



TAPInternational

SANTA CLARA CONVENTION CENTER AND
CONVENTION-VISITORS BUREAU:
RESTRUCTURING OPERATIONS CAN
STRENGTHEN ACCOUNTABILITY,
PERFORMANCE AND REVENUE

FINAL REPORT

September 18, 2018

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Report Brief

Why the Assessment was Conducted

The City of Santa Clara (City) has contracted with a local non-profit business organization (Contractor) since 1975 to operate and manage the Convention and Visitors Bureau (CVB) and since 1984 to manage the Santa Clara Convention Center (SCCC) that opened in 1986. The City raised concerns about the Contractor's operations, practices, and financial performance of the CVB and the SCCC. Other concerns include delays in information submitted to the City by the Contractor, hindering the City's ability to perform its own full assessment of the Contractor's operations of the CVB and the SCCC.

In May 2018, the City contracted with TAP International, Inc. to conduct an assessment of the Contractor-operated SCCC and the CVB. This review did not encompass all operations or all financial management activities of these entities. This report describes the fiscal health of each entity, the nature of revenues collected, and their spending. This report also assesses the adequacy of structures, systems, operations, and the processes in place by the Contractor and finally, evaluates the potential changes needed to enhance the SCCC's sustainability and overall performance.

Summary of Key Results

The SCCC has satisfactory fiscal health because it can support operations using its own operating revenues. Across a ten-year period ending in FY 2016-17, revenues cumulatively totaled about \$60.4M¹ and expenses cumulatively totaled about \$55.8M, resulting in net income levels of \$4.7M. Had the SCCC assume responsibility for the CVB's operation, the SCCC could not have supported itself, resulting in a \$9.4M net income loss by the end of the ten-year time period. By factoring into the analysis other sources of revenue that other cities allocated to convention centers and visitors bureaus, such as Transient Occupancy Taxes (TOT), Tourism Improvement District (TID) fees, and Sales Tax, then the SCCC may have had mixed financial performance, ending the nine-year period² with about \$310,000 net income.³ The fiscal health of the SCCC could have been stronger if it had reduced the frequency and the amount of the discounts offered to event sponsors. Facility discounts totaled \$14.7M between FYs 2011-12 to 2016-17. Issuing discounts is allowable under some circumstances in accordance with SCCC's booking policies.

The CVB's year-end fiscal performance was satisfactory. While losses occurred in six of the past ten years, none of the losses exceeded ten percent of its budget. In the past ten years, total revenues cumulatively totaled \$15.8M and expenses cumulatively totaled \$15.5M, resulting in

¹ Excludes Restricted Revenue

² Nine-year period was used as Capital expenditure information from FY 2007-08 was unavailable.

³ TOT tax, TID fees, and Sales Tax projections based on CVB revenue estimates. It would be assumed that sales tax generated from Convention Center partners would be included in Sales Tax estimates.

excess revenue of about \$278,000. The CVB reported revenue surpluses in four of ten years – FYs 2011-12, 2012-13, 2015-16, and 2016-17.

While the types of revenues and expenses incurred by the SCCC and the CVB are aligned with their mission and purpose, each entity paid added compensation to its sales staff that needs further review. The SCCC paid commissions and the CVB paid bonuses, referred to as incentive pay. The sales industry uses this form of compensation. However, the City Council should have provided approval of the commissions because the added pay was not addressed in the City's agreement with the Contractor nor clearly identified in the SCCC's operating budget. Further review is needed for the incentive payments to the CVB staff because the payments were funded by the Santa Clara Tourism Improvement District without a formal contract or agreement.

The Contractor could have had better structures, systems, controls, and processes to support the SCCC and the CVB operations. The Contractor's governance structures and business activities have created the appearance of, and actual, conflicts of interests, mis-use of government assets, and mis-use of government-sponsored resources while other concerns present may need further review by other agencies. In addition, the Contractor's financial management of the CVB's operations has weaknesses in its internal controls, especially in the area of bill payment, while its information management activities have structural gaps that if addressed, could enhance managerial decision-making. The Contractor and the City each share responsibility for the issues described in this report. The City, which is responsible for ensuring that outsourced operations provide services in a transparent and accountable manner, did not have strong agreements in place nor implemented effective contract oversight until recently with the hiring of a new City Manager. The Contractor's implementation of operations led to accountability and compliance concerns.

A key change needed to increase the SCCC's operational sustainability and performance is to update the overall marketing strategy. Several operational challenges hinder the ability of the CVB to enhance their own overall performance and to increase the financial performance of the SCCC. These challenges include: (1) scheduling more events that last less than a day versus scheduling events longer in duration that would also need hotel room nights; (2) the rising number of potential clients (also known as leads) required to schedule an event, as the total number of leads received has declined; (3) inefficient utilization of staff time to work leads because an inordinate amount of time is spent entering information into various databases; (4) not dedicating multiple sales staff in successful target areas, such as the corporate sector; and (5) a limited advertising budget. Both the SCCC and the CVB operate as separate entities and could benefit from an integrated and comprehensive marketing plan.

In June 2018, the Santa Clara City Council directed City management to retain assistance in the development of options for the provision of convention and visitor services. The development of these options should include analysis of varying business structures to operate the SCCC that would result in the strongest level of accountability over operations. Business structures used in other California convention centers and CVB's differed. These business structures included a city-

established nonprofit organization, city-established districts, authorities, and out-sourcing operations to a third-party.

Conclusions

The City's Contractor was instrumental over 40 years ago in working with the City to establish the CVB and to serve as the first operator of the SCCC. The Contractor had key successes, especially with the overall satisfaction of the CVB and the SCCC employees and the financial performance of the SCCC. The Contractor, however, also had key accountability problems and could have had implemented a better strategy to maximize the SCCC's financial potential. Should the City implement changes to the SCCC's and the CVB's operations, including how the City conducts contract oversight over these operations, the potential changes should include sound governance coupled with effective and strong leadership that would ensure administration of a transparent and accountable business environment.

Recommendations

1. The City Manager, in response to prior City Council direction to develop options for the SCCC and the CVB operations, should include a feasibility study to assess the advantages and disadvantages of various business structures to run each or both operations. The feasibility study should include analysis of financial projections in the short and long term for each option.
2. Regardless of any change in the business structure, the City Manager should consider implementing the following activities to ensure better accountability of operations and to build on the financial performance of the SCCC:
 - a. Develop a comprehensive and integrated business and marketing strategy.
 - b. Develop better event scheduling policies that address renting SCCC facilities to nonprofit organizations, the use of discounts, and document specific criteria for prioritizing event scheduling.
 - c. Transition into booking more same day events to area hotels to allow greater availability of calendar time for multi-day events at the SCCC.
 - d. Reduce the SCCC's scheduling of events to six months in advance.
 - e. Strategically align more sales staff to industries that frequently rent the SCCC.
 - f. Integrate all marketing and sales activities between the SCCC and the CVB.
 - g. Consolidate accounting systems used between the SCCC and the CVB.
 - h. Consider elimination of Sales Commissions.
 - i. Modernize the SCCC.
 - j. Prohibit comingling of City funds with other nongovernmental revenue sources.
 - k. Establish a clear leadership structure and team to administer effective City oversight of operations.
 - l. Establish requirements to avoid, disclose, and mitigate conflict of interests.

- m. Establish financial disclosure requirements for the SCCC and the CVB contractors who make decisions on the behalf of the City.
 - n. Establish requirements that describe and define appropriate and reasonable expenditures.
 - o. Establish requirements and controls for purchasing, including the use of the credit cards and purchase cards.
 - p. Establish contracting and contract management requirements for the SCCC and the CVB.
 - q. Establish stronger requirements for financial reporting on operations.
 - r. Establish the requirement to develop, track, and report on progress in meeting key performance benchmarks for the SCCC and the CVB operations.
 - s. Establish employee compensation policies.
 - t. Establish controls that ensure accuracy and completeness of the SCCC and the CVB performance reporting.
 - u. Establish requirements for the storage and archiving of financial and operational data.
 - v. Conduct ethics and conflicts of interest training to the SCCC and the CVB employees.
 - w. Conduct training on the principles of good governance to the SCCC and the CVB employees.
3. The City Manager should review the accountability issues and concerns described in this report and refer them, if needed, for further review by the City or by other agencies.
4. The City should conduct contract oversight activities by reconciling (a) the Contractor's allocation of CVB's revenues and expenses and (b) the Contractor's credit card statements.

Background

City Agreements Guide Operations at the Convention Visitor's Bureau and the Santa Clara Convention Center

The City did not have a CVB organization until a local nonprofit organization approached the City with the concept as a way to help area businesses. Since 1975, the City authorized the local nonprofit organization (referred to herein as the Contractor) to operate the Convention and Visitors Bureau (CVB). The CVB is a destination marketing, sales and service organization whose purpose is to promote the City of Santa Clara as a destination point and to promote the City's hotels and convention center. The agreement, referred to as the CVB Agreement, was updated in 2017. According to the CVB agreement, the City expects the CVB to increase City revenues by increasing visitor and convention spending in hotels, the Convention Center, visitor attractions, restaurants, and other businesses in the City as measured by Transient Occupancy Tax (TOT), Tourism Improvement District (TID), and retail sales tax.⁴

The City also expects the Contractor to:

- Target sales and promotion efforts to various market sectors (e.g. corporate business, association and SMERF (social, military, educational, religious, fraternal) and sports groups)
- Generate "mid-week" for the Convention center and hotels that will pay the mid-week hotel room rates, including holiday and weekend business in selected months
- Attract City-wide groups as newly defined by the CVB as needing 750 hotel room nights per event at the event's peak. (City-wide groups were historically defined as needing 600 hotel room nights at the event's peak).
- Perform sales calls and city bid presentations to prospective businesses and organizations
- Conduct city site inspections showcasing the City of Santa Clara, hotels, convention center, stadium, entertainment and attraction venues, and local businesses
- Sponsor exhibits in key tradeshows, attend industry related meetings and sponsor special industry related events
- Implement direct mail, e-marketing/social media and e-blasts
- Advertise in key trade publications, newsletters, directories, and social media platforms

⁴ The City requires that any person or business engaged in the renting of any number of rooms for lodging, dwelling, or sleeping purposes, must collect, report and remit 9.5 percent of the lodging fee per night. In FY 2016-17, the City collected about \$20M in TOT tax. The City assesses an added \$1 per room night among the eight (at the time of our review) participating hotels that comprise the Tourism Improvement District. These same hotels contribute an extra two percent to help pay off \$40M used by the Community Facilities District for infrastructure to facility the Stadium project.

- Develop convention sales and marketing materials
- Advertise and promote the City and Convention Center.

The City also works with the same Contractor to manage the SCCC. Owned by the City of Santa Clara, the SCCC is located on just over 25 acres and provides 302,000 square feet of meeting and exhibit space. The SCCC hosts conventions, trade shows, weddings, receptions, corporate meetings, banquets, and any type of special occasion. The SCCC's purpose is to maximize revenue and economic impact to the City of Santa Clara.

In 1984, a contract (referred to as the Management Agreement) was entered between the City and the Contractor to manage the SCCC. The contract required the Contractor, among other activities, to:

- Operate and maintain the SCCC in a first-class matter
- Advertise and promote the Convention Center
- Coordinate the use of the SCCC
- Book events, theatre performances, shows, conventions, exhibitions, and meetings
- Schedule and administer daily operations as required.

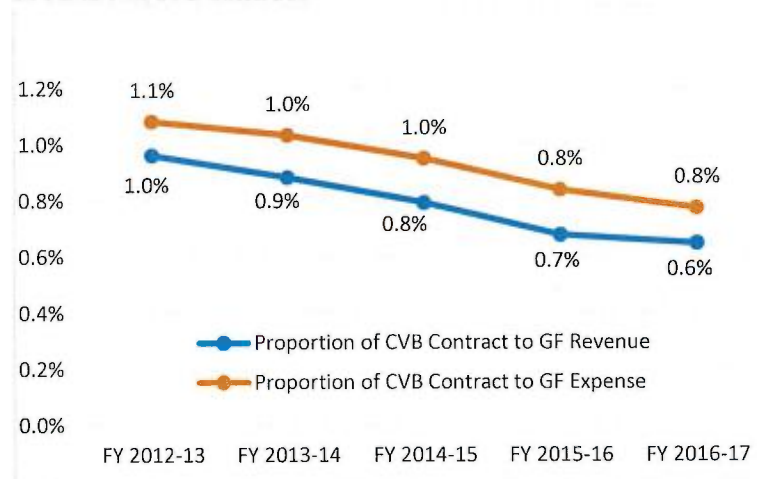
Any excess operating revenues generated from the SCCC operations are deposited to a City enterprise fund account.

City's General Fund Supports Contractor's Activities

Under the terms of the 1984 Management Agreement, the City is to pay the Contractor for the management of the SCCC. The fee ranged from \$45,000 to \$50,000 annually. The increase in this fee is later discussed in this report. Under the 2017 CVB agreement, the City is to pay the Contractor no more than nearly \$1.5M annually for its operations of the CVB.

City funds supporting the Contractor's activities equal less than one percent of the City's General Fund revenues and expenses, as shown in Figure 1. Over time, as the City's revenue and expenses increased, the proportion of all General Fund revenues appropriated to the Contractor has declined. Figure 1 shows only the direct financial impact of the contractual agreements and excludes the City's funding for maintenance

Figure 1. Proportion of General Fund Revenues and Expenses to Fund the CVB Contract



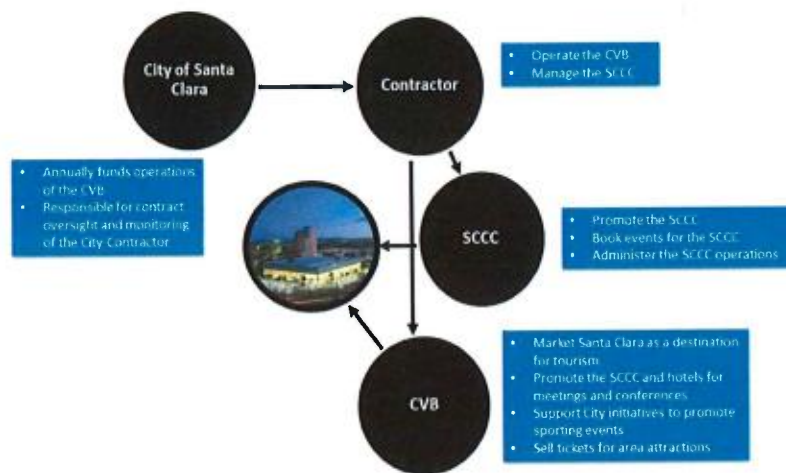
Source of data: TAP International, Inc. analysis based on the CVB and City of Santa Clara financial data.

district expenses and other capital project improvement plans.

The CVB and the SCCC are Managed Separately

Organizationally, the CVB has two Vice-Presidents (VPs) who serve as National Sales Managers. One National Sales Manager oversees convention sales and marketing while the other oversees marketing and advertising. These two VPs are supported by 11 other Contractor/CVB employees. The SCCC has a General Manager/CEO overseeing its operations supported by 43 other Contractor/SCCC employees.

Figure 2: Role of the City, Contractor, the SCCC and the CVB



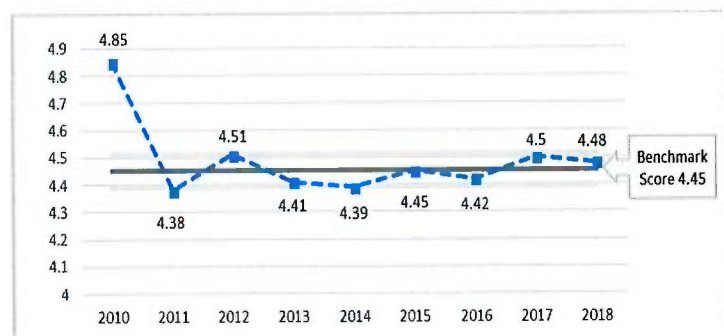
The President and Chief Executive Officer (CEO) of the Contractor's organizations is responsible for operations of the CVB and the SCCC. In recent years, the Contractor's CEO position has experienced frequent turnover. In 2017, the SCCC's General Manager/CEO assumed management of the CVB until the Contractor's Board formally hired a new Executive Director, who accepted the position in June 2018.

Figure 2 illustrates the roles and relationships between the City, the Contractor, the CVB and the SCCC.

The CVB and the SCCC Receive High Customer Satisfaction Scores

Guests of the SCCC and clients of the CVB have high satisfaction over operations. Based on a total of 322 surveys spanning from 2010 to date, the average annual performance is a satisfaction score of 4.45, as illustrated in Figure 3. A score of "1" is low satisfaction and a score of "5" is high satisfaction. The SCCC and CVB met or exceeded its own

Figure 3: Average Annual Customer Satisfaction Score



Source of data: TAP International, Inc. analysis of 322 customer satisfaction surveys administered by the SCCC, 2010 to date.

performance benchmark in five of the ten years.

As described in Figure 4, guests gave their **highest scores** to the SCCC and the CVB Professionalism. Although high marks, guests gave their **lowest scores** to:

- SCCC facility (condition)⁵
- Catering Services (pricing and food quality).

Figure 4: Annual Guest Satisfaction Score, SCCC and CVB

Survey Category	Average Score
Convention Center Administration	4.66
Convention Visitor Bureau	4.64
Int'l Alliance of Theatrical & Stage Employee's (Local 134)	4.62
Event Management	4.58
Telecommunications	4.58
Booking & Scheduling	4.57
Room Set Up & Housekeeping	4.52
Audio/Visual Services	4.47
Engineering Services	4.45
The UPS Store	4.43
Building Security	4.39
Facility	4.31
Catering Services	4.28
Grand Total	4.49

Source of Data: TAP International, Inc. analysis of 322 individual customer satisfaction surveys administered by the SCCC, 2010 to date.

Recent City Council Action Stopped Contractor Payments

In recent City Council meetings, the Santa Clara City Council acted to temporarily end Contractor payments. In May 2018, the Santa Clara City Council (City Council) directed the City Manager to suspend the Contractor's management fee for the SCCC. In June 2018, the City Council did not approve a \$1.5M request to fund a FY 2018-19 contract with the Contractor to operate the CVB, and instead, directed the City Manager to provide funds to the Contractor for the sole purpose of funding salaries and specific related costs for up to 60 days. In July 2018, the Contractor's Executive Director addressed the revenue cuts by requesting the CVB employees to vacate the Contractor's office and then issuing termination notices.

⁵ The Management Agreement states the Contractor is to maintain the Convention Center, the equipment and furniture situated therein, and related facilities in good order and repair and to request such repairs in the SCCC's annual budget or separate City Council action.

Objective, Scope and Methodology

Objectives

The City contracted with TAP International to address the following questions:

- (1) Assess the fiscal health, including the nature of revenues and spending by the SCCC and the CVB.
- (2) Assess the adequacy of structures, systems, controls, and processes that affect financial management of the Convention Center, especially whether the City reviewed and approved the contract increases.
- (3) Determine the types of changes needed, if any, to enhance Convention Center sustainability and performance.

Scope

The time period covered by this review varied depending on the type of analysis. Where data was available, TAP International analyzed data based on the prior Fiscal Year (FY) only or up to ten years of operations, beginning in FY 2007-08. We describe throughout this report, the time period covered in our analysis. The availability of complete and reliable information determined the time period of analysis.

For our review of structures, systems, controls and processes, the business functions reviewed included governance, financial management, information management, and contract management..

Our scope of work did not include an assessment of the operations of the TID. A separate performance audit of the TID is underway.

The scope of work did not include:

- An assessment of the SCCC's security operations. In FY 2017-18, the SCCC had 62 total incidents, or about five per month related to visitor health issues, fire alarms, visitor and worker injuries, and parking lot related thefts. The low level of incidents precluded further review.
- An assessment of human resources management by the Contractor or on the staffing assignment and reassignment decisions by the Contractor's Board of Directors.
- An assessment of contract compliance with the Management Agreement and the CVB Agreement.
- An evaluation of how the Contractor serves its members and member organizations. Where necessary, transaction activity resulting from the Contractor's core services were reviewed to assess the effectiveness of internal controls governing the CVB.

Methodology

To assess the fiscal health of the Convention Center and the CVB, TAP International computed and analyzed eight key metrics: quick ratio, current ratio, operating margin, net income ratio, days cash on hand, days payable outstanding, debt service coverage ratio, and operating cash flow. These metrics assess the ability of these entities to generate revenue and pay bills and debt, and their ability to generate a profit including cash flow. The sources of data relied upon for the analysis included the City's consolidated audited financial statements and the Contractor's audited financial statements from Fiscal Years (FYs) 2007-08 to 2016-17. Because the Contractor's audited financial statements combines its financial reporting with that of the CVB, we further analyzed the ability of the Contractor to manage the CVB within the contract amount provided by the City. The sources of data relied upon for this analysis were the Contractor's audited financial statements and other financial reports generated by the Contractor from FYs 2007-08 to 2016-17.

To assess the nature of revenues and spending by the SCCC and the CVB, TAP International examined each entity's check register and general ledger, which show in detail the payments made to vendors. The period of the review covered was FYs 2007-08 through 2016-17. We further examined the Contractor's core organization and the CVB documentation to verify the accuracy of the CVB's financial transactions reported in its financial system.

To assess the adequacy of structures, systems, controls, and processes of the Convention Center and the CVB, TAP International analyzed data and conducted interviews with key City, SCCC, CVB, and Contractor staff to discuss operation related to:

- Governance structure and activities
- Use of information systems
- Internal control structure to ensure compliance and effective information sharing, fiscal monitoring, and review and authorization
- Purchasing and contracting activities to ensure compliance to policies and procedure.

TAP International reviewed City documents and interviewed City employees to assess internal controls, contract management, and oversight activities of the City's Contractor.

For all audit activities, TAP International collected and analyzed:

- Advertisements
- Contracts
- Guest satisfaction surveys
- Organizational charts
- Marketing materials
- Performance measurement reports
- Policies and procedures for financial management, procurement, and contracting

- Purchase orders
- Strategy and marketing plans
- Training programs
- Reports and data given to the City by the entities.

To determine the types of changes needed, if any, to enhance the sustainability of the SCCC, TAP International reviewed the SCCC's and the CVB's marketing operations and performance. We independently computed various performance metrics using leads, bookings, and cancellation data provided by the Convention Center and the CVB. Finally, we collected information on the business structures of other convention centers and convention-visitors bureaus in California. The convention centers selected for this analysis were the Cities of San Jose, Sacramento, Stockton, San Francisco, Fresno, and Oakland.

Finally, to adhere to generally accepted government auditing standards, TAP International assessed the reliability of the financial and marketing data collected by the SCCC and the CVB. Data that was reliable is included in this report.

This audit is known as a performance audit. A performance audit evaluates the economy, efficiency and effectiveness of programs, services, and operations. We conducted this performance audit from May through July 2018, 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. A draft report was provided to the City and the Contractor for review. Comments were incorporated as applicable throughout the report.

Principle Results

Section 1A: The City Can Build on the Financial Performance of the SCCC and the CVB

SCCC's Fiscal Health is Good Although can be Made Stronger

A fiscal health assessment serves to determine whether it is a self-sustaining operation. As an enterprise operation of the City, the SCCC needs to generate enough revenues to fully cover its expenses. If an enterprise operation has a healthy operating position, then fee increases are not needed. Conversely, if an enterprise operation cannot sustain itself, then fee increases may be needed, or the City may need to provide added financial support. TAP International analyzed the fiscal health of the Convention Center using four different approaches: (1) calculating the Convention Center's fiscal health based on its own operating revenues and expenses; (2) comparing trends in operating revenues and expenses; (3) determining the impact on the SCCC's net income if it assumed responsibility for the CVB's operations; and (4) forecasting SCCC's future fiscal health. It is important to note that the convention center industry is influenced by the general economy.

Under the first approach—assessment of fiscal health indicators—the SCCC is a self-sustaining operation and performs well among seven of eight fiscal health indicators across each of the five years from FY 2012-13 to 2016-17, as shown in Figure 5. The most recent five-year period was used in order to provide a more current assessment of fiscal performance. Periods beyond five years may incorporate business operations and environments that are no longer a factor to current performance. These eight indicators measure fiscal health of enterprise operations. Most notably, the SCCC increased its profit level to 18 percent, the highest level among the five years examined and more than nine times the common benchmark. The SCCC also has cash available to pay its bills for more than six months (193 days) if operations were to suddenly shut down. The SCCC continued to perform well financially in FY 2017-18 with over \$2.2M in net income.

Figure 5: SCCC Fiscal Health Indicators**

	FY 2012- 13	FY 2013- 14	FY 2014- 15	FY 2015- 16	FY 2016- 17	Benchmark Performance	
Ability to pay short-term bills (Current Ratio)	2.6	2.2	1.0	1.7	3.1	> 1.0	
Ability to pay short term bills with available cash (Quick Ratio)	202	1.9	0.8	1.5	2.3	> 1.0	
Profit margin (Operating Margin using operating revenues and expense)*	16%	16%	12%	14%	18%	> 2%	

Net Income Ratio (Same as Profit Margin/Operating Margin)*	16%	16%	12%	14%	18%	> 2%	●
Number of days cash available to pay bills	135	149	21	120	193	60-90	●
Number of days it takes to pay bills	24	44	17	21	19	< 30	●
Ability to pay debt (Debt Service Coverage Ratio)	No debt	No debt	No debt	No debt	No debt	> 1.0	●
Operating Cash Flow Ratio*	1.0	0.7	0.7	0.7	0.8	> 1.0	●

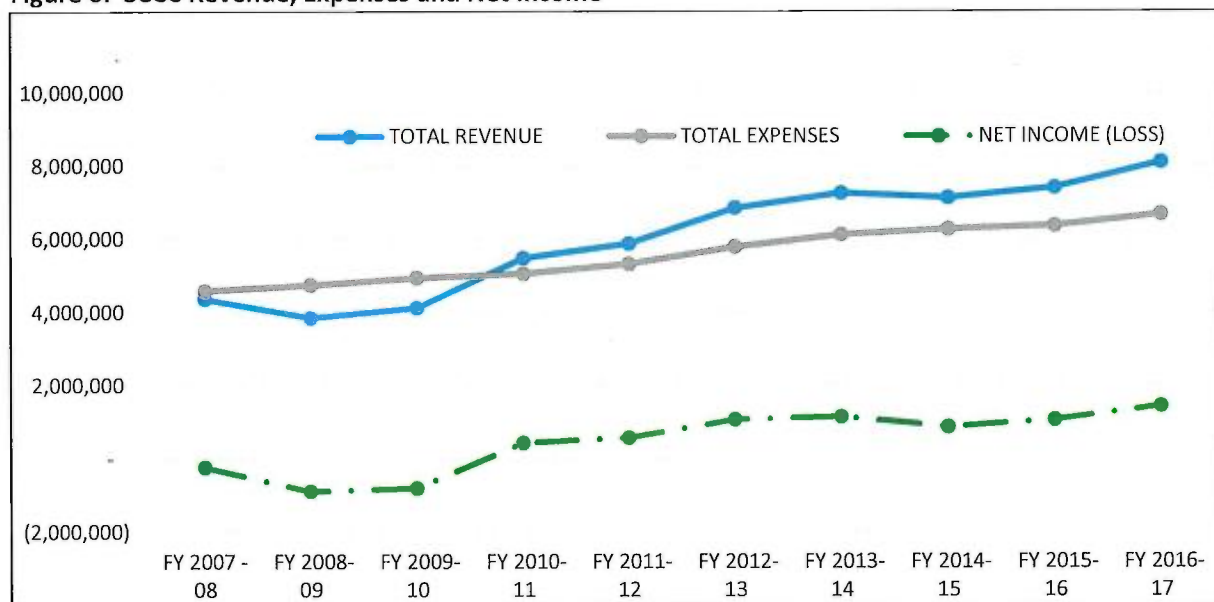
*Excludes restricted income.

** A five-year trend analysis is customarily used in fiscal health analysis because it provides a better assessment of current fiscal health versus examining fiscal health over a 10 year period.

Source: TAP International, Inc. analysis based on the SCCC financial data.

We further examined net income levels for SCCC over a ten-year period to provide a long-term historical look back at SCCC's fiscal health. As shown in Figure 6, the SCCC has slowly improved on its net income levels over a long period of time after three years of profit losses beginning in FY 2007-08.

Figure 6: SCCC Revenue, Expenses and Net Income



Source: TAP International, Inc. analysis based on the SCCC financial data.

At the end of the ten-year period, the SCCC's collected cumulative total revenues of about \$60.4M and spent about \$55.8M, resulting in net income of nearly \$4.7M, as shown in Figure 7.

Figure 7: SCCC Net Income Analysis

	SCCC TOTAL REVENUE	SCCC TOTAL EXPENSES	SCCC TOTAL NET INCOME
FY 2007-08	4,365,268	4,588,650	(223,383)
FY 2008-09	3,856,929	4,744,350	(887,421)
FY 2009-10	4,135,023	4,937,619	(802,597)
FY 2010-11	5,482,042	5,045,617	436,425
FY 2011-12	5,881,508	5,313,299	568,209
FY 2012-13	6,849,158	5,783,261	1,065,897
FY 2013-14	7,254,188	6,106,561	1,147,627
FY 2014-15	7,122,815	6,260,284	862,531
FY 2015-16	7,406,668	6,350,233	1,056,435
FY 2016-17	8,093,763	6,662,438	1,431,326
Cumulative Total	\$60,447,363	\$55,792,312	\$4,655,050

Source: TAP International, Inc. analysis based on the SCCC financial data.

Under the second approach—comparing trends in operating revenues and expenses—TAP International assessed two other measures of fiscal health. The first measure compares the change over time in operating revenues to the change over time in operating expenses. Over the past ten years, the SCCC has sufficiently increased its operating revenue to fully cover the growth in operating expenses. Since FY 2007-08, operating revenues increased by 85 percent to outpace the SCCC’s 45 percent increase in operating expenses as shown in Figure 8.⁶

Figure 8: Percent Change in SCCC Operating Revenue and Expenses

	FY 2007-08	FY 2016-17	% Change
Total Revenues	4,365,268	8,093,764**	85%
Total Expenses*	4,588,650	6,662,438	45%
Revenue Less Expenses	(223,383)	\$1,431,326	741%

*Includes City Admin Fee

**Excluding restricted revenue

Source: TAP International, Inc. analysis based on the SCCC financial reports.

Under the third approach—determining the impact on net income if the SCCC assumed responsibility for the CVB’s operations—the SCCC’s fiscal health would have been poor. As shown in Figure 9, if the SCCC had assumed CVB operations, then the SCCC would have operated within its means only for the most recent fiscal year (2016-17),⁷ incurring losses of \$9.4M over the ten-year period. SCCC’s financial performance could have been stronger if it had reduced the amount

⁶ Another City-sponsored report that analyzed the fiscal impact of the SCCC showed net losses for most of the last ten years because the report used a different method of analysis that included the City’s Maintenance District expenses.

⁷ The financial analysis excludes the fees paid to the City’s Contractor for operation of the CVB and the management of the SCCC.

and the frequency of facility discounts given to SCCC customers. The discounts totaled \$14.7M between FYs 2010-11 and 2016-17,⁸ which is discussed in detail later in this report. SCCC management explained that the use of discounts is a marketing tool and that business may have been lost to other convention centers if discounts were not provided.

Figure 9: SCCC and CVB Net Income Analysis

	TOTAL SCCC NET INCOME*	CVB TOTAL REVENUE**	CVB TOTAL EXPENSE	CONSOLIDATED SCCC and CVB NET INCOME
FY 2007-08	(178,383)	163,205	1,608,754	(1,623,932)
FY 2008-09	(842,421)	125,256	1,641,564	(2,358,729)
FY 2009-10	(757,596)	159,875	1,727,812	(2,325,533)
FY 2010-11	481,425	191,344	1,655,725	(982,956)
FY 2011-12	613,209	55,331	1,573,924	(905,384)
FY 2012-13	1,110,897	46,256	1,526,693	(369,540)
FY 2013-14	1,192,627	45,065	1,598,128	(360,436)
FY 2014-15	909,781	42,673	1,605,055	(652,601)
FY 2015-16	1,106,435	62,929	1,218,106	(48,742)
FY 2016-17	1,568,024	21,591	1,360,207	229,408
Cumulative Total	\$5,203,999	\$913,525	\$15,515,968	(\$9,398,444)

*Less City Admin Fee expense

**Less City Contract revenue

Source: TAP International, Inc. analysis based on the SCCC and the CVB financial reports.

Other cities and counties dedicate a portion of the tax revenue generated by out-of-town visitors attending convention center events to fund their local convention and visitor's bureau. The sources of tax revenues and fees are from transient occupancy taxes (TOT), Tourism Improvement District (TID) fees, and sales taxes. Presently, the City does not allocate (TOT) revenue, sales tax revenue, or (TID) fees to the SCCC or to the CVB.

In the City of Santa Clara, hotel lodging expenses include a 9.5 percent transient occupancy tax (TOT) paid by hotel guests staying overnight. Eight hotels participating in the Tourism Improvement District at the time our review also pay \$1 per lodging night to the City. Had the City allocated a portion of these taxes and fees been to the SCCC based on the number of hotel lodgings generated for SCCC and hotel events, the SCCC would have made a small profit of about \$310,000, as shown in Figure 10 below. This analysis of fiscal health assumes that trends in operating revenues and expenses would continue with operating expenses growing much slower than operating revenues.

⁸ Only years in which data was available.

Figure 10: SCCC and CVB Financial Value Analysis

	CONSOLIDATED SCCC and CVB NET INCOME	TOT REVENUE	TID FEES	CITY SALES TAX	GENERAL FUND CAPITAL EXPENSES	TOTAL FINANCIAL VALUE
FY 2008-09	(2,358,729)	571,716	49,930	60,181	222,065	(1,898,967)
FY 2009-10	(2,325,533)	568,589	49,297	59,851	59,629	(1,707,426)
FY 2010-11	(982,956)	719,750	56,071	75,763	202,642	(334,014)
FY 2011-12	(905,384)	842,820	60,299	88,718	222,508	(136,055)
FY 2012-13	(369,540)	1,089,660	69,398	129,039	165,059	753,498
FY 2013-14	(360,436)	1,241,427	70,260	163,346	573,225	541,372
FY 2014-15	(652,601)	1,547,325	76,457	203,595	431,966	742,810
FY 2015-16	(48,742)	1,244,804	59,791	163,790	7,426	1,412,217
FY 2016-17	229,408	995,760	45,640	131,021	464,687	937,142
Cumulative Total	(\$7,774,513)	\$8,821,851	\$537,143	\$1,075,304	\$2,349,207	\$310,578

Source: TAP International, Inc. analysis based on the SCCC and the CVB financial reports.

Note: The time period of FY 2008-09 to 2016-17 was used as General Fund Capital Expense information was not available prior to FY 2008-09.

Under the fourth approach – forecasting the SCCC’s future fiscal health – TAP International forecasted net income based on two different scenarios.

Under the first scenario, which forecasts net income based on the SCCC’s own operating revenue and expenses, the projections forecast between \$2.2M and \$3.5M over the next four years, as shown Figure 11. Both operating revenues and expenses are expected to grow over the next four years with operating revenue projected to grow at 24 percent over the four years compared to 12 percent for expenses, if operations continue with the same level of service.

Under the second scenario, the analysis includes capital expenditure estimates and projections of potential allocations of TOT tax and TID revenues if the CVB continues its same level of bookings for hotel rooms. As shown in Figure 11 below, projections show an estimated net income between \$1.5M and \$2.2M across the four-year projections. A four-year time horizon was selected to provide a reasonable projection period without introducing unknown variables. The greater the projection period, the increased likelihood of a changing business economy and environment.

Figure 11: SCCC Fiscal Forecasts

Scenario 1	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Cumulative Four-Year Forecast
Convention Center Revenue	9,047,604	9,726,174	10,455,637	11,239,810	40,469,226
Convention Center Expenses	6,820,238	7,086,227	7,362,590	7,649,731	28,918,787
Projected Net Income	\$2,227,366	\$2,639,947	\$3,093,047	\$3,590,079	\$11,550,439

Scenario 2	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Cumulative Four-Year Forecast
Convention Center Revenue	9,047,604	9,726,174	10,455,637	11,239,810	40,469,226
Convention Center Expenses	6,820,238	7,086,227	7,362,590	7,649,731	28,918,787
CVB Expenses	1,545,246	1,605,511	1,668,126	1,733,182	6,552,065
TOT Revenue	995,760	995,760	995,760	995,760	3,983,040
TID Revenue	45,640	45,640	45,640	45,640	182,560
City Sales Tax Revenue	131,021	131,021	131,021	131,021	524,084
Capital Expenditures-GF Expense	304,000	131,800	4,292,000	800,000	5,527,800
Projected Net Income	\$1,550,541	\$2,075,057	(\$1,694,657)	\$2,229,318	\$4,160,259

Source: TAP International, Inc. analysis based on SCCC financial data.

Table notes:

1. Projections for Convention Center revenue and expenses are based on ten-year averages, discounting the high and low values.
2. TAP International applied the same rate of expense increase by the SCCC to the CVB. The actual average CVB rate of expense increase was not applied because of the value variability and the overall decrease in expenses experienced over the past ten years.
3. TAP International applied the same forecast for TOT, TID, and sales tax revenue, which expect to remain constant. Actual rates of change varied between -20% to +45%.
4. Capital Expenditures are based on City budget forecasts. Projected capital project expenditure of \$4.3M in FY 2019-20 is primarily for exhibit halls and grand ballroom air wall replacements and carpet replacement.

Contractor/CVB Fiscal Health is Satisfactory Although Cost Allocation Activities Need Attention

The CVB's revenues and expenses are captured in the Contractor's consolidated financial statement. The results of six fiscal health indicators show the Contractor/CVB meets industry benchmarks for five of them, as shown in Figure 12. Warning signs are present because the strength of Contractor's operating cash flow ratio fell below the benchmark between FYs 2015-16 and 2016-17 because of larger than expected spending by the Contractor's core organization. The Contractor/CVB also had declining financial performance across four other indicators. The Contractor/CVB did reduce the number of days it takes to pay bills to under the benchmark of 30 days.

Figure 12: Fiscal Health Indicators of the City's Contractor/CVB

	FY 2015-16	FY 2016-17	Benchmark	Performance
Ability to pay short term bills with available cash (Quick Ratio)	2.3	0.9	> 1.0	
Ability to pay short-term bills (Current Ratio)	2.8	0.9	> 1.0	
Number of days cash is available to pay bills (Cash on Hand)	123	110	60-90	
Number of days it takes to pay bills (Days Payable Outstanding)	31	22	< 30	
Ability to pay debt (Debt Service Coverage Ratio)	9.6	2.2	> 1.0	
Operating Cash Flow Ratio	1.8	0.03	> 1.0	

Source of Data: TAP International, Inc. analysis based on Contractor's audited financial statements.

Table Note:

1. Financial data required to calculate the fiscal ratios was not provided by the Contractor prior to FY 2015-16.

CVB's Year End Fiscal Performance Varied but Within Ten Percent of Total Budget

The Contractor had satisfactory performance in fiscally managing the CVB's total revenue, comprised of the City's contract, ticket sales, and other service fees. As shown in Figure 13, the Contractor's CVB operations had positive net income for four of the past ten years and incurred year-end losses for the remaining six years. None of these year-end deficits exceeded ten percent of the total budget.

Over the ten-year period, revenues for the CVB totaled about \$15.8M and expenses totaled about \$15.5M, showing that the Contractor was ultimately successful in accomplishing a \$278K revenue surplus because the Contractor reduced the CVB's operating expenses at a rate greater than the reductions in its revenues.

Figure 13: Comparison of CVB Operating Revenues and Expenses

	CVB OPERATING REVENUES	CVB OPERATING EXPENSES	CVB NET INCOME
FY 2007-08	1,575,000	1,609,000	(34,000)
FY 2008- 09	1,572,000	1,642,000	(69,000)
FY 2009- 10	1,628,000	1,728,000	(99,000)
FY 2010- 11	1,648,000	1,656,000	(8,000)
FY 2011- 12	1,577,000	1,574,000	3,000
FY 2012- 13	1,568,000	1,527,000	41,000
FY 2013- 14	1,567,000	1,598,000	(32,000)
FY 2014- 15	1,564,000	1,605,000	(41,000)
FY 2015- 16	1,584,000	1,218,000	366,000
FY 2016- 17	1,511,000	1,360,000	151,000
Total for the ten year period*	\$15,794,000	\$15,516,000	\$278,000
Percent Change**	(4.1%)	(15.4%)	545%

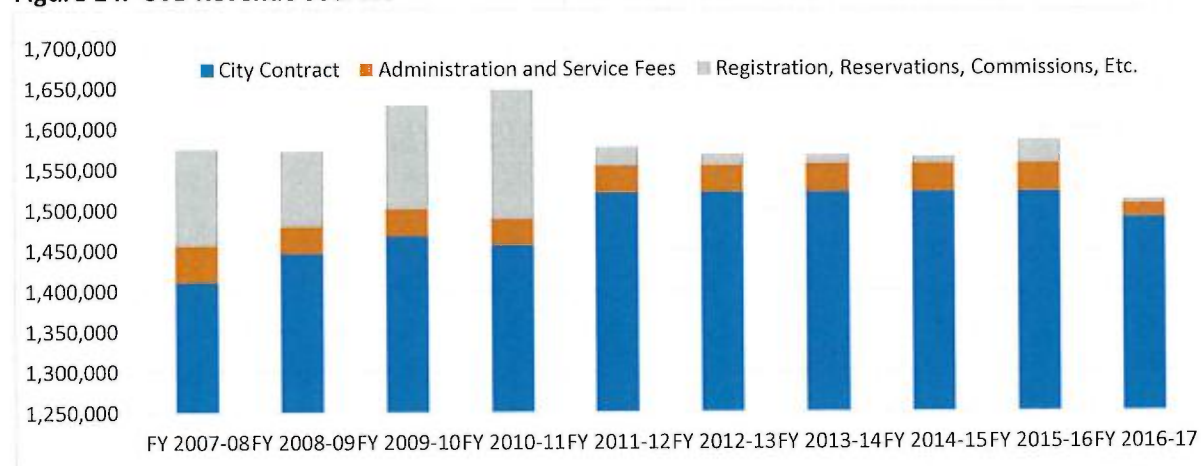
Note: *Revenue and expense amounts rounded to the nearest thousand. **Percent Change based on actual values from CVB financial statements.

Source: TAP International, Inc. analysis based on CVB financial data.

Contractor Opted Against Continuing Conference Registration Services

As illustrated in Figure 14, the CVB's primary source of revenue is the City's contract payments to support operations. Another large source of revenue was registration services. Allowing event sponsors to register their participants for conferences generated up to \$149,000 for the CVB until FY 2010-11 when the CVB chose not to renew services. The City had offset the loss in revenue but not at an amount to fully compensate the loss. The SCCC did not assume event registration operations for its clients.

Figure 14. CVB Revenue Sources



Source: TAP International, Inc. analysis based on CVB financial data.

The CVB's Revenue and Expense Allocations Need Reconciliation

Generally, when administrative services are shared among entities or different business functions, the expenses incurred from performing these services are allocated and charged to each entity or business function. The allocation of these expenses is usually based on a cost accounting study or a corporate policy that shows a reasonable basis for the allocations.

While the contractor does not have a written cost allocation policy, in practice, the allocations differed depending on the type of expense. The Contractor's SCCC and CVB staff reported that it has been a long-standing practice to allocate 80 percent of overhead expenses to the CVB and 20 percent to the Contractor. Our analysis, however, shows that the CVB paid between 70 and 85 percent of the expenses for office supplies and maintenance and between 79 and 86

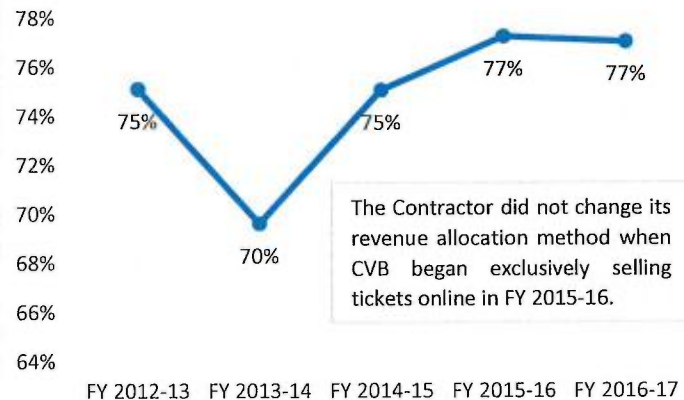
percent of telephone expenses over the past five years. For accounting services, the Contractor reportedly allocates 85 percent of these expenses to the CVB. However, the Contractor's staff reported that the CVB's accounting activities require less time to complete than the accounting activities for the Contractor's own organization.

When the CVB generates revenue involving Contractor resources, then cost allocation policies can include methods for dividing revenue. Similarly, the contractor does not have a documented policy for revenue allocations, but the Contractor's CVB officials reported that prior to FY 2015-16, the CVB was to retain 70 percent of revenue from ticket sales for area attractions while the Contractor was to retain the remaining 30 percent. In practice, however, as shown in Figure 15, the Contractor allocated between 70 and 77 percent to the CVB. The Contractor's CVB officials explained that beginning in FY 2015-16 when the CVB began selling tickets online exclusively, the CVB should have received all \$4,626 in fees collected, but the CVB received \$3,569 from FYs 2015-16 to 2016-17.

The CVB's Value is Generating Tax Revenue for the City

One of the key's goals of the CVB is to promote the SCCC and the City as a destination area. These efforts result in generating several types of tax revenue when visitors use the SCCC, area hotels, businesses, and restaurants. These taxes include transient occupancy taxes that collect 9.5 percent on hotel lodgings; sales tax of nine percent when purchases are made; and other revenue

Figure 15: CVB Ticket Sales Allocation Percentage



Source of Data: TAP International, Inc. analysis based on the CVB financial data.

in the form of TID fees which assess \$1 per room night among eight participating hotels in the Tourism Improvement District.

The CVB's marketing and promotion efforts on behalf of the City directly led to 441,716 hotel room nights between FYs 2010-11 and 2016-17, resulting in added tax revenue and fees for the City. Had the City allocated a performance-based portion of TOT tax, TID fees, and sales tax to the CVB, the CVB's net financial impact over ten years could have been an estimated \$11.5M, as shown in Figure 16.

Figure 16: Net CVB Financial Impact

	TOTAL CVB REVENUES	TOTAL CVB EXPENSES	CVB NET INCOME (LOSS)	TOT REVENUE	TID REVENUE	CITY SALES TAX REVENUE	NET CVB IMPACT
FY 2007- 08	1,574,883	1,608,754	(33,871)	710,498	51,117	74,789	802,533
FY 2008- 09	1,572,218	1,641,564	(69,346)	571,716	49,930	60,181	612,481
FY 2009- 10	1,628,401	1,727,812	(99,411)	568,589	49,297	59,851	578,326
FY 2010- 11	1,647,870	1,655,725	(7,855)	719,750	56,071	75,763	843,729
FY 2011- 12	1,576,857	1,573,924	2,933	842,820	60,299	88,718	994,770
FY 2012- 13	1,567,782	1,526,693	41,089	1,089,660	69,398	129,039	1,329,186
FY 2013- 14	1,566,591	1,598,128	(31,537)	1,241,427	70,260	163,346	1,443,496
FY 2014- 15	1,564,199	1,605,055	(40,856)	1,547,325	76,457	203,595	1,786,521
FY 2015- 16	1,584,455	1,218,106	366,349	1,244,804	59,791	163,790	1,834,734
FY 2016- 17	1,510,906	1,360,207	150,699	995,760	45,640	131,021	1,323,120
Total for the ten year period	\$15,794,162	\$15,515,968	\$278,194	\$9,532,349	\$588,260	\$1,150,093	\$11,548,896

Source: TAP International, Inc. analysis based on SCCC and CVB financial data. It is assumed that SCCC partner's sales tax is included in the City Sales Tax Revenue.

Section 1B: SCCC's and CVB's Revenue Sources and Spending Generally Align with Missions

The SCCC and the CVB Have Customary Revenue Sources

The SCCC generates income customary for their mission, collecting revenue from 23 general sources. As highlighted in Figure 17, the SCCC's largest revenue sources are:

- Space Rentals (Exhibit Halls, Ballrooms, Meeting Rooms, Great America, and Theater)
- Catering Commissions
- Audio-Visual Commissions
- Telecommunication Commissions.

Since FY 2007-08, 16 of the 23 revenue sources experienced an increase in revenue, ranging from 4 to 515 percent. Another six revenue sources experienced declines, ranging from -4 to -68 percent.

Figure 17: SCCC Revenue Sources

Revenue Source	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	% Change FY 2008-09 to 2016-17
Space-Exhibit Halls	1,265,660	1,194,129	1,113,905	1,090,620	1,142,031	1,352,496	1,261,166	1,337,354	1,416,000	1,353,372	7%
Space-Ballrooms	209,948	221,195	488,060	622,105	598,929	711,857	823,143	801,308	873,944	915,085	336%
Space-Meeting Rooms	207,984	194,893	180,207	219,685	207,900	239,957	237,630	237,580	262,125	275,466	32%
Space-Great America	286,623	271,593	220,997	214,889	274,632	291,742	360,661	385,969	358,770	404,850	41%
Space-Theater	193,640	189,026	151,590	208,620	203,376	211,483	218,644	200,892	208,720	201,000	4%
Space-Cancellation	63,650	163,594	76,138	24,641	15,899	111,523	72,799	77,641	95,995	60,810	(4%)
Merchant Fees			(25,191)	(34,347)	(38,468)	(54,177)	(60,668)	(58,205)	(63,372)	(79,196)	---
Labor-Miscellaneous	10,933	8,915	9,565	19,270	11,168	6,825	5,420	9,139	8,655	8,400	(23%)
Equipment Rental	64,854	58,374	55,466	99,048	55,400	92,744	76,773	120,308	106,638	123,897	91%
Electrical Comm.	107,391	159,844	105,585	140,410	192,214	222,042	184,879	222,373	203,486	277,045	158%
Electrical Services In-House	94,506	53,573	66,840	164,515	156,749	117,605	107,866	111,470	133,650	58,485	(38%)
Audio-Visual Comm.	270,992	271,929	362,512	395,825	411,300	462,273	605,755	594,217	609,736	638,611	136%
Services - Misc.	5,810	18,472	4,360	6,525	5,773	5,658	7,100	639	3,930	3,495	(40%)
Incoming Freight	3,690	3,675	3,175	6,065	9,543	3,764	3,314	2,631	3,423	6,649	80%
Cell Site Revenue	23,009	17,794	17,794	17,794	17,980	18,233	18,936	18,090	26,236	33,039	44%
Telecomm Commission	175,127	127,363	175,520	295,797	327,993	447,915	446,187	432,566	527,971	638,933	265%
Catering Commission	1,262,009	800,499	1,037,616	1,900,070	2,195,799	2,509,846	2,809,971	2,566,610	2,572,066	3,060,064	142%
Insurance Revenue	2,610	2,245	2,085	2,170	2,135	2,853	3,115	1,995	1,750	2,030	(22%)
Interest Revenue	72,998	65,877	57,670	42,934	43,423	20,004	14,025	10,752	7,175	23,689	(68%)
Advertising Comm.	25,154	26,015	15,976	26,009	32,254	32,536	30,449	26,983	29,658	35,644	42%
Sponsorship Revenue	2,300	1,600	1,800	5,550	5,700	16,500	10,950	4,000	2,800	14,150	515%
Business Center Comm.	5,324	4,123	4,481	5,220	5,645	6,710	12,502	14,802	12,682	10,088	89%
Other Income	11,057	2,204	8,874	8,629	4,134	18,771	3,572	3,702	4,629	28,158	155%
TOTAL	4,365,268	3,856,929	4,135,023	5,482,042	5,881,508	6,849,158	7,254,188	7,122,815	7,406,668	8,093,763	85%
TOTAL FY 2007-08 to 2016-17											\$60,447,362

Source: TAP International, Inc. analysis based on CVB financial data.

The CVB also generates income customary for their mission, collecting revenue from nine general sources between FYs 2007-08 and 2016-17. Total revenues from these sources declined by four percent over a ten-year period, as shown in Figure 18. The CVB's Admin and Service Fees include TID revenue, which declined in FY 2016-17. TID revenues received should be reported under a separate income account for better transparency.

Figure 18: CVB Revenue Sources

Revenue Source	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	% Change FY 2008-09 to 2016-17
Admin and Service Fees	44,580	32,882	32,893	32,265	32,265	32,160	34,500	34,500	34,500	16,750	(62%)
Program Services									50	300	---
On-Line Hotel Reservations	8,111	6,467	2,071	2,261	2,443	2,284	2,625	1,856	1,987	1,047	(87%)
City Contract	1,411,678	1,446,962	1,468,526	1,456,526	1,521,526	1,521,526	1,521,526	1,521,526	1,521,526	1,489,315	5%
Discount Ticket Sales	2,099	3,529	1,983	7,195	13,049	11,274	7,149	5,812	2,114	1,455	(31%)
Registration Services	107,393	81,731	122,351	149,400	7,389	399	735	458			(100%)
Commission Revenue									22,431	1,946	---
Banner Ads									1,800		---
Interest Income	1,022	647	577	223	185	139	56	47	47	93	(91%)
TOTAL	1,574,883	1,572,218	1,628,401	1,647,870	1,576,857	1,567,782	1,566,591	1,564,199	1,584,455	1,510,906	(4%)
TOTAL FY 2007-08 to 2016-17											\$15,794,162

Source: TAP International, Inc. analysis based on SCCC financial data.

Figure 19 highlights that the Contractor by FY 2016-17 became dependent on the contract funds to support operations.

Figure 19: CVB Revenue Reliance on City Contract Funds



Source: TAP International, Inc. analysis based on CVB financial data.

Nearly All SCCC and the CVB Expenses are Customary, Except for Bonuses and Commissions

The SCCC has customary expenses for its mission. As highlighted in Figure 20, the SCCC spent the most on salaries and benefits (reported under labor) at about \$5M followed by utilities at \$732,000. Labor and utility expenses rose the most in comparison to other expenses. The SCCC reduced its spending in four areas – professional association dues, advertising and promotion activities, telephone charges, and parking fees.

Figure 20: Changes in SCCC Spending

Convention Center Expenses	FY 2007-08	FY 2016-17	\$ Increase (Decrease)	% Change
Labor Related	3,530,564	4,983,964	1,453,400	41%
Parking Fees	16,165	8,550	(7,615)	(47%)
City Admin Fee	45,000	136,699	91,699	204%
Other Operating	2,297	39,500	37,203	1620%
Professional Associations	9,525	9,152	(373)	(4%)
Advertising and Promotion	6,447	970	(5,477)	(85%)
Telephone	38,317	8,568	(29,749)	(78%)
Office Expense	55,708	111,525	55,817	100%
Insurance	86,365	169,206	82,841	96%
Employee Expenses (payroll, training, etc.)	41,998	72,780	30,782	73%
Maintenance	135,467	244,576	109,109	81%
Janitorial and Cleaning	90,082	144,713	54,631	61%
Utilities	530,715	732,235	201,520	38%
Total Expense	\$4,588,650	\$6,662,438	\$2,073,788	45%

Source: TAP International, Inc. analysis based on the SCCC's financial data.

The CVB also has customary expenses for its mission. As highlighted in Figure 21, the CVB spent the most on salaries and wages at nearly \$790,000 followed by advertising and marketing related expenses for the SCCC and the CVB totaling about \$179,000 in FY 2016-17. Over time, the CVB reduced its spending in 17 areas with its largest declines in Salaries and Wages and Employee Benefits, respectively.

Figure 21: Changes in CVB Spending

CVB Expenses	FY 2007-08	FY 2016-17	\$ Increase (Decrease)	% Change
Salaries and Wages	937,383	787,658	(149,725)	(16%)
Payroll Taxes	76,040	55,347	(20,693)	(27%)
Employee Benefits	174,188	102,194	(71,994)	(41%)
Depreciation/Amort.	10,300	5,093	(5,207)	(51%)
Office Supplies/Maintenance	27,639	17,143	(10,496)	(38%)
Computer Service/Maintenance	0	33,500	33,500	---
Accounting and Audit	27,845	35,320	7,475	27%
Legal Fees	0	10,174	10,174	---
Office Equipment.	1,228	1,356	128	10%
Rent	88,575	91,232	2,657	3%
Telephone	22,292	17,039	(5,253)	(24%)
Insurance and Taxes	7,874	3,448	(4,426)	(56%)
Administrative Meeting	2,893	1,981	(912)	(32%)
Postage	18,590	6,298	(12,292)	(66%)
Mileage	3,059	1,443	(1,616)	(53%)
Payroll Service fee	4,499	5,854	1,355	30%
Inside Santa Clara Newsletter	10,500	7,949	(2,551)	(24%)
Advertising-Convention Marketing	0	4,204	4,204	---
Advertising-Travel Marketing	19,709	17,914	(1,795)	(9%)
Marketing-Servicing	550	0	(550)	(100%)
Marketing-Convention Center Marketing/Sales	103,799	99,086	(4,713)	(5%)
Marketing-Visitors Bureau	52,571	49,620	(2,951)	(6%)
Outside Services	6,242	0	(6,242)	(100%)
Expense Reimbursement	11,015	0	(11,015)	(100%)
Miscellaneous	1,963	6,354	4,391	224%
Total Expense	\$1,608,754	\$1,360,207	(\$248,547)	(15%)

Source: TAP International, Inc. analysis based on the Contractor's audited financial statements.

The Contractor Improperly Paid Commissions

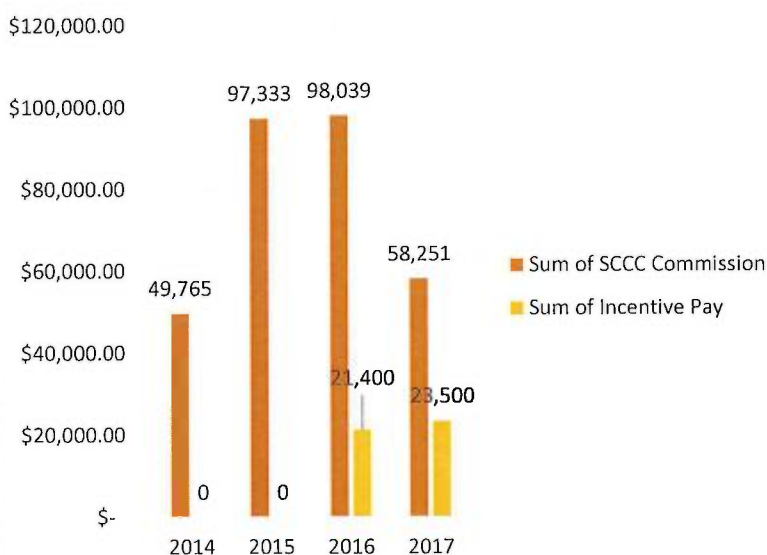
Although the Management Agreement does not contain terms or conditions governing the payment of sales commissions, the SCCC Sales Director received commissions based on the number of events scheduled at the Convention Center, the services sold, and the level of new and repeat business that was brought to the facility. In two full calendar years and another two partial years between 2014 and 2017, the SCCC paid its Sales Director approximately \$303,000 in commissions in addition to a low base annual salary. Generally, in a sale driven environment, sales staff are provided financial incentives to meet sales goals and targets that can be in the

form of commissions or bonuses. The added compensation can be viewed as opportunity costs for businesses if it leads to revenue growth. Because commissions are not offered in publicly funded operations, the commissions should have been included in the Contractor's formal agreement with the City for subsequent review and approval by the City Council. SCCC management explained that there was no direction by the City to submit employment-related decisions to City Management or City Council for approval.

SCCC management said that the use of commissions has been a long-time practice. The Contractor included the commissions in the SCCC's operating budget under a General Management category although the commission appropriations should have been presented as Commissions in a separate budget category. This absence of transparency led the City Council to inadvertently approve the appropriations for the commissions without policy deliberations. Moreover, offering commissions prevented the full coordination and

cooperation between the SCCC and CVB sales staff. CVB sales staff reported that the scheduling of events with lower economic value by SCCC staff received preference over higher valued events. SCCC management disagrees with CVB's assertion. Event scheduling is later discussed in this report.

Figure 22: SCCC Commission and CVB Incentive Pay Expenses



Source of Data: TAP International, Inc. analysis based on SCCC salary reports and CVB incentive pay computation reports.

Table Note: Data was available only for the SCCC Commission payments for six months only for calendar year 2014 and for 2017

Bonus Payments Need Further Review

The Contractor's CVB staff was paid bonuses, referred to as incentive pay, that needs further review. The Contractor paid the CVB's sales staff incentive pay provided that the employees met individual quarterly sales goals and targets. The amount of incentive pay varied by sales manager. We did not have complete data to determine the full amount of incentive pay paid to the Contractor's CVB employees, but for calendar year 2017, incentive pay totaled \$23,500. Included

in the payments were amounts for events scheduled in future years like in 2021, but offsets in incentive payments did not occur if events were cancelled. CVB staff explained that event sponsors are required to pay a deposit in the event of a future cancellation, and thus fees are available for the incentive payments.⁹ The absence of pay offsets for cancelled events contradicts the purpose of giving performance bonuses. In FY 2016-17, the SCCC collected about \$60,000 in cancellation fees.

How the Contractor paid for the incentive payments is of concern. The incentive payments were not paid for by the City's monthly contractual payments, but instead were paid for by funds from another public entity – the Santa Clara Tourism Improvement District (TID)¹⁰ – without a formal contract or written legal agreement in place. Incentives payments could be appropriate if the TID competitively bid for marketing and promotion services and then entered into a formal agreement that contained provisions to pay performance incentives if goals were met. In the absence of a formal agreement, the funds appropriated to the Contractor by the TID need further examination by the City to determine if the TID was in violation of public law that prohibits the giving or lending of public to any person or entity, public or private organizations, except under certain circumstances.¹¹

There were no disclosures about the use of incentive pay although the City had imposed oversight requirements on the TID that provided some accountability and transparency over operations. These requirements include submissions of annual reports and an annual financial audit. The TID's operating budget did contain funds for bonuses in its annual operating budget but no disclosure was evident that the bonuses were for another organization. As the City did not require the TID to submit budget documents for review, incentive pay provided to the Contractor's organization would have remained unknown unless direct communication occurred. None of the current City management staff were aware of the incentive pay or of the commission payments.

⁹ Incentive payments are actually paid by the TID. The point made by the CVB staff is that when events are cancelled, revenue is recovered, so there is no direct revenue loss to the City.

¹⁰ The TID, established to promote tourism and enhance marketing activities, received \$1 per room night from eight participating hotels that comprise the TID. In FY 2016-17, TID estimated fees totaled \$759,009. The Contractor for the SCCC and CVB also managed the TID.

¹¹ California's Constitution Article XVI, Section 6.

Section 2: Structures, Systems, and Operations Need Strengthening

Contractor Does Not Implement Strong Financial Management Activities

This section describes the activities of the Contractor to administer financial management of the SCCC and CVB.

Financial Management Policies and Procedures Need to Address Content Gaps

Important to an effective financial management structure is the development of policies and procedures. Policies and procedures serve the purpose of:

- Protecting the assets of the organization
- Providing a framework for the organization's financial decision making
- Establishing operating standards and behavioral expectations
- Ensuring compliance with regulations.

In the two agreements between the Contractor and the City, the City required that the Contractor separate its accounting activities for the SCCC and CVB operations and perform other financial management related tasks. The City did not require the development of financial management policies. However, the Contractor had developed two sets of financial management policies. One set governs the CVB and the other governs the SCCC.

TAP International evaluated the content of the SCCC's financial management policies and procedures against guidance issued by the Government Finance Officers Association (GFOA) because SCCC is an enterprise operation and publicly owned. Of 11 financial management areas most applicable to the SCCC, the SCCC had gaps in content among six of them, as shown in Figure 23.

The five areas that need policy development include:

- Reserves
- Contract
- Risk Management and Internal Controls
- Long Term Financial Management Planning
- Capital Management Policies.

Figure 23: SCCC Financial Policies and Procedures Development

Policy Area	Policy Developed by SCCC
Reserves in other funds. Policies that set how much revenue to set aside for later use.	No
Contract: Policies that deal with the administration of contract revenue.	No
Accounting: Policies that address the basis of accounting, the process for implementing journal entries, requirements for bank reconciliation, monthly closing, and recordkeeping.	Partially ¹²
Financial reporting: Address procedures and controls for internal financial reporting, tax compliance and tax returns, and payroll reporting.	Partially ¹³
Risk management and internal controls: Policies that address risk management and internal control.	No
Procurement: Policies to encourage efficient, effective, and fair procurement.	Partially ¹⁴
Long-term financial planning: A policy that commits the organization to taking a long-term approach to financial health.	No ¹⁵
Capital: Policies that cover the lifecycle of capital assets, including capital improvement planning, capital budgeting, project management, and asset maintenance.	No
Revenues: Policy guidance through the designing of efficient and effective revenue systems that guarantee the generation of adequate public resources to meet expenses.	Partially ¹⁶
Expenditures: Policies addressing a range of issues around how the money is expended, including personnel, outsourcing, and funding long-term liabilities.	Partially ¹⁷
Operating budget: Policies that describe essential features of the budget development process and form, as well as principles that guide budgetary decision making.	Partially ¹⁸

Source: TAP International, Inc. analysis of SCCC financial policies.

TAP International evaluated the content of the CVB's financial management policies and procedures against guidance issued by the National Council for Nonprofits for six key areas for

¹² SCCC policy does not define responsible parties to conduct activities and oversight controls.

¹³ SCCC policy does not define procedures or controls to ensure accuracy and completeness of internal financial reports.

¹⁴ SCCC policy does not address proposal and bid process that should ensure fair purchasing and contracting, only Purchase Orders

¹⁵ SCCC policy address bi-annual budget process, but not long-term planning.

¹⁶ SCCC policies have been developed for Revenue Recognition and Cash Receipting, but revenue generation systems and controls are not defined.

¹⁷ SCCC policy address the cash disbursement process, but not management long term liabilities, which is currently not applicable to the SCCC because it does not have long term debt on its accountings records.

¹⁸ SCCC policy does not include a description of budget assumptions to be used the preparation of the budget or the type of budgeting methodology to use.

nonprofit organizations, as described in Figure 24. The CVB's financial policies also had some gaps in each area.

Figure 24: Contractor development of Financial Policies for the CVB

Policy Area	Policy developed for CVB
Accounting: Address the basis of accounting, the process for implementing journal entries, requirements for bank reconciliations, monthly closing, and recordkeeping.	Partially ¹⁹
Financial Planning & Reporting: Address procedures and controls for internal financial reporting, tax compliance and tax returns, and payroll reporting.	Partially ²⁰
Budgeting Process: Policies that describe essential features of the budget development process and form, as well as principles that guide budgetary decision making.	Partially ²¹
Revenue and Accounts Receivable: Policies guiding invoice preparation, revenue recognition, cash receipts, and deposits.	Partially ²²
Expense and Accounts Payable: Policies describing Purchases & Procurement and the use of Independent Contractors.	Partially ²³
Invoice Approval and Processing: Procedures describing how cash will be disbursed, petty cash procedures and amounts, use of credit card, and employee reimbursements.	Partially ²⁴

Source: TAP International, Inc. analysis of CVB financial policies.

SCCC and CVB Could Benefit from an Integrated Financial Accounting System

An important financial management tool is the use of accounting systems to collect, store, and process financial and accounting data and produce informational reports for managerial review and decision-making. The Contractor uses two different accounting systems – one for the CVB and the other for the SCCC. Without an integrated accounting system, financial reports must be

¹⁹ CVB policy does not define responsible parties to conduct activities and oversight controls.

²⁰ CVB policy does not define procedures or controls to ensure accuracy and completeness of internal financial reports.

²¹ CVB policy does not include a description of budget assumptions to be used the preparation of the budget or the type of budgeting method to use.

²² CVB policies defines payment types and bank deposits but does not address invoice preparation or how information is used to create journal entries.

²³ CVB cash disbursement policy provides overview of payment types and check processing but does not address use of independent contractors.

²⁴ CVB policy does not define spending limits and authorization for use of credit cards.

prepared and reviewed separately, and errors must be manually identified and corrected.²⁵ Our review found CVB financial reports did not include adequate detail about transaction history. For example, the CVB did not have explanations of gaps in check numbers or check numbers found out of sequence. The Contractor explained that the printer damaged the subject check numbers. In comparison, the SCCC's financial data system kept a detailed record of all voided checks even those destroyed by printing—a standard internal control activity. The SCCC's General Manager/CEO sought to integrate the two accounting systems in FY 2016-17 without success after a Board member of the Contractor's organization opted against system integration.

“Separate Accounting” Activities between the Contractor’s Organization and the CVB Needs Stronger Internal Controls

The updated 2017 CVB agreement between the City and the Contractor requires “separate accounting” between the CVB and the Contractor. The agreement does not include a definition of “separate accounting” or clarifies the City’s intent on whether the City intended to require separate accounting systems or separate bank accounts. The absence of specificity in the agreements has led the Contractor to deposit into the same bank account all revenues received for its own organization (including member dues and donations), the City’s contract revenue, other CVB revenue, TID revenue, and SCCC payroll payments into one bank account. In FY 2016-17, the SCCC’s General Manager/CEO, sought to appropriately establish separate checking accounts for the CVB and for the Tourism Improvement District. A former Board member of the Contractor’s organization gave authorization only to set up a separate bank account for the Tourism Improvement District.

To comply with the requirement to provide “separate accounting”, the Contractor records financial transactions on either the CVB’s General Ledger or on the Contractor’s own General Ledger depending on which entity incurred the expense. A general ledger holds account information on individual financial transactions and contains data on revenues, expenses, assets, liabilities, and equity for use in financial reporting. The recording of these transactions on the correct general ledger is vital to ensuring accounting financial reporting.

Our review of 49 financial transactions between FY 2006-2007 and FY 2017-2018 showed that the Contractor recorded about half (24) of the transactions correctly. Another 11 transactions had some type of exception. For these exceptions, the Contractor did not effectively implement internal controls. The exceptions we noted are as follows:

- The absence of an account code that would describe whether to post the expense on the CVB or the Contractor’s ledger

²⁵ SCCC’s financial reports and disbursements are provided to the City for the City to manually perform enterprise accounting activities. The accounting of fixed assets for the SCCC is captured separately on an MS Excel spreadsheet.

- Different expense amounts shown on the General Ledger in comparison to payment documentation and the invoice amount
- Approval of purchase orders after incurring the expense. A purchase order describes the purpose of the expected expense and the proposed vendor so that management can review and approve the expense prior to its occurrence.

For the remaining 14 transactions, it was not possible to determine whether the Contractor posted the expenses to the correct general ledger because of the unavailability of invoices and records that show accounting instructions. The weaknesses in internal controls did not materially affect the Contractor's audited financial statements because these statements combined the CVB's and the Contractor's financial position.

Our sample of SCCC financial transactions did not find exceptions to internal controls.

TAP International further examined the Contractor's controls governing the use of credit cards. The Contractor managed one credit card account for use by seven employees working for the Contractor, CVB staff, and SCCC staff. Using the same credit card account for three entities needs to have strong business processes to reconcile receipts to the expenses on a timely and accurate basis. However, the Contractor did not implement uniform credit card reconciliation processes or implement other internal controls, as follows.

- The SCCC requires receipts to be given to its accounting department immediately after the purchase but the Contractor does not consistently collect these receipts for the CVB. Missing receipts were clear across the three credit card statements selected for review. Without receipts, the Contractor cannot review the allowability of the expenses incurred.
- Travel request forms that show the planned dates of the trip, the purpose of the trip, and expected expenditures can allow Contractor staff to cross-check dates of approved travel with corresponding credit card expenses. Neither the SCCC nor the CVB require travel requests to be prepared so that credit cards could be effectively reconciled. Without the approved travel requests, Contractor staff do not have a basis to determine whether executive management had given approval of the travel related charge prior to its

An effective internal control requires submission of receipts or expense reports immediately after purchases or at month-end.

Another control is to prepare travel request forms for pre-approval of expected expenses.

A third control is to prepare purchase orders. A purchase order describes the purpose of the expense and the estimated costs for review and approval by management prior to incurring the expense.

occurrence. SCCC management explained that their employees do not perform out of town travel and would not need to prepare travel orders. However, travel to attend future training, seminars or conferences should be authorized through a travel order.

- While the SCCC requires purchase orders for internal needs such as printing, office supplies, and small equipment items; the CVB did not consistently use them. Without purchase orders, the CVB staff are making purchases without advance knowledge by management. The Contractor's financial policies do not comprehensively address credit card use or identify spending limits subject to purchase orders.

Information Management Could be Used More Effectively

This section describes how well the CVB and SCCC manage and uses the information it collects on performance.

The SCCC Has an Opportunity to Fully Leverage the Information it Collects

Information management is the planning, organizing, collecting, analyzing, evaluation, and reporting of information. Vital to information management is performance measurement, which allows development and reporting on key metrics using operational information collected by an organization. The information, when analyzed, can identify when work processes break down or where work processes can be improved for better service delivery. Performance measures can address the timeliness of program activities conducted (process), the direct products and services delivered by the process (outputs), or the results of those processes (outcomes).²⁶ Effective information management supports better and quicker managerial decisions that increase overall operating effectiveness.

The CVB implements a satisfactory information management system in place. The CVB routinely tracks, collects, and reviews its progress at selling and marketing both the SCCC and area hotels. In addition, the CVB routinely reviews the accuracy of the data captured in its computer systems. The CVB management staff analyzes output measures to identify trends, compute performance bonuses, and to assess progress at meeting annual performance targets.

Examples of the types of performance measures tracked by the CVB are primarily output measures, such as:

- Number of leads
- Number of leads lost
- Number of events booked
- Number of events cancelled
- Number of room nights
- Number of guests.

²⁶ MANAGING FOR RESULTS: Data-Driven Performance Reviews Show Promise but Agencies Should Explore How to Involve Other Relevant Agencies, February 2013. U.S. Government Accountability Office
PERFORMANCE MEASUREMENT AND EVALUATION, May 2011, US. Government Accountability Office.

The CVB also collects and monitors a key outcome measure – economic impact – to assess the effectiveness of its sales and marketing efforts. The CVB computes this metric using an industry formula that considers lodging revenue, TOT revenue, TID revenue, sales tax, and tourism activities among other things. In FY 2016-17, the total economic impact for SCCC events totaled \$122.3M, exceeding its annual performance benchmark of \$88M.²⁷

The SCCC collects multiple types of data but could do more to analyze the information to assess overall performance. For example, the SCCC administers customer satisfaction surveys, but it does not collectively analyze the surveys to assess overall performance effectiveness and efficiency. In another area, the SCCC collects information on event bookings but does not routinely use the data to assess booking patterns and trends.

The SCCC does not have same level of information management in comparison to the CVB.

Neither the CVB nor the SCCC have developed benchmarks from which to assess their own annual performance. Benchmarks are a standard of performance using the SCCC's and the CVB's own information. Having this information available could allow the Contractor to align sales and promotion efforts with the SCCC rental needs.

Examples of benchmarks and performance measures include:

5-year Average Benchmark	Annual Performance Measure
Facility use rate	% of calendar days that the Convention Center facilities are used
Space utilization	% of SCCC square footage used
Revenue per event	Average direct revenue per event
Total events booked	Total events booked
# of same day bookings	Annual # of same day bookings
# of multi-day bookings	Annual # of multi-day bookings
Total events booked by partner	Average Total events booked by CVB Total events booked by SCCC Total events booked by SCCC partners

The Contractor could benefit from other information to measure business process efficiency. For example, the CVB implements business processes to work leads and to book events with its clients. The CVB staff said that the time required to complete these activities consume about three hours to prepare required forms; time that could be spent working other leads. Changes could be made with how their activities are administered, such as having support staff prepare required forms, but the CVB requests for support staff have been denied. Tracking the efficiency

²⁷ TAP International, Inc analysis of 10 years of CVB booking data.

or cost-effectiveness of the SCCC and the CVB operations can drive changes to increase productivity.

Another business process that could have better cost data and performance information is how the SCCC administers maintenance operations. Presently, tracking and monitoring of maintenance operations is a manual process that require supervisors to prepare a one-page log for each shift, describing all the items that need repair. For FY 2017-18, the logs contained 2,893 items across two shifts per day. The completion status of each items described on the log was unknown because the SCCC does not record when a work order is completed, or what was done to repair the item. Better information management, including implementation of a formal work order system that can track individual work items, the amount of time and resources spent on each work item, and the completion status of each item could facilitate effective management of maintenance operations.

Contractor's Governance and Other Activities Do Not Facilitate Public Trust

The National Council of Nonprofits states there is no cookie cutter approach to governance of nonprofit organizations, but there are basic activities that help nonprofit organizations accomplish good governance. Good governance in the nonprofit sector promotes the proper use of resources consistent with the organization's mission and applicable laws and it is about maintaining trust and confidence of those the organization serves. This section describes the activities of the Contractor to provide a compliant and accountable operations for the SCCC and the CVB.

The Contractor Had Not Developed Key Governance Policies and Procedures

The Contractor is organized as a 501(c)(6). The U.S. Internal Revenue Services (IRS) describe basic governance activities it desires for nonprofit organizations. Basic governance activities are those described on the IRS Form 990, which is subject to annual filing by nonprofit organizations. Six areas described on the Form 990 assess governance activities. TAP International found the Contractor implemented three of the six activities recommended, as shown in Figure 25.

Figure 25: Contractor Implementation of Basic Governance Activities

Requirements	Implemented
Maintain minutes of all board meetings (and committee meetings for committees that are authorized to act on behalf of the board, such as an executive committee). (See IRS Form 990, Part VI, Section A, line 8)	Yes
Complete a questionnaire about conflicts of interest. (See IRS Form 990, Part VI, Section B, Line 12)	Yes
Disclose to the public the nonprofit's three most recently filed annual returns with the IRS, as well as its application for tax-exemption and related correspondence and attachments.	Yes
Maintain a written whistleblower protection policy (Part VI, Section B, line 13)	No

Maintain a written document retention/destruction policy (Part VI, Section B, line 14)	No
Maintain a written gift acceptance policy to govern the receipt of "non-cash" gifts, such as gifts-in-kind, and unusual gifts (land, vehicles, artwork etc.)	No

Source: TAP International, Inc. analysis of Contractor Form 990 Filings

The Contractor Has Several Self-Disclosed Conflicts of Interests

We further examined the effectiveness of the Contractor's efforts to implement one of the three basic governance activities – conflict of interest forms. For any organization, officials and employees are expected to use good judgment, to adhere to high ethical standards, and to act in such a manner as to avoid any actual or potential conflict of interest. A conflict of interest occurs when the personal, professional, or business interests of an employee or Board member conflict with the interests of the organization. Both the fact and the appearance of a conflict of interest should be avoided.

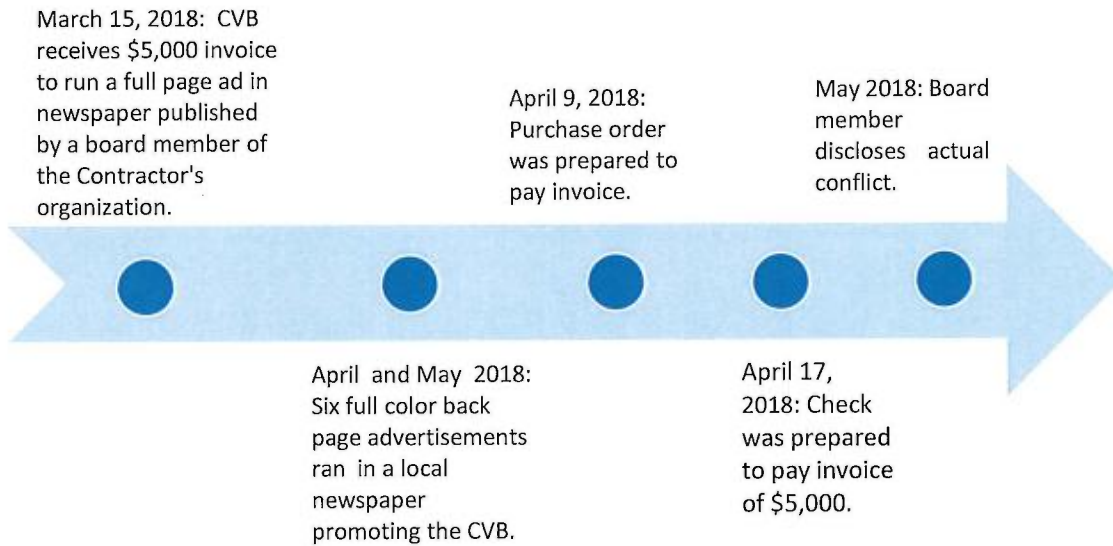
Our review of 19 conflict of interest forms submitted by Contractor officers and employees identified the following:

- The Contractor's employees working for the CVB and the SCCC, and who make decisions on behalf of the City, did not complete the forms because they were not requested to do so by the Contractor.
- Of the 19 forms submitted, three had contained disclosures of conflicts of interest. One of these forms, submitted by a Board Director who is also serving on the Contractor's committee overseeing the CVB, disclosed an actual conflict of interest regarding a business relationship between his company, a local newspaper, and the Contractor's organization. The disclosure occurred in May 2018, after a conflict had occurred, preventing the Contractor's Board or Executive Director from resolving the issue. As shown in Figure 26, the conflict was related to ads purchased in a local newspaper by the CVB.

"A conflict of interest exists when officers, board members, and staff has a direct or indirect business, professional, or personal relationship that may influence or be perceived to influence the judgement or action of the Officer, Board member, or staff serving the Santa Clara Chamber of Commerce and Convention Visitors Bureau. Such conflict of interests include, but are not limited to, personal and professional affiliations, and business dealings. All real and perceived conflicts of interest will be disclosed to the appropriate level necessary for consideration, resolution, and direction."

Source: Contractor Conflict of Interest Statement

Figure 26: Timeline on Conflict of Interest Disclosure



Although the CVB's National Advertising Manager raised concern about the value of running the ads in that particular local newspaper, the Contractor stated that the CVB staff, without influence from the Board of Directors, believed that it was better business decision to advertise in a more cost-effective media outlet that targets Santa Clara corporations.

In another example of a self-disclosed conflict of interest, a current Board member, reported in April 2018 of future plans to replace a current SCCC vendor responsible for mailing and shipping services. The SCCC General Manager/CEO explained that the current vendor did not comply with contract terms and conditions and the vendor contacted the Board member to serve a replacement, who was subsequently brought to the SCCC's attention.

The SCCC General Manager/CEO further reported the Board member is currently in the process of purchasing the contract from the current vendor. The SCCC did not issue a competitive bid and has not prepared a new contract, noting that it was important to resume business. The lack of an open and competitive bidding process puts SCCC at risk of not securing the lowest pricing for the services. In addition, this practice puts SCCC at cross purposes with public operated entities. The standard practice for publicly supported operations is to prepare new contracts upon changes in corporate ownership requiring a new vendor to complete tax forms, business requirements and insurance requirements.

The Management Agreement does not require the Contractor to follow City procurement policies. However, allowing a Board member of the Contractor's organization to assume mailing and shipping operations gives the appearance of financial self-dealing on a personal and organizational level. It also raises questions about the strength of the Contractor's contracting processes and related decision-making. Going forward, the Contractor's CEO reported that the Board member would have to abstain from any future decisions regarding the SCCC only and

disagreed with our assessment that allowing a Board member to assume the contract without a competitive bid gives the appearance of financial self-dealing.

Other members (and former members) of the Contractor's organization had key²⁸ contracts for services with the SCCC. One SCCC partner, who has not paid membership dues since 2016 but is still listed on the Contractor's membership directory, provides catering services. The caterer has been a partner for the SCCC since 2008. Another member of the Contractor's organizations provides audio-visual services. Catering and audio-visual are two of the revenue producing services for the SCCC. The SCCC bidding documents we reviewed did not contain any preference of vendors being members of the Contractor's organization, as appropriate. SCCC management explained that these businesses became a member of the Contractor's organization as a business choice on their behalf.

For a third disclosed conflict, an employee of the Contractor, which is not the current or former Executive Director, reported in May 2018 serving as an officer in a risk management association. There was no other information documented on the form that described the circumstances of the reported conflict.

Finally, one of the 19 forms reviewed and submitted by the (former) Chair of the Contractor's Board of Directors in April 2018 was partially completed, neither confirming or denying that a conflict of interest is present.

According to the National Council of Nonprofits, a key part in implementing conflict of interest activities is to manage the conflict. After the Board member and officer made the Contractor aware of their conflicts, consideration should be documented on what action, if any, was taken to resolve the conflict. The Contractor's (new) Executive Director had no prior knowledge if action was taken.

A goal of many organizations when addressing potential or actual conflicts of interests is to raise awareness of the types of situations that may be a conflict and the steps needed to encourage transparency with management when situations arise. The Contractor's CVB and SCCC employees had not received conflict of interest training although the Contractor's newly hired Executive Director began a training on basic governance for nonprofit organizations for the organization's Board of Directors.

The Contractor Appears to Have Misused Government Assets

Our review of the Contractor's conflict of interest activities led to the identification of other serious concerns about its management of the SCCC. The first concern is the Contractor's

²⁸ (As defined by largest generation of revenue at the SCCC from its vendors.)

frequency and extent of applying discounts on facility charges for use of the SCCC.²⁹ The Contractor's SCCC management staff explained that the use discounts largely serve to attract events and to be competitive with other convention centers. Offering discounts is common for the convention center industry.

As shown in Figure 27, from FY 2011-12 through April FY 2017-18, the SCCC discounted (i.e. adjusted fees) for more than half of all events that occurred at the SCCC. Throughout the six plus years, the value of the adjustments totaled \$16.1M, about half of the \$36M gross facility charges. The SCCC's Assistant General Manager approves of all financial adjustments given to event sponsors.

Figure 27: Number of SCCC events (aka bookings) with Fee Discounts (Adjustments)*

Year	Total Scheduled Events	# of Bookings with Discounts	% of Bookings with Discounts	Total Value of Discounts (Adjustments)
FY 2011-12	465	273	59%	(2,756,338.40)
FY 2012-13	513	294	58%	(3,031,425.75)
FY 2013-14	501	287	57%	(2,358,153.08)
FY 2014-15	464	227	49%	(2,385,939.00)
FY 2015-16	422	217	51%	(2,067,983.50)
FY 2016-17	447	228	51%	(2,051,815.12)
FY 2017-18 (April)	395	194	49%	(1,463,526.00)
Total	3,207	1,720		(16,115,180.85)

Source: TAP International, Inc. analysis of SCCC booking data.

*SCCC management explained that discounts are applied to some event sponsors if food and beverage sales or hotel room exceed a minimum level of purchases.

Per the SCCC's booking policy, discounts can be applied when charges from catering services reach a specified level. However, the SCCC did not fully comply with its own policy because the SCCC allowed use of the SCCC facilities to organizations that did not purchase catering services. For instance, in 2012, 2013, and 2015, the SCCC allowed a summer-long event sponsored by a faith-based organization that did not purchase catering services, or any other services offered by the SCCC, and therefore should not have been eligible for a discount. Across the three years, the gross charges totaled about \$1.1M and discounts given to the faith-based organization totaled about \$1.02M. The Contractor's SCCC staff explained that even though the organization did not purchase catering services, the event came with a substantial need for hotel rooms (450 rooms at the conference's peak) at a time when the hotel industry was suffering from an economic downturn. The TID paid the Contractor \$51,000 in subsidies to help offset the facility

²⁹ When the SCCC facilities are used for events, the related charges are public revenues because the SCCC is a publicly owned facility.

rental charges lost by the SCCC. Further review is needed to determine the allowability of the TID payment. The City should assess legal compliance with laws governing prohibition of gifts of public funds.³⁰ SCCC management reported that coordination between the SCCC and the TID is an important component in booking future business.

The SCCC's booking policy does not state that the SCCC is prohibited from fully discounting facility rental charges. However, as shown in Figure 28, event sponsors hosting a total of 353 events (or 11 percent of all SCCC events) received a full adjustment on gross charges equaling \$2.8M. Allowing full rental facility discounts on a publicly owned facility without official City authorization is potentially misusing government owned assets.

Figure 28: Number of SCCC Events Without Facility Rental Fees

Year	Number of Events with 100% Discount on Rental Fees	Total Discounts Applied
FY 2011-12	64	651,125
FY 2012-13	75	595,848
FY 2013-14	56	319,785
FY 2014-15	42	377,380
FY 2015-16	40	456,140
FY 2016-17	46	226,025
FY 2017-18 (April)	30	205,500
Total	353	\$2,831,803

Source of Data: TAP International, Inc. analysis on SCCC booking data.

On average, the Contractor fully discounted facility charges about 50 times per year and over a long period of time which led to a direct financial loss to the City on facility rental charges. We could not determine the full loss of rental revenue because some organizations that received a full discount on rental facilities in any one year and used the facility the following year, had gross charges applied of \$0; therefore, technically, no discount was applied. This happened 31 times in a six year plus period of our analysis.

The types of event sponsors that used the SCCC facilities with no facility charge include:

- City agencies³¹
- Contractor's employees
- Contractor's organization
- County agencies
- Local businesses

³⁰ There was no violation of the SCCC collective bargaining agreement in allowing the event sponsor to perform their own set up and cleaning of meeting facilities.

³¹ City of Santa Clara should pay a fee or a service charge to use the SCCC's facilities given that the convention center is a public enterprise operation.

- Nonprofit organizations that are members of the Contractor's organization
- Individuals and organizations that are members of or who have business ties to the Contractor's organization
- Political action committee associated with the contractor's organization³²
- SCCC contracted vendors.

The nature of events that took place were birthday parties, wedding receptions, general meetings, parties, and networking events. SCCC management also reported its contracted vendors sometimes use space for employee training.

Finally, when the SCCC applied full discounts to the Contractor's members and member organizations, the SCCC did not comply with the Contractor's own policy of applying a 20 percent discount up to \$1,000 per member. The SCCC management said that full discounts were applied to incentivize membership enrollment to the Contractor's organization and began at the direction of the Contractor's (former) Executive Director although TAP International could not verify this statement. The Contractor does not presently advertise or promote the discount on its website or other materials.

Further legal analysis is needed to determine if the Contractor: (1) violated its 501(c)(6) tax exempt status when it provided full facility discounts to its members, and (2) engaged in self-dealing when it used its personal or organizational relationships to offer free use of publicly owned facilities, and allowed the Contractor's Board member to assume SCCC services without implementing a competitive bid.

Investigation is needed by the California Fair Political Practices Commission to determine if violation of state law occurred when the Contractor allowed the Santa Clara Chamber Political Action Committee to use SCCC facilities free of rental charges.

The Contractor's CVB Improperly Issued a Donation Check to a Political Action Committee

In 2012, the Contractor sponsored a web-based fundraising event for a political action committee. During the campaign, the Contractor received checks that totaled about \$8,000 made payable to the CVB. Rather than returning the political donors' checks, the Contractor deposited the checks and recorded the deposit on the CVB's accounting records. The Contractor then recorded and issued a check on May 8, 2012 under the CVB accounting records for about \$8,000 to the Political Action Committee. Contractor management attributed the problem to donor confusion about to whom to make the check payable. When the CVB sent the payment to the Political Action Committee, it provided a gift for political purposes that needs further review by the California Fair Political Practices Commissions for potential violation of State law. In addition,

³² The SCCC reported that the Political Action Committee (PAC) received discounts for its food and beverage purchases. Our analysis shows that the PAC was a member of the Contractor's organization and per the Contractor's policy should have received a 20 percent discount on rental charges only.

because the Contractor facilitated the fundraising activity for the Political Action Committee, it may have jeopardized its 501(c)(6) tax exempt status.

The Contractor Misused Government Sponsored Resources

Under California Government Code 8314, using public resources for either personal or political purposes is illegal. Public resources can be classified as: money, staff time, equipment, technology, telephones, furniture, computers, and office supplies, if public funds were used in their purchase. The use of public resources would need to be enough to result in a gain for the user and a loss to the agency that can be estimated as a monetary value. As previously discussed in the report, the City virtually funds all of the operations of the CVB, paying about \$1.5M annually to the Contractor.

The CVB shares the same web domain name—santaclara.org—with the Contractor’s organization and the City pays for 80 percent of its share of costs although the Contractor does not provide detailed financial reporting on the costs for computer and related services. In early and mid-2018, the Contractor sent email blasts and newsletters (using the web domain name) to the surrounding community in support of its organization’s core mission. The newsletters also contained promotional ads for fundraising events by the Santa Clara Chamber Political Action Committee. The shared use of the domain name sent mixed messages to the public because the Contractor is holding the CVB name out to the public as its own entity, thereby benefitting from the lack of distinction between the private and public supported resource.

The Contractor is primarily responsible for the issues described in this section, jeopardizing the level of trust that Contractor decisions are made in the City’s best interest. The issues could have been prevented had the Contractor’s Board members and Contractor employees received training on the governance, ethics, conflict of interest, use of public resources, and proper internal controls. In July 2018, the Contractor’s new Executive Director, implemented a training program in place that is a good first step in conveying the basics of nonprofit governance.

Other Business and Marketing Structures Govern Local Convention Centers and Visitors Bureaus

In June 2018, the City Council directed the City Manager to develop options for the provision of convention and visitor services. Of the six convention and event centers located within a 250 miles range of the SCCC whose cities also have visitors’ bureaus, none are managed by a Chamber of Commerce. These cities have used other types of business structures, such as a City formed nonprofit organization, third-party corporation, and formation of a district or authority to operate both the CVB and the convention center.

The fact that other convention centers and CVBs are not operated by a Chamber of Commerce does not necessarily mean that the City should change contractors because other considerations should be factored in, such as overall operating and financial performance, City satisfaction with services, and cost. Nevertheless, the CVB and the SCCC management said that alternative business structures could work well for their operations. The CVB Sales Director explained that the CVB has always operated as a separate entity even though it was under the umbrella of the Contractor's organizational structure and should be organized as a separate entity in the future to fully promote the City as a destination area. The SCCC management reported that integrating the CVB with the Convention Center would work well, promoting coordination between the CVB and the SCCC. Both the CVB and the SCCC management reported that the Contractor's role in their operations had no influence over their performance because of the separation by each from the Contractor's core business.

Contract Management Needs Reform by Both the City and the Contractor

This section describes the level of Contractor oversight by the City and the Contractor's use of the City's budget policies to increase its fees.

The City and the Contractor Share Responsibility for Contractor Issues

Cities routinely contract with vendors to provide services to its residents and taxpayers. The International City Manager's Association (ICMA) writes that public contract management should include key activities, such as the development of metrics to check, track and report on vendor performance.³³ When the City originally drafted the agreements with its Contractor, in the 1970's and 1980's, the agreements primarily addressed financial requirements.³⁴ The two agreements, however, do not have other key terms and conditions, such as:

- Accomplishment of clear financial and operating performance benchmarks. This information allows the City to monitor the Contractor's progress towards its financial and operational goals and to identify early warning signs of negative performance trends.
- Implementation of key internal controls. These internal controls include (1) prohibition on co-mingling of public and private funds; (2) City review of financial transactions; (3) safe data storage;³⁵ and (4) development of facility use policies.
- Implementation of financial disclosures rules. Presently, the City does not require the Contractor to submit financial disclosure forms that help identify and to avoid any potential or appearance of a conflict of interest.³⁶ The Contractor and its employees, who make decisions about on behalf of the City, have not been required to file the California

The two agreements between the City and the Contractor did not contain key terms and conditions. The absence of these requirements coupled with City's lack of past oversight of the Contractor allowed the Contractor to make questionable decision-making about the CVB's and the SCCC's operations.

³³ Contract Management: A Risk-Based Approach for Local Governments, January 2018, by Kyle O'Rourke, Baker Tilly Virchow Krause, LLP, and Frank Girgenti.

³⁴ The two agreements have provisions for the Contractor to administer separate accounting activities between the CVB and the SCCC and from its core operations, proper documentation for reimbursements, budget submissions, and annual financial audits.

³⁵ Both the City's Management Agreement and the CVB Agreement state that the Contractor shall maintain accounting records for the life of the agreement and for three beyond the term of the agreement upon its expiration. However, the agreements do not include requirements for the safeguarding of information. Protecting financial records ensures that the information and data they hold is available any time for review and evaluation. The contractor's absence of strong controls over the maintenance of financial records pose a high risk for the City because the Contractor does not safely safeguard CVB accounting records, storing records below a water pipe that had previously leaked and damaged some of the accounting records. We did not determine the extent of the damage.

³⁶ The California Fair Political Practices Act requires that a city's conflict of interest code reflect the current structure of the organization and properly identify officials, consultants, and employees who should be filing Statements of Economic Interests (Form 700s). The Form 700 provides necessary information to the public about an officials or consultant's (contractor) personal financial interests to ensure that they are making decisions in the best interest of the public and not enhancing their personal finances. Consultants and contractors must file Form 700s if they make or participate in making governmental decisions.

Form 700 – Statement of Economic Interest – because the City did not identify in its conflict of interest policy that the Contractor would be subject to annual filing.

Without these requirements, the City does not have assurance of proper risk mitigation, which had partly led to the issues described in this report. The Contractor's lack of effective administration over operations discussed throughout this report is also a primary factor.

The absence of key contract requirements can be addressed, in part, by active contract monitoring. The City Manager's Office is responsible for contract oversight although there are no documents available to support any historical activities.³⁷ Without active contract oversight by the City, the City had historically placed too much reliance on the Contractor to deliver services efficiently and effectively, and in compliance with applicable laws and regulations.

In 2017 and 2018, the City's newly hired City Manager implemented efforts to strengthen the City's contract oversight activities, assigning the City's Finance Director as Contracts Manager, recruiting for a City-wide contracts manager, and implementing activities to enhance and assess the Contractor's performance. These activities include hiring a consultant to enhance marketing activities, implementing monthly oversight of the SCCC accounting activities, and requesting this audit.

Former City Officials Did Not Use the Contracting Process to Change Management Fees

Under the terms of the Management Agreement, the City is to provide an annual management fee to be included in the SCCC's annual operating budget. The payment amount ranged from \$45,000 to \$50,000 until 2016 when the management fee was increased to two percent of the SCCC's gross sales revenues. In FY 2016-17, these fees totaled \$136,699.

Changes in payment terms, like the one requested by the Contractor, are typically subject to contract amendments. Contractor documents show that in March 2017, the City provided instructions to the Contractor to use the budgeting process to change its management fees. However, in April 2017, the City met with the Contractor in budget meetings and a decision was reached that a formal amendment was needed. The Contractor's Board of Directors was to draft an amendment/letter regarding the management fee and that the City would prepare a letter establishing the new payment term of two percent of gross sales. There was no information provided that either the Contractor or the City followed through on these tasks. Having a contract amendment would have allowed for proper discussion and deliberation by the City Council on the merit of the fee increase. The City Council, upon learning that it inadvertently approved the fee increase through the City's budgeting process, voted to suspend payment of the management fee.

³⁷ The Contractor's CVB management said that City management had historically held frequent progress meetings with a former and long-time Executive Director. These weekly meetings reportedly stopped after the Contractor's Executive Director left the organization in 2015.

Section 3: Changes are Needed to Enhance SCCC Sustainability and Overall Performance

This section discusses three areas of the Convention Center and the CVB operations that have hampered the CVB efforts to enhance sustainability and overall performance. These areas are:

1. Event Scheduling
2. Marketing and Sales Operations
3. Facility Needs

New Strategies are Needed for Event Scheduling

More Multi-Day Events Should Fill Convention Center Calendar

An important measure to assess marketing effectiveness includes monitoring the number of available dates for potential events. In FY 2016-17, the SCCC event calendar was nearly filled, with few dates available throughout the year to book events. Only about ten percent of the SCCC's calendar was available for events, showing the popularity of the facility.

Another measure is the monitoring of facility space available for potential events. However, the SCCC does not maintain this data to determine the percentage of space available to potentially schedule other events. Monitoring these types of measures can allow the SCCC and the CVB staff to tailor their marketing activities to fully maximize the space offered by the SCCC.

The SCCC, nonetheless, collects other data to assess marketing effectiveness, such as the number of events scheduled, the duration and type of each scheduled event, and gross and net charges resulting from the event. However, as previously discussed in this report, the SCCC does not routinely analyze the information it collects to monitor performance. Our analysis, however, examined the presence of patterns in event scheduling. For instance, as shown in Figure 29, the number of events scheduled at the SCCC has not increased over time other than some fluctuations up and down. However, as shown in Figure 30, the total net financial value of the SCCC events scheduled increased over time.

Same day events average \$1,865 in fees per event between FY 2011-12 and FY 2016-17.

Multi-day events averaged \$12,000 in fees per event between FY 2011-12 and FY 2016-17.

Figure 29: Total Events Scheduled at the SCCC

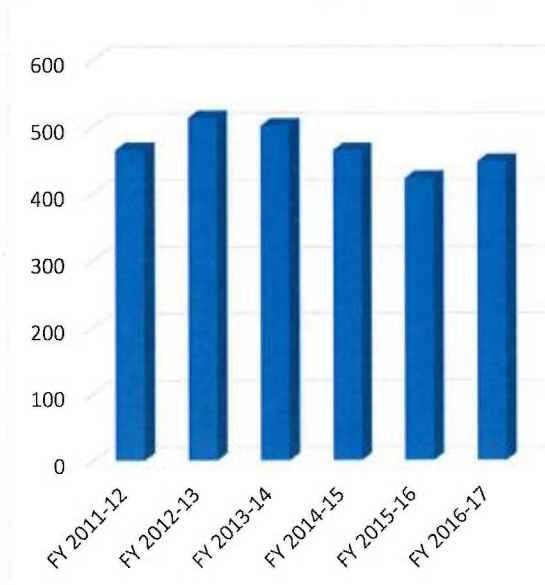
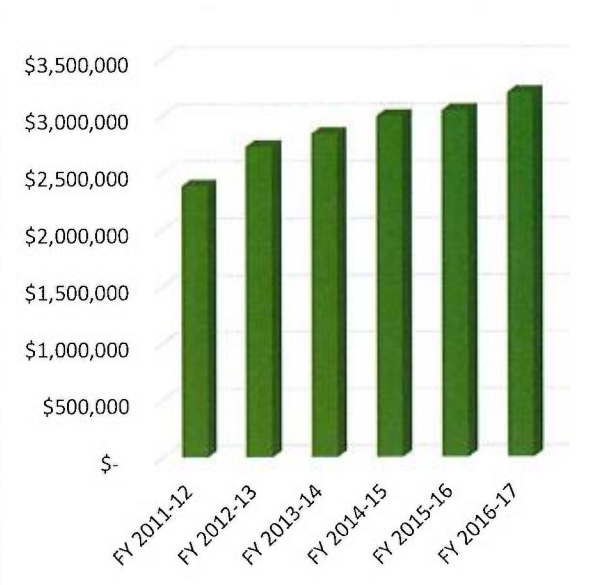


Figure 30: Net Financial Value of Events Scheduled at the SCCC

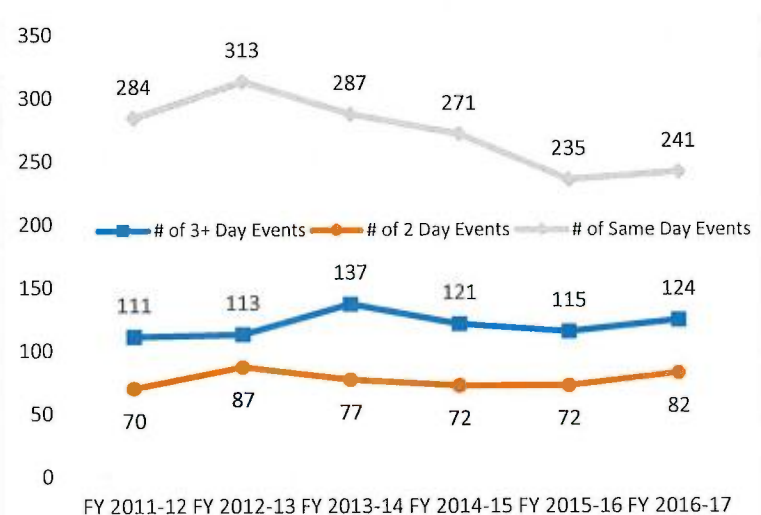


Source: TAP International, Inc. analysis of SCCC booking data

In addition, of the 2,812 total events hosted by the SCCC in the past six years, 58 percent of them began and ended on the same day (herein referred to as same day events). Same day events result in less revenue for the City in comparison to events that span several days.

Nearly 42 percent of the total events hosted over the past six years by the SCCC required two or more days (herein referred to as multi-day events). As shown in Figure 31, events that require three or more days occur more often than events that require two days. The CVB staff have primary responsibility for scheduling multi-day events at the SCCC because these types of events generally need hotel lodging.

Figure 31: Total Convention Center Events by Event Length and Fiscal Year



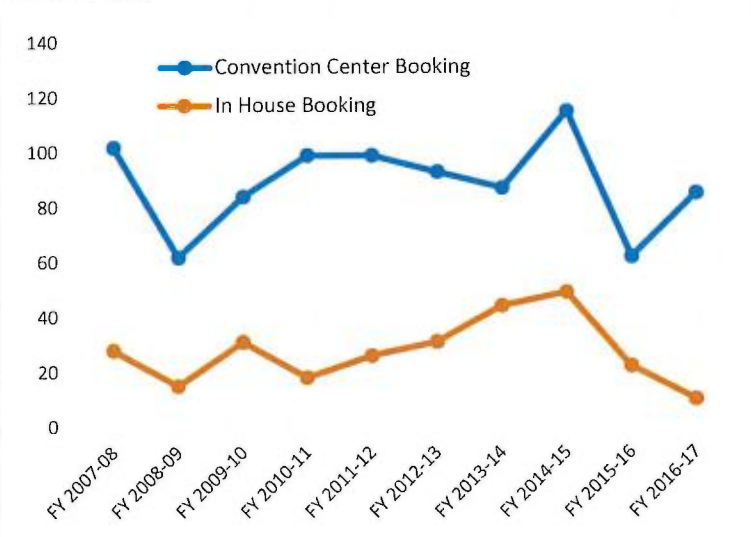
Source of Data: TAP International, Inc. analysis of SCCC booking data.

Our analysis of data further shows the CVB has increased its activities to scheduled SCCC events while its scheduling of hotel meeting space (herein referred to as in-house bookings) has declined. Figure 32 suggests that hotels may have the space available to host one-day events that are generally scheduled at the SCCC.

Better Guidance is Needed in Scheduling Events

The SCCC, SCCC partners, and the CVB are all responsible for scheduling events at the SCCC. With the involvement of multiple entities, guidance should be available to help in decision-making on the types of events to receive priority scheduling. Although the SCCC has available booking policies, the policies do not address event coordination. SCCC management explained that the practice is for CVB's multi-day events to receive priority scheduling and the SCCC to fill the gaps in the event calendar with same-day events. It is unclear whether the SCCC consistently applies this guidance because the SCCC can schedule same day events up to 18 months in advance. The SCCC also reserves the month of December for its clients because SCCC management explained it was a profitable time of year for them, but that it would accommodate if CVB presented a substantial piece of business. CVB staff reported multiple instances of multi-day events that were turned down by the SCCC over the years. In FY 2017-18, there were 32 potential multi-day events with over 55,000 participants (see Figure 33) that had to look elsewhere because proposed dates were unavailable at the SCCC, creating lost economic opportunities for the City (based on the assumption that at least three of 32 potential multi-day events could have been scheduled if the dates were available).

Figure 32: Number of CVB Events Scheduled at the SCCC and at Area Hotels



Source of Data: TAP International, Inc. analysis of CVB booking data.

Figure 33: Top Reasons for Losing Multi-Day Events at the SCCC, FY 2017-18

	Meetings	Attendees	Requested Rooms
Convention Center dates unavailable	32	55,168	42,544
Convention Center too small	12	48,816	56,536
Better attendance in another city	45	42,065	40,291
Rates too high	50	36,776	39,178
Event postponed/cancelled	30	30,942	15,467

Source of Data: TAP International, Inc. analysis of CVB Lead and Booking Reports

In addition, the SCCC could develop policies that guide scheduling events requested by nonprofit organizations. For example, some convention centers set aside a limited number of dates to offer facilities at discounted rates or set aside dates that historically have had low facility utilization. Without established guidance, the City does not have assurance that the SCCC event space is leveraged to the maximum economic benefit possible.

In the absence of guidance for scheduling events by nonprofit organizations, the review and approval of potential events takes on greater importance. The review process could consider any number of factors all with the purpose of maximizing potential convention center revenue. For the CVB to successfully confirm a multi-day event, the Contractor's CVB employees prepare a multiple page letter of intent that describes the nature of the event, the services requested, and a preliminary financial analysis. The CVB staff reported that the approval process for each potential booking requires up to three hours. The Contractor's SCCC employees, however, are not subject to the same process even though same-day events have lower potential for revenue generation. The absence of implementing parallel processes raised questions by some CVB employees about whether the SCCC was effectively making decisions on event scheduling. Without documentation on why the SCCC or the CVB events were approved or denied, TAP International had no basis to determine if booking principles regarding allowing priority booking to the highest revenue generating events were consistently applied by the SCCC management. However, given that same-day bookings comprise over half of SCCC events, the City does not have assurance that the review process gives top priority to events with greater economic benefit.

Marketing and Sales Operations can be Enhanced

Marketing Plans Need to be Comprehensive and Integrated

The purpose of a comprehensive marketing plan is to give strategic direction for the success of the SCCC and the CVB. It serves to describe the leadership role for the marketing of meetings and conventions, leisure travelers, and business and cultural events that lead to economic growth for

the City and the surrounding region, including describing how the SCCC and the CVB can distinguish itself from its competitors.

The City hired an industry consultant to determine how best to shape the SCCC and the CVB for the future. The industry consultant, among other activities, held meetings with the CVB and the SCCC to establish new strategies for generating leads and sales goals. In addition, the Contractor had set up its own committee to offer leadership direction for marketing activities. In 2018, the Contractor's committee discussed the need for an updated marketing strategy, but a comprehensive and integrated marketing plan has not yet been prepared. In lieu of an integrated plan, the CVB had developed its own five-year strategic plan and other annual business plans to market and promote the city. These plans included analysis of strengths and weaknesses, development of sales goals, and description of action plans for each market sector. Without a marketing plan that addresses the sales and marketing activities of both the SCCC and the CVB, effective coordination was hampered. The Contractor allowed each entity to generally operate independent of each other.

Staffing Could Be Re-Structured

Staffing is an essential function in any organization. Hiring staff with the right skills, knowledge, and abilities for the role to be performed can contribute to the organization's success. At the CVB, the Contractor hired five sales managers with extensive experience in the tourism and hotel industry. The CVB's two Vice-Presidents also possess extensive experience in the Convention and Visitors Bureau industry. In comparison, the SCCC hired one Sales Director who does not have the same level of experience as the CVB staff at the time of hiring. Experience was developed on the job because the Contractor did not invest in continuous professional training to either the CVB or the SCCC sales staff nor did the City require professional development.

The differences in experience levels did not result in significant differences in performance levels relative to total event bookings by each entity. The CVB books about 42 percent of the events held at the SCCC while the SCCC staff book the remaining 58 percent of all events, on average. It takes the CVB more work and effort to book multi-day events, thus the need for more employees.

The Contractor for the CVB and the SCCC divided the supervision of sales activities. The SCCC's Assistant General Manager oversees its one Sales Director. Two CVB Vice-Presidents oversee five sales managers and six other support staff. The CVB and the SCCC staff reported the absence of effective communication and other information sharing activities because of the fragmented structures. As a result, none of the entities were fully aware of how well the others performed relative to meeting sales goals and targets.

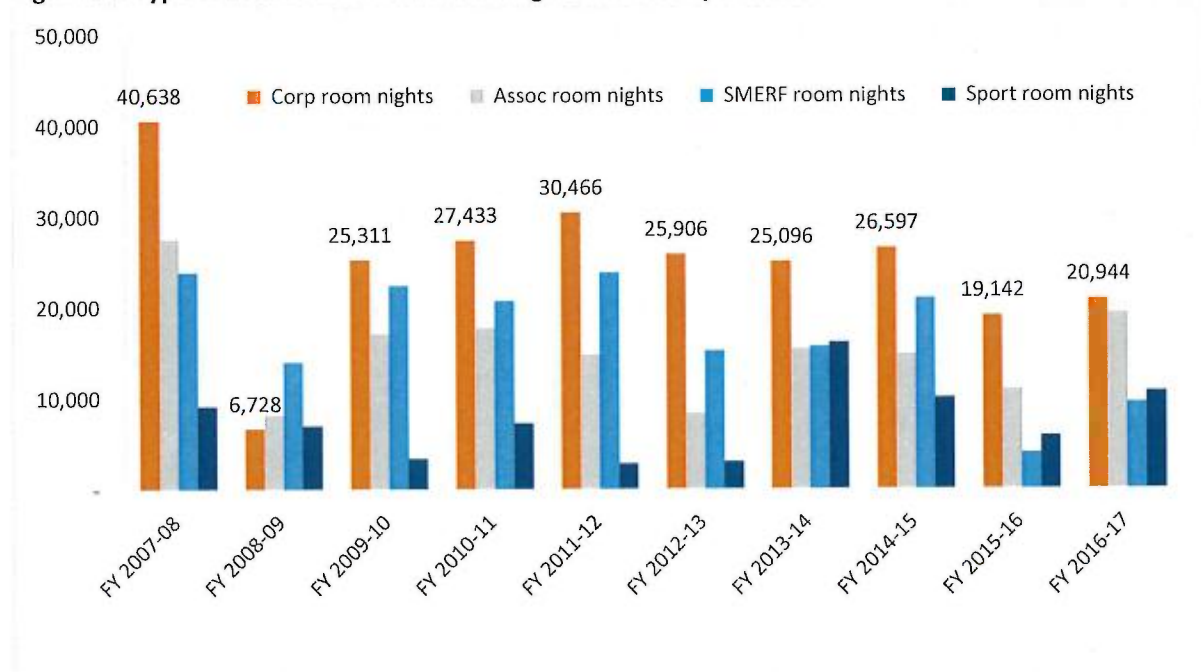
Given that the CVB employs five sales managers, we examined the extent that the CVB strategically utilizes these resources to maximize its performance. Each Sales Manager is

responsible for one of five market areas included in the Contractor's scope of work with the City. These market areas are:

- Corporations
- Social, military, education, religious, and fraternal associations (SMERFs)
- Sports
- Associations
- City-wide events

As illustrated in Figure 34, the CVB books more corporate events in comparison to its other market areas. Given that corporate scheduled events represent the most common type of multi-day event hosted at the SCCC, assigning more staff in this area to work leads could likely result in more events. The CVB could also assign a sales manager to more than one market area that have fewer potential leads and events, such as the Sports and SMERF areas. The CVB management explained that sales managers are reassigned when workloads increase among other managers, but that the CVB needs more support staff to generate and process leads, freeing sales manager to devote their attention to working with the potential client directly. While additional staff have been requested in the budget, the contractor's CVB management explained there was low likelihood the positions would be approved. In FY 2015-16 and FY 2016-17, the CVB did not spend all of its contract funds from the City, leaving up to \$517,000 on the balance and enough to hire support personnel.

Figure 34: Type of Events and Hotel Room Nights Secured by the CVB



Source of Data: TAP International, Inc. analysis of CVB booking

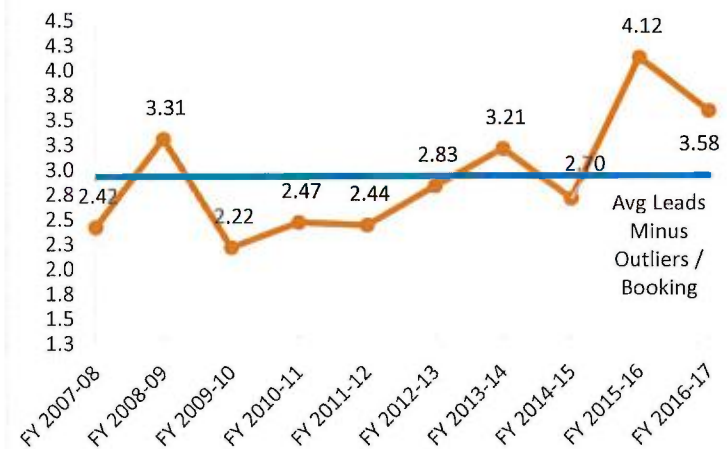
More Leads are Needed to Successfully Book One Event

California has 20 Convention and Event Centers with seven of them located within a 200-mile radius of the SCCC, creating a competitive environment for the CVB to book multi-day events. A key success factor in scheduling the SCCC is generating enough interest, or leads, from potential clients that could result in a scheduled event. A large availability of leads provides ample opportunity for staff to promote the SCCC and area hotels to potential clients. The CVB's own benchmark over a ten-year history averages three leads to schedule one event, but recently, the CVB needs more leads to do so (See Figure 35). Complicating matters is the slight downward trend in total leads available for the CVB in recent years. (See Figure 36). The CVB management reported efforts to pursue other types of lead generation activities that could result in city-wide events, at the recommendation of a City consultant hired to develop enhancements to CVB operations. A city-wide event was originally defined by the CVB as a goal of scheduling events that need 600 room nights at the event's peak. CVB staff explained that this goal was ultimately adjusted to 750 room nights at the time of our review.

Leads that involve a substantial amount of room nights require more time to identify and to pursue, said CVB management. At the time of our review, the CVB scheduled two of 22 "city-wide" events targeted.

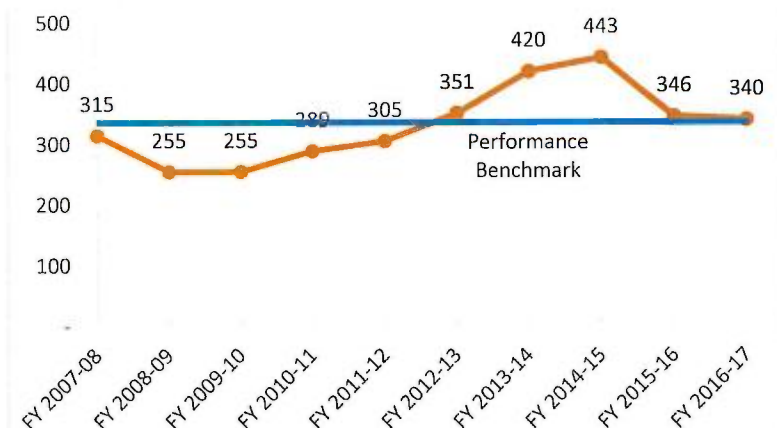
It is uncertain as to whether the CVB can meet its "city-wide" event goal. Assuming that the SCCC and the CVB operations remain unchanged, three challenges are present. First, as shown in Figure 37, the CVB, historically exceeded its new city-wide goal of 750 room nights per event in one of the last ten years, suggesting that establishing 22 "city-wide" events with 750 room nights at its

Figure 35: Number of Leads per CVB Booking, Ten-year History



Source of Data: TAP International, Inc. analysis of CVB booking

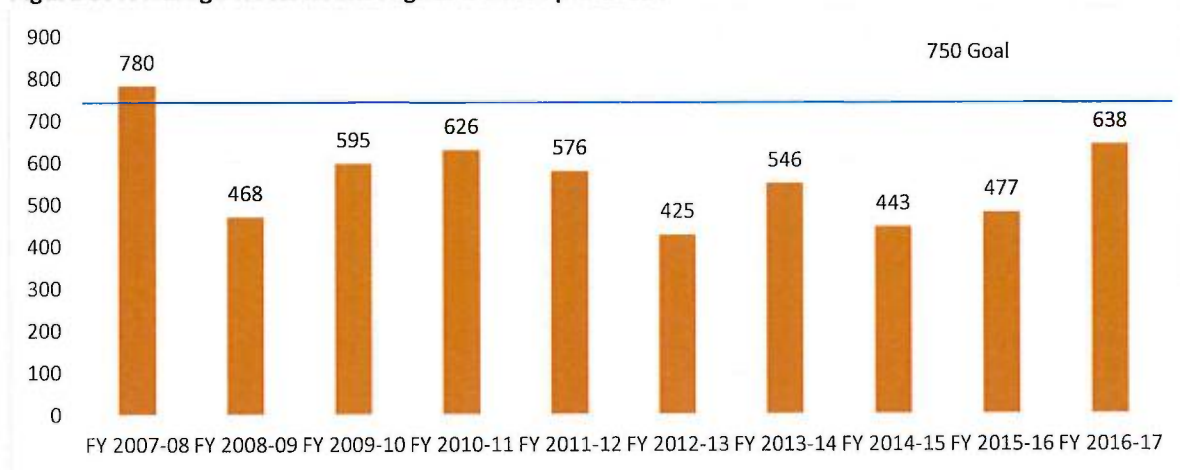
Figure 36: Number of Total CVB Leads, Ten-Year History



Source of Data: TAP International, Inc. analysis of CVB booking

peak may be an ambitious goal. Second, CVB employees reported that the surrounding area has a total of 3,800 hotel rooms. To have 750 of these rooms, or 20 percent of all City hotel rooms, available at the same time for any one event, is challenging. Third, the SCCC calendar is nearly full and may not have available dates for these very large events.

Figure 37: Average Hotel Room Nights Utilized per Event



Source of Data: TAP International, Inc. analysis of CVB financial data.

The CVB may not have to focus efforts on scheduling city-wide events. Our analysis of Figure 31 and 32, the SCCC could work towards shifting its one-day events to area hotels resulting in more available dates to schedule multi-day events. The SCCC could also schedule one-day events when needed at the SCCC six months in advance versus 18 months. Had at least three of the 32 potential events that were lost due to unavailable dates (See Figure 33) been successfully scheduled, it could have led up to an additional 4,000 room nights that could have (1) increased the annual overall average per booking for the SCCC; (2) helped the CVB meet its city-wide goal; and, (3) increased the economic impact to the City.

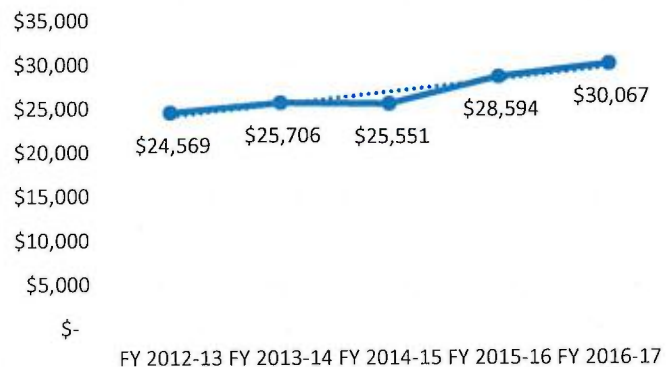
Robust and Strategic Advertising Is Needed

The International Association of Venue Planners state that event planners and attendees are looking for centers that offer unique features, reporting that differentiation is key to attracting more business and larger events. The CVB is implementing current industry marketing strategies to promote the surrounding areas by highlighting restaurants and nightlife, local tours, museums, shops, and outdoor activities, largely through its website. Technology is also leading the way for the SCCC to market itself on the web, by incorporating an interactive map and virtual tour platform, providing useful resources to help in the planning process, making the selection process experience easier for potential clients. Through interactive digital mapping, potential guests can familiarize themselves with the center, as well as the surrounding area, before they arrive.

The CVB also implements direct advertising. While no benchmarks have been established on suggested advertising budgets, the CVB's advertising expenditures ranged between \$24,569 to \$30,067, as illustrated in Figure 38.³⁸ Having a small budget for advertising and marketing requires strategic decision-making to leverage limited resources. CVB management explained that it had two goals for advertising and marketing activities: (1) to make the CVB known as a local resource for area businesses to handle its event needs, and (2) to promote the area as a destination for local businesses. At the time of our review, the CVB had:

- Subscribed to various publications and trade tools as well as enrolled in trade and industry associations to help receive leads on prospective clients.
- Performed its own online marketing of the City as a destination area, providing vast information on potential tourist attractions in the local area.
- Received local news coverage to promote its activities.
- Dedicated some of its limited budget to direct advertising and promotion.³⁹

Figure 38: Advertising Dollars of the CVB Expenditures



Source of Data: TAP International, Inc. analysis of CVB financial data.

A potential outcome from these activities would be the generation of leads and/or scheduling of events at area hotels or the SCCC. Figure 29 and Figure 36 largely shows an unchanged performed in bookings and in lead generation over time with some fluctuation between the years, suggesting are needed in marketing and advertising strategies.

SCCC Needs Modernizing

The International Association of Venue Planners report that planners do a lot of research before deciding on the best venue, considering factors such as catering services, technology, facility size, and building modernization. As evidenced by Figure 33, the CVB has lost potential clients because the SCCC is too small and both the SCCC and the CVB staff said that condition of the facility needs attention.⁴⁰ Figure 39 shows the condition of SCCC's carpeting in place throughout the facility.

³⁸ TAP International, Inc. could not develop an apples to apples comparison of CVB's advertising budget with other convention centers.

³⁹ In the Spring 2018, the CVB spent \$5,000 to run six full-page ads in a local newspaper that we discussed earlier in this report as a self-reported conflict of interest.

⁴⁰ The Management Agreement states the Contractor is to maintain the Convention Center, the equipment and furniture situated therein, and related facilities in good order and repair and to request such repairs in the SCCC's annual budget or separate City Council action.

The SCCC management explained that the carpeting needs replacement and the kitchen in the Mission City Ballroom requires repair and updating.

The City recognized the need for facility modernization and commissioned a facility assessment in 2017. The facility assessment identified 11 areas that require immediate replacement or modernization.

These areas are:

1. Redesign location of Mission City Ballroom, HVAC equipment so that the MCG kitchen becomes functional
2. Replace carpets (Main Building and Great America)
3. Replace tile at base of columns
4. Replace acoustic tile ceiling finishes (Main Building and Great America)
5. Replace fabric faced interior finished (Main Building and Great America)
6. Redesign functionality and replace “air walls”
7. Install reflective coating on flat roofs
8. Provide weather protection for south facing MCG exterior doors
9. Complete replacement of HVAC system
10. Modernization of elevators
11. Provide safety railing at roof perimeters

Figure 39: SCCC Carpet Condition



Photograph by TAP International, Inc.

The 2017 study estimated replacement and modernization costs for these short-term repairs at \$5.3M and other long-term repair costs at \$57.7M over the next ten years. The City and the SCCC budgeted over \$1M to replace the carpeting and budgeted over \$4M to update the kitchen in FY 2020-21. Updating the kitchen will likely lead to deficit spending for that year if the SCCC cannot better leverage its bookings. However, in the absence of modernizing the facility, the CVB would be hampered in its ability to attract large events that would require at least 750 room nights.

Appendix A: CVB Revenue, Expenses and Net Income

Figure A1. CVB Revenue, Expenses and Net Income

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
CVB Revenue										
Admin and Service Fees	44,580	32,882	32,893	32,265	32,265	32,160	34,500	34,500	34,500	16,750
Program Services									50	300
On-Line Hotel Reservations	8,111	6,467	2,071	2,261	2,443	2,284	2,625	1,856	1,987	1,047
City Contract	1,411,678	1,446,962	1,468,526	1,456,526	1,521,526	1,521,526	1,521,526	1,521,526	1,521,526	1,489,315
Discount Ticket Sales	2,099	3,529	1,983	7,195	13,049	11,274	7,149	5,812	2,114	1,455
Registration Services	107,393	81,731	122,351	149,400	7,389	399	735	458		
Commission Revenue									22,431	1,946
Banner Ads									1,800	
Interest Income	1,022	647	577	223	185	139	56	47	47	93
All Other Program Services										
CVB TOTAL REVENUE	1,574,883	1,572,218	1,628,401	1,647,870	1,576,857	1,567,782	1,566,591	1,564,199	1,584,455	1,510,906
CVB Expenses										
Salaries and Wages	937,383	945,167	1,006,243	1,018,335	900,904	888,877	937,577	918,150	651,150	787,658
Payroll Taxes	76,040	76,234	81,779	83,422	72,967	69,595	70,925	74,100	51,603	55,347
Employee Benefits	174,188	194,517	207,536	202,165	200,299	194,472	208,035	220,383	126,274	102,194
Depreciation/Amort.	10,300	14,994	16,043	9,213	5,963	5,093	5,900	5,093	5,093	5,093
Office Supplies/Maint.	27,639	25,756	24,035	26,104	27,268	26,036	28,207	29,911	25,168	17,143
Computer Service/Maint			1,750	1,094	1,269	958	240	21,810	41,575	33,500
Accounting and Audit	27,845	30,640	31,520	31,150	31,520	32,815	32,656	33,430	34,395	35,320
Legal Fees								35,080	42,894	10,174
Office Equip.	1,228	885	95	722	1,807	360	1,050	1,063		1,356
Rent	88,575	91,232	91,232	91,232	91,232	91,232	91,232	91,232	91,232	91,232
Telephone	22,292	18,899	21,147	21,879	20,079	18,391	17,994	18,634	18,591	17,039

Insurance and Taxes	7,874	10,572	10,904	14,949	17,275	7,994	14,444	11,776	4,633	3,448
Administrative Meeting	2,893	1,952	1,809	1,307	2,479	2,345	1,482	1,739	2,500	1,981
Postage	18,590	15,284	16,660	11,445	13,043	13,283	12,169	14,128	8,176	6,298
Mileage	3,059	3,021	3,102	2,915	2,997	3,192	2,719	2,593	2,332	1,443
Payroll Service fee	4,499	4,347	3,673	7,047	5,896	5,408	6,472	7,091	12,194	5,854
Inside Santa Clara Newsletter	10,500	10,500	10,500	8,000	8,000	8,000	8,000	8,000	6,275	7,949
Advertising-Convention Marketing		17,150	13,177	9,664	3,557	450	3,309	2,951	3,813	4,204
Advertising-Travel Marketing	19,709	17,007	17,461	14,883	15,833	16,119	14,397	14,600	18,506	17,914
Marketing-Servicing	550	330			250					
Marketing-CC Marketing/Sales	103,799	112,744	100,916	50,009	97,735	85,416	90,808	48,895	35,046	99,086
Marketing-Visitors Bureau	52,571	47,626	52,610	48,421	49,102	53,435	47,932	40,335	32,912	49,620
Loss on Disposal of Equipment			8,117							
Outside Services	6,242	200	6,849							
Expense Reimbursements	11,015									
Miscellaneous	1,963	2,507	654	1,769	4,449	3,222	2,580	4,061	3,744	6,354
CVB TOTAL EXPENSES	1,608,754	1,641,564	1,727,812	1,655,725	1,573,924	1,526,693	1,598,128	1,605,055	1,218,106	1,360,207
CVB TOTAL NET INCOME (LOSS)	(33,871)	(69,346)	(99,411)	(7,855)	2,933	41,089	(31,537)	(40,856)	366,349	150,699
TOTAL FY 2007-08 TO 2016-17										\$278,194

Appendix B: SCCC Revenue, Expenses and Net Income

Figure B1. SCCC Revenue, Expenses and Net Income

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
SCCC Revenue										
Space-Exhibit Halls	1,265,660	1,194,129	1,113,905	1,090,620	1,142,031	1,352,496	1,261,166	1,337,354	1,416,000	1,353,372
Space-Ballrooms	209,948	221,195	488,060	622,105	598,929	711,857	823,143	801,308	873,944	915,085
Space-Meeting Rooms	207,984	194,893	180,207	219,685	207,900	239,957	237,630	237,580	262,125	275,466
Space-Great America	286,623	271,593	220,997	214,889	274,632	291,742	360,661	385,969	358,770	404,850
Space-Theater	193,640	189,026	151,590	208,620	203,376	211,483	218,644	200,892	208,720	201,000
Space-Cancellation	63,650	163,594	76,138	24,641	15,899	111,523	72,799	77,641	95,995	60,810
Merchant Fees			(25,191)	(34,347)	(38,468)	(54,177)	(60,668)	(58,205)	(63,372)	(79,196)
Labor-Miscellaneous	10,933	8,915	9,565	19,270	11,168	6,825	5,420	9,139	8,655	8,400
Equipment Rental	64,854	58,374	55,466	99,048	55,400	92,744	76,773	120,308	106,638	123,897
Electrical Comm.	107,391	159,844	105,585	140,410	192,214	222,042	184,879	222,373	203,486	277,045
Electrical Services In-House	94,506	53,573	66,840	164,515	156,749	117,605	107,866	111,470	133,650	58,485
Audio-Visual Comm.	270,992	271,929	362,512	395,825	411,300	462,273	605,755	594,217	609,736	638,611
Services - Misc.	5,810	18,472	4,360	6,525	5,773	5,658	7,100	639	3,930	3,495
Incoming Freight	3,690	3,675	3,175	6,065	9,543	3,764	3,314	2,631	3,423	6,649
Cell Site Revenue	23,009	17,794	17,794	17,794	17,980	18,233	18,936	18,090	26,236	33,039
Telecomm Commission	175,127	127,363	175,520	295,797	327,993	447,915	446,187	432,566	527,971	638,933
Catering Commission	1,262,009	800,499	1,037,616	1,900,070	2,195,799	2,509,846	2,809,971	2,566,610	2,572,066	3,060,064
Insurance Revenue	2,610	2,245	2,085	2,170	2,135	2,853	3,115	1,995	1,750	2,030
Interest Revenue	72,998	65,877	57,670	42,934	43,423	20,004	14,025	10,752	7,175	23,689
Advertising Comm.	25,154	26,015	15,976	26,009	32,254	32,536	30,449	26,983	29,658	35,644
Sponsorship Revenue	2,300	1,600	1,800	5,550	5,700	16,500	10,950	4,000	2,800	14,150
Business Center Comm.	5,324	4,123	4,481	5,220	5,645	6,710	12,502	14,802	12,682	10,088
Other Income	11,057	2,204	8,874	8,629	4,134	18,771	3,572	3,702	4,629	28,158

SCCC TOTAL REVENUE	4,365,268	3,856,929	4,135,023	5,482,042	5,881,508	6,849,158	7,254,188	7,122,815	7,406,668	8,093,763
SCCC Expenses										
Labor Related	3,530,564	3,659,221	3,766,957	3,866,593	4,059,755	4,408,338	4,595,404	4,778,024	4,818,759	4,983,964
Parking Fees	16,165	8,925	15,720	26,145	38,865	25,320		6,901	36,982	8,550
City Admin Fee	45,000	45,000	45,000	45,000	45,000	45,000	45,000	47,250	50,000	136,699
Other Operating	2,297	196	2,220	8,546	12,463	25,823	10,490	76	3,760	39,500
Professional Associations	9,525	9,884	10,450	7,522	6,555	8,854	6,945	8,846	8,364	9,152
Advertising and Promotion	6,447	6,677	1,593	3,959	2,520	1,844	1,245	1,567	998	970
Telephone	38,317	37,901	29,812	21,706	19,905	5,693	5,072	4,799	6,951	8,568
Office Expense	55,708	79,755	107,015	78,843	61,358	87,511	169,619	146,692	89,810	111,525
Insurance	86,365	98,905	110,509	106,457	122,635	138,012	163,734	169,868	166,849	169,206
Employee Expenses (payroll, training, etc.)	41,998	39,188	39,856	45,346	40,836	45,244	51,004	53,715	57,088	72,780
Maintenance	135,467	143,632	134,231	135,042	158,071	177,577	247,704	209,468	237,890	244,576
Janitorial and Cleaning	90,082	83,373	83,326	89,032	108,849	146,616	133,914	138,593	152,630	144,713
Utilities	530,715	531,693	590,929	611,426	636,488	667,429	676,428	694,485	720,152	732,235
SCCC TOTAL EXPENSES	4,588,650	4,744,350	4,937,619	5,045,617	5,313,299	5,783,261	6,106,561	6,260,284	6,350,233	6,662,438
SCCC TOTAL NET INCOME (LOSS)	(223,383)	(887,421)	(802,597)	436,425	568,209	1,065,897	1,147,627	862,531	1,056,435	1,431,325
TOTAL FY 2007-08 TO 2016-17										\$4,655,050

Figure B2. SCCC Revenue, Expenses and Net Income for FY 2017-18

The SCCC provided the full FY 2017-18 Income Statement after our financial analysis was completed. It is included here to show the SCCC ended the year with \$2.2M in revenue.

FY 2017-18	
SCCC Revenue	
Space Rental	3,718,344
Event Revenue	592,910
Audio-Visual	853,587
Catering	2,874,957
Telecommunications	559,546
Other	448,259
SCCC TOTAL REVENUE	\$9,047,603
SCCC Expenses	
Labor Related	5,020,837
Insurance	174,206
JLL Evaluation	89,375
Maintenance & Supplies	234,521
Management Fee	133,184
Monthly Service Contracts	146,575
Office & Legal	268,886
Parking Fees & Rentals	6,000
Utilities	746,653
TOTAL SCCC EXPENSES	6,820,237
SCCC TOTAL NET INCOME	\$2,227,366