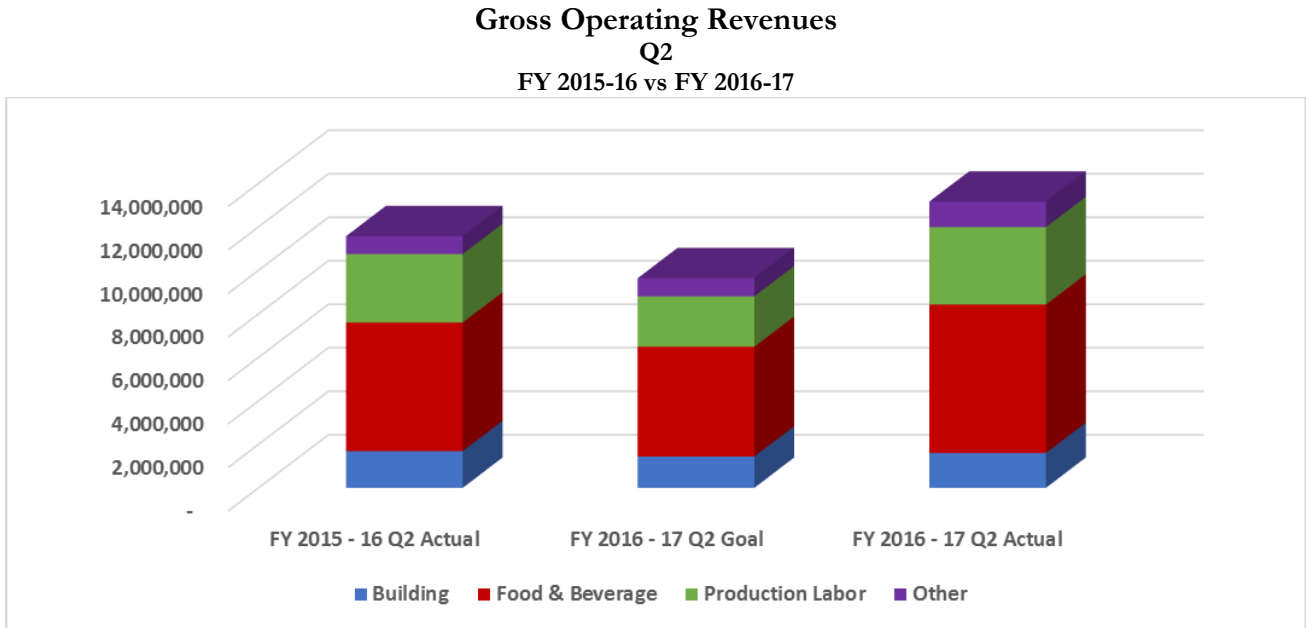
However, when the market is such a strong seller's market, we see that inventory moves through much more quickly – with pieces of business either booking or being turned down at a very fast pace. This led to FY 2017-18 getting off to a very fast start in terms of sales, with 50,887 room nights closing in the first quarter (or 212% of the quarter goal). With the second quarter performing slightly better than goal, we closed the first half of the fiscal year at 32,100 room nights ahead of goal.

Event Attendance and Estimated Impact – Through the first quarter several cancelled events led to attendance reaching 79% of goal and estimated impact reaching 90% of goal. In the second quarter, attendance performed above goal mainly due to pick up of several theater events in December. However, cancellations again negatively affected the estimated impact for the quarter.

Two corporate tech events (one in October and one in November) cancelled, a combined loss of \$6.9 million. One event cancelled as the client had a significant acquisition while the other client had an abrupt change in marketing strategy. While better than anticipated performance in other conferences helped to make up a portion of the loss, these cancellations highlight the volatile nature of the corporate tech market – where even in economically lucrative times, events can cancel if an individual client’s business needs change.

Accepting any additional major cancellations, the tendency towards stronger than forecasted performance for the remainder of the fiscal year in attendance and estimated impact should ensure that both measures meet year-end targets.

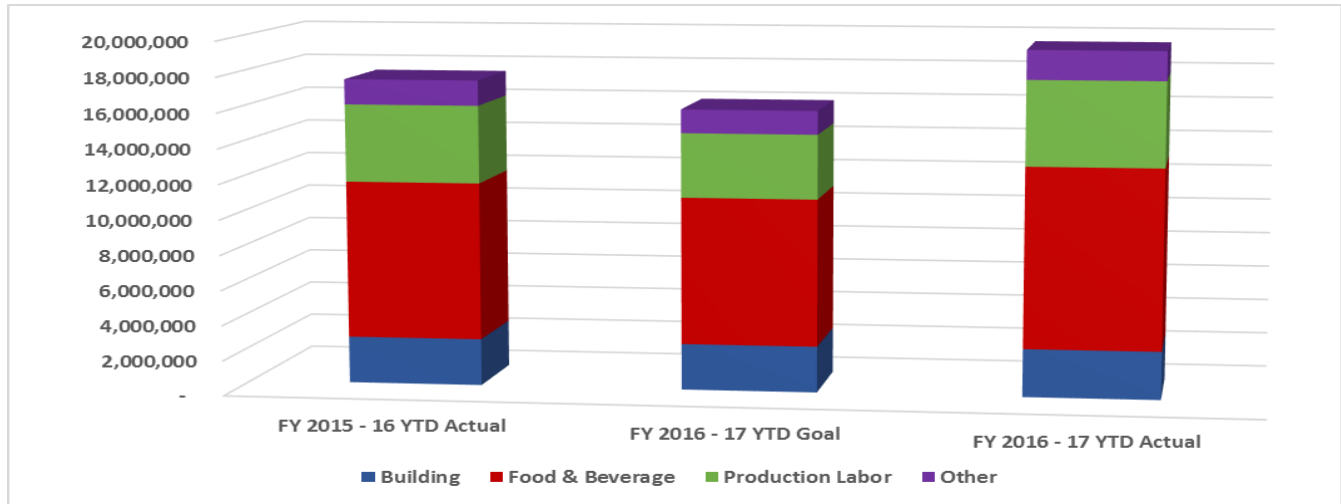
Gross Operating Revenue and Gross Operating Profit



Revenues performed at 137% of goal (or \$3.5 million better than targeted) for the second quarter. This increase was largely driven by greater than targeted Food and Beverage (153% of goal) and Production Labor (135% of goal). These largely derived from several large scale conferences increasing their scope.

The aforementioned increase in scope provided needed funding for unanticipated operating repairs and maintenance \$600k in excess of budget and assisted the Gross Operating Profits in overcoming a weaker start in quarter one (45% of goal) to end the second quarter at 101% of goal.

**Gross Operating Revenues
FYTD
FY 2015-16 vs FY 2016-17**



Return on Investment (ROI) – With Estimated Economic Impact below goal, the Return on Investment formula will calculate below goal. As this measure rises, the ROI measure will improve commensurately.

Theater Performance – Team San Jose continues to increase performance bookings as the City National Civic continues to see increased activation so that we finished the quarter close to goal and well above goal fiscal-year-to-date. TSJ lost a few special event pieces of business to finish behind pace for the quarter and year-to-date. We continue to see a shift of these events to the renovated convention center and grand ballroom.

Customer Service - Team San Jose continues to provide an online survey form that is distributed directly to the meeting planner of each event and their responses are sent directly to our contract administrator at the City of San Jose, Team San Jose staff, our labor partners and exclusive vendors working within the convention center.

For the second quarter:

- Customer survey satisfaction rates for 2016-17 are 93% for overall performance.
- Response rate is 35% or 17 out of 48 clients submitted survey responses.

TSJ scored a Good, Very Good or Excellent on 15 out of 17 responses this quarter. One of the negative scores was largely due to conditions outside of TSJ's control: namely labor prices and the cost/ availability of hotel rooms.

Fiscal-year-to-date:

- Customer survey satisfaction rates for 2016-17 are 100% for overall performance.
- Response rate is 39% or 50 out of 127 clients submitted survey responses.

MARKETING AND COMMUNICATIONS

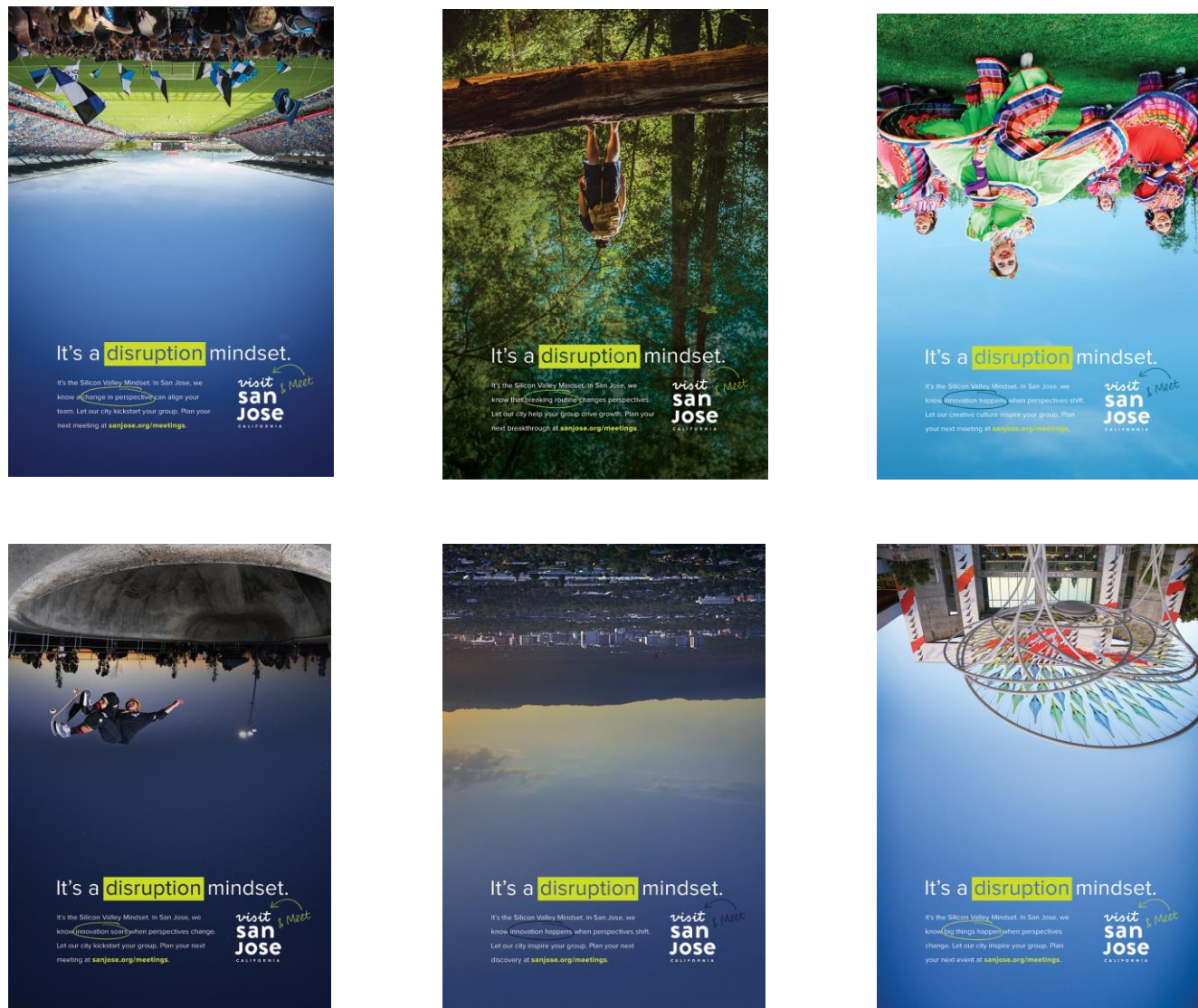
ADVERTISING:

Quarter 2 Results:

Team San Jose placed 10 advertisements in 8 trade publications from October – December 2016, to showcase San

Jose as a meetings and business destination. In addition, Team San Jose's websites (SanJose.org, SanJoseMeetings.com, SanJoseTheaters.org and Utrip) attracted 380,308 unique visitors.

Key Advertisements placed in Q2:



PUBLIC RELATIONS:

One of the important roles Team San Jose plays in drawing awareness to our destination is working with regional, national and international travel media and tour operators. This happens on several fronts including actively securing media interviews, distributing press releases, responding to media inquiries, pitching stories to media around specific events or newsworthy topics, and inviting media to experience San Jose firsthand.

Quarter 2 Results:

Team San Jose has secured 155 articles and hosted 12 travel writers as part of familiarization tours and individual media trips from October – December 2016.

KEY Q2 MEDIA PLACEMENTS IN TRAVEL/LIFESTYLE PUBLICATIONS:

| Date | Publication | Journalist | Opportunity | Headline | Audience |
|----------|----------------------------------|------------------|--|--|------------|
| 10/7/16 | Telegraph.co.uk | Chris Leadbeater | Hosted journalist in San Jose to promote leisure travel from the UK | 'It has the feel of a benign dictatorship': Inside Silicon Valley, land of the geeks | 29,118,813 |
| 10/1/16 | The Sunday Travel Times Magazine | Anna Brooke | Hosted journalist in San Jose to promote leisure travel from the UK | Take it to the Bridge | 57,062 |
| 11/2/16 | HighLife.ba.com | Rhodri Marsden | Hosted journalist in San Jose to promote leisure travel from the UK | USA: Hotel de Anza, San Jose, California | 76,935 |
| 10/27/16 | Grazia | Nadine Kaminski | Hosted journalist in San Jose to promote leisure travel from the Germany | Das Schonste Industriegebiet Der Welt | 144,017 |
| 11/18/16 | Mercury News | Linda Zavoral | Hosted journalist at Anthony Bourdain event | Bourdain in San Jose: On Trump, Elite Yelpers, erotic food | 2,855,950 |

KEY Q2 MEDIA PLACEMENTS IN MEETINGS AND TRADE PUBLICATIONS:

| Date | Outlet | Journalist | Opportunity | Headline | Audience |
|----------|-----------------------|-------------------|--|---|-----------|
| 10/4/16 | FacilitiesOnline.com | George Seli | Worked with journalist to facilitate information for story | New Silicon Valley Comic Con finds a progressive partner in Team San Jose | 106,918 |
| 10/6/16 | Meetings Today Online | Carolyn Blackburn | Worked with journalist to facilitate information for story | Silicon Valley is a Sports Haven for groups | 19,971 |
| 10/21/16 | USAE | Todd McElwee | Worked with journalist to facilitate information for story | NCAA Awards Seven Championships from North Carolina | 2,000 |
| 10/19/16 | Venues Today | N/A | Nominated Ewell Sterner for his work with Hunger at Home | Congratulations Silver Spoon Winners | N/A |
| 11/22/16 | Mercury News | Sal Pizzaro | Hosted journalist at Hunger at Home gala | San Jose: Hunger at Home gala a wild success | 2,855,950 |

Q2 TRAVEL MEDIA HOSTED IN SAN JOSE:

| Date | Outlet | Theme | Editor/Reporter | Opportunity |
|----------|--------------------|-------------------|----------------------|---|
| 10/17/16 | Freelancer | Leisure/Lifestyle | James Shillinglaw | Hosted reporter to promote leisure travel to the destination. |
| 11/29/16 | Scottish Sun Times | Leisure/Lifestyle | Lynn Houghton | Hosted reporter to promote the British Airways flight from London |
| 11/22/16 | Zoomer Magazine | Leisure/Lifestyle | Anne O'Hagan | Partnered with Visit California to host Canadian media FAM |
| 11/22/16 | NUVO Magazine | Leisure/Lifestyle | Whitney Millar | Partnered with Visit California to host Canadian media FAM |
| 11/22/16 | Freelancer | Leisure/Lifestyle | Sara Bergeron Oulett | Partnered with Visit California to host Canadian media FAM |

Fiscal Year to Date Results:

As a result of our media outreach efforts, Team San Jose has secured 191 articles and hosted 32 travel writers as part of familiarization tours and individual media trips. We have secured 174 articles in travel, leisure and lifestyle publications and 17 articles in trade publications.

SOCIAL MEDIA:

Team San Jose continued to build its Social Media presence. Below are current statistics:

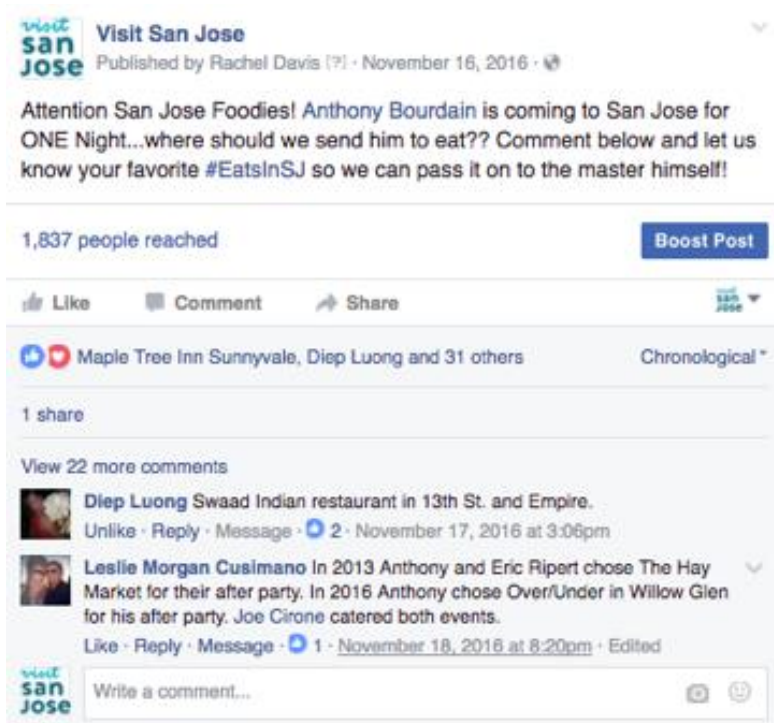
Q2 Social Media Growth:

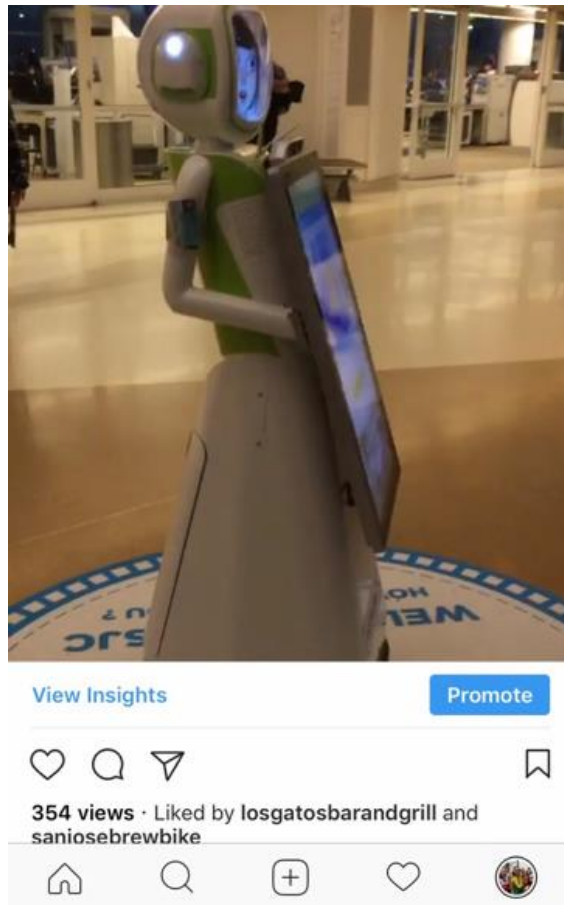
Twitter Followers: 102
Facebook Likes: 757
Pinterest Followers: 16
Instagram: 292
YouTube Subscribers: 9
LinkedIn Followers: 141

Total Social Media Results (as of Dec. 31, 2016):

Twitter Followers: 6,757
Facebook Likes: 7,199
Pinterest Followers: 507
Instagram: 1,692
YouTube Subscribers: 173
LinkedIn Followers: 1,549

Top Social Media Posts for Q2:





Conclusion

Team San Jose appreciates the opportunity to present performance results for the CCF to the Community and Economic Development Committee.

The Performance Measures reviewed above are developed jointly by the City Manager's Office and Team San Jose and submitted for consideration by the City Council through the City's budget process. The Performance Measures are monitored monthly by the Board and the City Manager's Office.

This report has been coordinated with the City Manager's Office and submitted by Karolyn Kirchgesler, CEO, Team San Jose.

APPENDIX A:

About Team San Jose

Team San Jose is a not for profit management company that manages several contracts for the City of San Jose. Team San Jose acts as the Convention and Visitors Bureau, the official sales, marketing and public relations organization for San Jose as a travel and tourism destination. Team San Jose also serves as the manager and operator of seven City owned facilities: the San Jose McEnery Convention Center, the Center for Performing Arts, City National Civic, the California Theatre, the Montgomery Theater, Parkside Hall and South Hall.

Mission

Team San Jose promotes San Jose as a destination to stimulate economic development.

Team San Jose Values

- We empower leaders in the Arts, Business, Labor, and Hotel communities to work together.
- We are dedicated to an open and honest dialogue among diverse partners.
- We are devoted to making San Jose a desirable destination for local, national and international visitors.
- We are committed to fiscal responsibility and accountability to the customer.
- We are dedicated to providing a unique and compelling customer experience

Lines of Business

Due to the diverse roles and responsibilities taken on by the organization, Team San Jose has 99 full-time employees and up to 1,300 people can be working in the facilities at any given time.

Through the Convention and Cultural Facilities contract Team San Jose:

- Provides management and operation of the San Jose McEnery Convention Center, Parkside Hall and South Hall
- San Jose Theaters manages and operates the Center for the Performing Arts, City National Civic, California Theatre and Montgomery Theater
- Provides sales, marketing and public relations for the four City owned theaters
- Provides all food and beverage services within the facilities including: convention and theater concessions, banquets, a Peet's Coffee kiosk and outside catering services
- Manages the capital repair and maintenance of these City owned facilities
- Manages, as a franchisee, a UPS Store within the San Jose McEnery Convention center

Through the Convention and Visitors Bureau contract Team San Jose:

- Is the official sales, marketing and public relations organization for San Jose as a tourism and travel destination, promoting travel to San Jose both domestically and internationally
- Leads convention sales, marketing and public relations for the City owned facilities as well as direct conference efforts for local San Jose hotels
- Acts as San Jose's official film commission
- Provides destination marketing services (housing, registration, transportation, etc.) to large conventions within San Jose
- Operates the visitor welcome centers at Mineta San Jose International Airport as well as the San Jose McEnery Convention Center

APPENDIX B:

Process for Setting Performance Targets

This appendix will explain the methodology that Team San Jose utilizes for determining the annual budget and performance measure targets. See Appendix C for the assumptions utilized for Fiscal Year 2015 – 16.

Best Practice for Performance Based Incentive Pay

Team San Jose follows “Best Practice” as stated on page 6 of the Annual Fiscal Year 2014-2015 City Auditors’ Report:

“In 1998 Best Practice for Performance-Based Service Contracting, the White House Office of Management and Budget described performance-based contracts as follows:

Concerning incentives, the best practices caution that:

*Care must be taken to ensure that the incentive structure reflects both the value to the government of the various performance levels, and a meaningful incentive to the contractor. Performance incentives should be **challenging yet reasonably attainable**. The goal is to reward contractors for outstanding work, but not penalize them for fully satisfactorily but less than outstanding work.”*

City oversight in partnership with Team San Jose established challenging but reasonable and attainable performance measure targets.

The approved operating budget influences three (3) out of the nine (9) performance measures. Operating Revenues, Gross Operating Profit, and Return on Investment are influenced by the approved operating budget. The Operating Budget also directly impacts Fund 536. Setting an attainable performance goal is vital to the financial health of Fund 536 as well as the financial security of the operations for the following reasons:

- The net Transient Occupancy Tax transfer from Fund 536 to support facility operations is determined by the approved operating budget. Unattainable or over-projected revenues would result in a shortage of revenue in Fund 536, thereby necessitating the need for an additional unbudgeted transfer to pay for facility operations. This could put Fund 536 in jeopardy of being overspent.
- Vital capital repairs to the facilities are also funded through Fund 536. As the fund balance is influenced by the amount needed for facility operations (mentioned above), overly aggressive projections could result in an over commitment to capital projects- thereby also placing the solvency of Fund 536 at risk.

Annual Budget Process

First - Revenues are budgeted based on the status (contracted, tentative, etc.) of events as of January 31, 2016. The formula is based on the projected value of individual client contracts and historical data of revenues booked in the year for the year. Team San Jose uses the following methodology to establish revenue projections:

- Revenues equal to 100% of Contracted Business (TSJ has received a fully executed contract outlining the value of business and received deposits)
- Revenues equal to 85% of Contract on outstanding contracts (Client and TSJ are in final negotiations and awaiting signed agreement and deposit)
- Revenues equal to 80% of Definite business (Client has signed a Letter of Agreement and/or Hotel Contracts but the Facility Use agreement has not been issued)
- Revenues equal to 50% of potential contract that is in a Tentative Status (Sales is in the bidding process but has not been awarded the business)
- Estimates of monthly revenue pick up (Business that is being pursued by Sales in addition to new leads that have not been identified, which represents historically 40 to 50% of revenues).

Second - Historical comparisons to prior year revenues are done to provide guidelines for revenue growth opportunities.

Third - Economic factors are taken into consideration to help determine pickup opportunities:

- Hotel room availability
- Business mix that is contracted
- Industry trends
- Number of contracted events as of December 31 compared to past years.
- Meeting and exhibit space available in the Convention Center and other venues (how many consecutive open dates with adequate space is left to sell within the fiscal year)

Revenue projections are submitted to CSL – Convention, Sports & Leisure International, for review and feedback. Upon receipt of a final approved operating project, the corresponding line items for **Gross Operating Revenue** and **Gross Operating Profit** are set as performance goals.

Setting Other Performance Targets

Hotel Room Nights – Forecasted based on tentative business in the sales funnel, historic and peer benchmarked conversion rates, and greater economic trends and conditions. Market conditions like hotel availability also play a significant role.

Event Attendance and Estimated Impact – Attendance is based on forecasts that follow similar methodology to the budget process discussed above. Projected attendances are then ran through economic impact calculators to determine goals for Estimated Impact. Pick-up in building revenue is utilized to calculate a projected gain of both attendance and estimated impact through the fiscal year.

Return on Investment – Return on investment is based on the method of calculation mutually agreed upon by TSJ and the City Oversight. The calculation is as follows:

$$\frac{(\text{Gross Operating Revenue} + \text{Transient Occupancy Tax} + \text{Parking Revenues reported})}{(\text{Gross Operating Expenses} + \text{Debt Service} + \text{Parking Expenses} + \text{Capital expenditures in Fund 536} + \text{City expenses from Fund 536 related to facility operations} + \text{City Overhead} + \text{City Oversight} + \text{Fixed Management Fee})}$$

Theater Performance – Performance is calculated as the projected percentage of performances held vs. the number of sellable days. Sellable days are defined as total days minus move-in, move-out, holidays, dates held by arts partners (Ballet, Opera, Symphony and Children’s Musical Theater).

- **Performances** - Based on the number of non-arts partner performances secured directly by Team San Jose as a percentage of sellable days.
- **Special Events** – Based on the number of special events hosted as a percentage of sellable days.

Customer Satisfaction - Typically, the hospitality industry standard goal is 90%. TSJ established the goal based on the hospitality industry standard of 90% plus 5%.

APPENDIX C:

Performance Measure and Budget Assumptions for FY 2016 – 17

This appendix will explain the assumptions that were utilized in determining the goals for the current fiscal year. For a review of the methodology utilized in setting performance measure, please refer to Appendix B. Please note, that these assumptions were only utilized for the following measures: Gross Operating Revenue and Hotel Room Nights.

Assumptions Utilized for FY 2016-17 Annual Budget

Gross Operating Revenue:

Revenues consist of several different streams. The transient occupancy tax transfer and revenues generated by the city operated parking garage attached to the San Jose McEnery Convention Center are agreed upon by the City and Team San Jose through the budgeting process based on economic forecasts and conditions. The rest of the streams are directly controlled by Team San Jose performance and therefore, the sum of these revenues are considered the metric for determining Team San Jose's Gross Operating Revenue performance measure.

Team San Jose are generally attributable to three main streams: building revenues (rents paid), food and beverage revenues, and production labor revenue. These three streams account for nearly 90% of Team San Jose's gross operating revenues. Other revenue streams (such as commissions, technology revenue, and ticketing) account for the remaining 10%.

Building Revenue Assumptions

Building revenues were budgeted at 112% of FY 2014-15 actuals and 95% of FY 2015-16 actuals based on the following reasons:

- Due to constraints on available hotel rooms downtown, smaller pieces have been booked into the center compared to prior years.
- Remaining open dates are not compatible with typical corporate windows for business.
- Team San Jose lost two lucrative Public Dances due to USA Gymnastics hold.

Food & Beverage Revenue Assumptions

Food and Beverage Revenues were budgeted at 99% of FY 2014-15 actuals and 79% of FY 2015-16 goals based on the following reasons:

- Food and Beverage contracted a one-time corporate holiday event that grossed \$700k in food and beverage in December of FY 2016. The event was not scheduled to repeat for this fiscal year.
- Likewise, with Parkside Hall closing, TSJ has lost \$646k in F&B Revenue (\$900k overall in revenue).

Production Labor Revenue Assumptions

Our IATSE and Teamsters employees provide production services to our clients and the client is invoiced at cost plus a markup. Production revenue is influenced by event type (Corporate, Sport, Tradeshow, Concert, Broadway, etc.), size of event, as well as the complexity of the event. Based on the business mix for each year, production revenue can fluctuate significantly from year to year.

Production revenues were budgeted at 96% compared to FY 2014-15; however, forecasted at 80% of FY 2015-16 for the following reasons:

- At the time of budget, Broadway San Jose had not announced their FY 2016-17 headliner, and the laid out similar to the FY 2014-15 season as opposed to the FY 2015-16 season with large scale productions like the Lion King and Wicked.

Other Revenue Assumptions

Other revenues include commissions, technology revenue, ticketing, etc. These revenues were budgeted to perform 94% compared to FY 2014-15 goals and 90% of FY 2015-16 actuals for the following reason:

The previously mentioned shift to relatively smaller conferences impact auxiliary services demand, thereby causing TSJ to forecast other revenues as slightly less than flat over the previous two years.

Assumptions for Other Performance Measures:

Hotel Room Nights:

The Hotel Room Nights goal was placed at 75% of FY 2014-15 and 85% of FY 2015-16 actual performance based on the following:

- Increased transient business travel has created hotel compression and provided hotels with the ability to achieve higher room rates. The growth in transient travel and corresponding higher room rates are the primary factors leading to improved hotel revenues and improved transient occupancy tax. This growth has also affected room availability for group business. The combination of reduced inventory and higher room rates have made it increasingly difficult to obtain the necessary commitment from the hotels to remain competitive for larger, citywide groups.

APPENDIX D:

Frequently Asked Questions

This appendix will address some of the most frequently asked questions that staff receive around Team San Jose and its performance measures and budget.

Why did your room night goal decrease when San Jose hotels are having record setting years?

Team San Jose's room night goal is affected by several different factors. One primary factor is the hotel community's consensus around proper business mix. Hotels balance their mix of business by booking different types of travelers. These travelers can be split into four groups:

- **Transient leisure** – Individuals or small parties (group of friends, family, etc.) that travel for vacation.
- **Transient business** – Individual business travelers. This is currently the largest and most lucrative segment for travel in San Jose as the bookings tend to be short-term and concentrated on the same midweek dates when business occurs, thereby creating a huge demand for a limited supply of rooms.
- **Group** – This segment encompasses all events that entail a one-time contracted block of rooms with hotels. This is the segment that Team San Jose influences through our direct sales efforts and includes conventions, conferences, meetings, sporting events, public festivals, group leisure tours, etc. While these can represent large amounts of rooms, group organizers generally want some concession on rates since they are bringing such a large guaranteed volume of business to the hotels.
- **Contract** – The smallest segment, this encompasses business travelers who while traveling individually, are staying in existing standing room blocks at a particular property. A good example is international flight crews who need to have a mandatory overnight stay between trans-oceanic trips.

When the economy in Silicon Valley is in a peak part of the cycle, hotels will tend to limit the amount of inventory that is available for group rooms as they can gain much higher rates. This leads to restrictions on longer lead group business as hotels want to reserve as much space as possible for higher rated business. A comparison of occupancy and average daily rates between March 2010 (when the market was at the lower end of the cycle) and March 2016 (current peak of cycle) demonstrates this effectively:

**March 2010 vs March 2016
Daily Occupancy and Monthly ADR**

| Weekday | Mar-2010 | Mar-2016 |
|----------------|-----------------|-----------------|
| Sun | 35.0% | 52.6% |
| Mon | 53.1% | 82.5% |
| Tue | 65.8% | 94.4% |
| Wed | 71.5% | 93.9% |
| Thu | 73.5% | 77.3% |
| Fri | 64.4% | 74.7% |
| Sat | 60.8% | 79.3% |
| Total | 60.9% | 80.1% |
| Avg Daily Rate | \$120.91 | \$208.28 |

Source: San Jose 14 Reporting Convention Hotels

Thus, Team San Jose has less room inventory during prime weekdays that coincide with the majority of dates that conferences and conventions are looking to be held, thereby limiting selling opportunities to mostly weekend business.

Why do some events that draw large numbers of attendees to downtown and the facilities have less Estimated Impact than events with smaller attendances?

The Estimated Impact performance measure for Team San Jose is a monetary valuation of the direct spending that occurs as a result of events booked within Team San Jose managed facilities. Any measure of economic impact is an attempt to measure only the incremental increase in spending. As such, it is necessary to account for the area in which you wish to measure the increase to discount spending that would otherwise occur within a different part of that area (often referred to as “displaced spending”). As Team San Jose’s mission is to promote spending within all of the city of San Jose, spending by locals is largely considered displaced spending as it is being directed to the downtown facilities and local area, but could very likely be spent elsewhere within the local economy.

For example, a large consumer show (such as a boat show, auto show, or home show) may draw significant attendance. However, by and large, these attendees are local – they decide to attend the show downtown for a few hours as opposed to shopping at a mall on the south or west side of town or visiting a downtown museum or attending a cultural performance on the east side. There could potentially be a large net economic impact for downtown San Jose (incremental spending in surrounding restaurants, shops, etc.) for this activity, but it is largely displaced from other areas of the city. While in an urban area such as the Bay Area, San Jose is competing with surrounding communities for local spending, our current impact formula estimates the average daily spend of local citizens outside our facilities at \$26.50.

By comparison, a multi-day meeting or event that attracts overnight guests brings visitors that would not have otherwise traveled to San Jose, therefore all spending is incremental. In our current formula, this translates to an average daily spend of \$242 per out of town visitor.