



FINAL REPORT

City of Stockton

VENUE MANAGEMENT PERFORMANCE AUDIT

October 1, 2020

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Table of Contents

I. Executive Summary	1
A. Background, Scope, and Methodology	1
B. Summary of Findings and Recommendations	1
II. Background, Scope, and Methodology	8
A. Background	8
B. Scope and Methodology	8
C. Commendations	10
III. Findings and Recommendations	11
A. City Findings	11
B. ASM Stockton Findings	17
C. Sports Team Findings	41
Appendix A: Hockey Facility Fee Adjustment	44



I. EXECUTIVE SUMMARY

A. BACKGROUND, SCOPE, AND METHODOLOGY

The City of Stockton (the City) contracts venue management to ASM Global Stockton (ASM Stockton), which manages the entirety of operations at five City-owned venues. Four venues continue to require a combined \$2.7 million subsidy from the general fund, in addition to a \$262,000 subsidy for the Stockton Downtown Marina. Over the last several years, the financial performance of these venues has not met City expectations and in fiscal year (FY) 2019–2020 ASM Stockton required an additional \$1.3 million to fund a budget deficit at the end of the fiscal year.

The City also has three local sports teams contracted to play at City-owned venues. Events hosted at the venues are intended to provide positive exposure to the City as well as direct and indirect benefits to the community through increased economic activity, such as hotel stays, local tax proceeds, and parking revenues.

The City requested a performance audit of the City's contract with ASM Stockton for the management of City-owned venues. The goal of this performance audit was to evaluate the performance of ASM Stockton in comparison to contract terms and industry best practices. The performance audit also assessed the City's structure and operations for oversight of the venue management contract and vendor for efficiency, effectiveness, and alignment with best practices.

The assessment was conducted between April 2020 and October 2020. Our analysis was informed by interviews, document review, sampled event reconciliations testing, peer benchmarking analysis, and research into industry best practices.

B. SUMMARY OF FINDINGS AND RECOMMENDATIONS

Findings and recommendations were grouped into three categories: 1) City Findings, 2) ASM Stockton Findings, and 3) Sports Team Findings. The recommendations provided within each category are directed at the organization stated in the category, unless otherwise noted. For example, recommendations 1 through 7 are directed to the City.

FINDINGS AND RECOMMENDATIONS		
City Findings		
1.	Finding	While the City receives and reviews monthly reporting from ASM Stockton, it has not placed adequate focus on evaluating financial and operational performance in a proactive manner. Additionally, roles and responsibilities between the City and ASM Stockton could be more clearly defined to support appropriate oversight.
	Recommendations	A. The City should develop formal contract management policies and procedures and incorporate financial and nonfinancial components into ongoing management practices.



FINDINGS AND RECOMMENDATIONS		
		B. The City and ASM Stockton should clearly define their respective roles, responsibilities, and decision-making authority.
2.	Finding	The City does not conduct cash flow monitoring of the venue operating accounts.
	Recommendations	<p>A. The City should request ASM to include a Statement of Cash flows within their monthly reporting.</p> <p>B. The City should utilize ASM reporting to perform timely cash monitoring and reconciliation of operating accounts.</p>
3.	Finding	Capital improvements within the venues are prioritized against other pressing Citywide needs, presenting the risk that over time venue assets may not be adequately preserved and remain competitive.
	Recommendation	As venue financial performance improves, the City should consider establishing a dedicated capital improvement account to fund venues' needs.
4.	Finding	The City could better leverage the expertise of ASM Stockton during procurement processes for capital improvements related to the venues.
	Recommendation	The City should continue to incorporate a member of ASM Stockton leadership in future capital improvement procurements to provide subject matter expertise.
5.	Finding	The City has historically maintained a flat subsidy for ASM Stockton, even as costs have increased.
	Recommendation	The City should reevaluate historic subsidy levels by considering current sports team agreements and cost requirements.
6.	Finding	The City has not recently calculated the economic impact of the venues.
	Recommendations	<p>A. The City should conduct an economic impact study to determine the return on investment of events hosted at City venues.</p> <p>B. The City should incorporate the venues' direct economic impact into the reported financial performance of venues and events.</p>
7.	Finding	The City delegated the bulk of sports team contract management to ASM Stockton, resulting in limited communication with teams and unclear decision-making authority.
	Recommendation	The City should develop and implement a Responsible, Accountable, Consulted, Informed (RACI) matrix and standardized communication practices to support a productive partnership between the City, ASM Stockton, and local sports teams.



FINDINGS AND RECOMMENDATIONS		
ASM Stockton Findings		
8.	Finding	Historically, ASM Stockton financial forecasting has over-estimated revenues, resulting in unexpected funding requirements at end of year.
	Recommendation	ASM Stockton should implement multi-scenario forecasting to better evaluate and communicate worst, anticipated, and best case outcomes, along with the key assumptions for each scenario.
9.	Finding	Historically, ASM Stockton management has struggled to provide consistent, transparent communication regarding venue operations and financial management.
	Recommendations	<p>A. ASM Stockton should provide financial management and reporting training to internal department directors.</p> <p>B. ASM Stockton should continue and formalize timely communications and meetings with the City.</p>
10.	Finding	Current budget-to-actual monitoring is limited to, and primarily conducted by, ASM Stockton's Finance Department.
	Recommendations	<p>A. ASM Stockton should develop monthly budget-to-actual reports for review by internal department directors to serve as a management tool.</p> <p>B. ASM Stockton should implement quarterly budget reviews with the CFO and General Manager to proactively monitor and address financial and operational performance.</p>
11.	Finding	ASM Stockton financial and accounting systems and processes lack effective reporting capabilities to analyze and report key financial information.
	Recommendations	<p>A. ASM Stockton should consider implementing new financial system software or training on reporting capabilities of the current system.</p> <p>B. ASM Stockton should organize financial records and systematic reporting to support efficient financial analysis of event-types.</p>
12.	Finding	ASM Stockton's monthly reporting format is cumbersome and lacks clear and specific information needed by City management.
	Recommendation	ASM Stockton and the City should conduct a workshop, including key stakeholders, to identify critical information needed within monthly reporting.



FINDINGS AND RECOMMENDATIONS		
13.	Finding	ASM Stockton lacks complete and accurate information to support event reconciliation, which does not comply with contractual requirements related to records retention.
	Recommendations	<p>A. ASM Stockton should compile and maintain comprehensive records for each event settlement, including system-generated ticket reports, invoices, and check copies in accordance with contract requirements.</p> <p>B. The City should conduct quarterly audits of a sample of event reconciliations to ensure accurate event reconciliations and payments to the venue operating account.</p>
14.	Finding	The facility fee was under-applied for all four sample hockey events, resulting in \$1,003.18 of potential revenue loss within the sample set.
	Recommendation	ASM Stockton should implement additional controls to ensure accurate fees are applied during ticketing and event settlement.
15.	Finding	Ticket audit reports did not reconcile to the event settlement package ticket count for 5 of 31 sample events.
	Recommendation	ASM Stockton should implement and formalize event settlement control procedures to ensure accurate figures.
16.	Finding	ASM Stockton shared facility fees as a revenue item with the promoter and did not charge the license fee for all sampled co-promotion events.
	Recommendation	The City and ASM Stockton should revisit the intent of required facility and license fees in relation to co-promotion revenue sharing and update policies and contract agreements accordingly.
17.	Finding	Supporting documentation for sampled Stockton Ports baseball games was not available.
	Recommendation	<p>A. The City should require the Stockton Ports to provide event settlement reports to ASM Stockton on a timely basis in order to reconcile facility fee deposit figures.</p> <p>B. The Stockton Ports should provide ticket audit reports upon request to support historical attendance and event settlement packages.</p>
18.	Finding	Complete event settlement and supporting documentation was not available for 3 of 26 sampled events (excluding Ports games). Additionally, supporting documentation for sampled reported monthly ice rink attendance was not available.
	Recommendation	ASM Stockton should retain complete event settlement and supporting documentation, as required by the venue management agreement.



FINDINGS AND RECOMMENDATIONS		
19.	Finding	No contractual language criteria were identified in the hockey and basketball agreements to assess facility fee application and/or limitations on complimentary ticketing.
	Recommendation	The City and ASM Stockton should assess the implications of complimentary tickets and determine whether contractual limitations are appropriate.
20.	Finding	ASM Stockton conducts short-term planning that does not reflect its strategic goals, demonstrate alignment across venue management operations, or fulfill contractual requirements.
	Recommendations	<ul style="list-style-type: none"> A. ASM Stockton should develop a three- to five-year strategic plan that identifies goals in support of improved venue management and event growth. B. ASM Stockton should ensure annual business plans incorporate all contractually required components (marketing plan, security plan, community engagement plan) and establish key performance indicators to measure progress towards goals.
21.	Finding	The City and ASM Stockton have not defined performance measures or implemented regular performance reporting practices.
	Recommendation	In alignment with a strategic plan and refined contractual terms, ASM Stockton should establish a core set of performance measures and implement quarterly reporting to monitor progress.
22.	Finding	ASM Global has a robust central repository for policy and procedure requirements and best practices; however, there are venue-specific operational policy gaps at the ASM Stockton level.
	Recommendation	ASM Stockton should develop venue-specific operational policies and procedures to support employee accountability and operational continuity.
23.	Finding	ASM Stockton lacked operational emphasis on sales activities due to staffing shortages, potentially restricting additional event opportunities.
	Recommendations	<ul style="list-style-type: none"> A. ASM Stockton should establish a Booking Manager position to support the General Manager in pursuing sales opportunities and consider assigning an employee to focus on pursuing sponsorships. B. ASM Stockton should develop a comprehensive sales and marketing plan and monitor sales goals to drive growth.



FINDINGS AND RECOMMENDATIONS		
24.	Finding	ASM Stockton has not successfully secured expected volumes of sponsorships or naming rights deals to drive greater revenue to the City, potentially due to local perception of the venues.
	Recommendations	<p>A. ASM Stockton should develop a sponsorship strategy to intentionally align sponsorship opportunities with venues and events.</p> <p>B. ASM Stockton should partner with the City and sports teams to improve public relations related to the venues through enhanced events, joint advertising, and community integration.</p>
25.	Finding	ASM Stockton does not effectively incentivize cost-effective employee performance through performance management or incentives.
	Recommendation	ASM Stockton should use cascading goals, a robust performance evaluation process, and employee financial incentives to drive performance in support of its strategic plan and performance measures.
26.	Finding	ASM Stockton has significantly reduced its staffing as a result of COVID-19, and staffing gaps related to sales and financial management have negatively impacted operations.
	Recommendation	ASM Stockton should reassess staffing level needs related to sales and finance as the pandemic subsides to support optimal operations and financial reporting.
27.	Finding	Although the Stockton Downtown Marina has experienced success in increasing the number of berth holders, the existence of a ghost website presents challenges in responding to potential customers.
	Recommendation	In collaboration with the City, ASM Stockton should take appropriate action to eliminate cybersquatting and streamline the Stockton Downtown Marina website to provide potential customers easy access to information.
28.	Finding	Stockton Downtown Marina guest dock usage fees are not consistently enforced.
	Recommendation	ASM Stockton should increase enforcement of guest dock parking fees by implementing enhanced security mechanisms and control systems.
29.	Finding	The Stockton Downtown Marina parking fee administration relies on tenants to self-report and has minimal controls in place.
	Recommendations	A. ASM Stockton should consider implementing marina parking payment alternatives such as contracted administration or



FINDINGS AND RECOMMENDATIONS		
		<p>automated parking meters to increase enforcement of parking fees.</p> <p>B. ASM Stockton should develop and implement cash handling policies and procedures to protect cash assets from risk of misappropriation.</p>
30.	Finding	Stakeholders reported concerns regarding the concessions experience for guests, and they do not have access to reports that would contribute to transparency in concessions decision-making.
	Recommendation	ASM Stockton should provide concessions reporting to the City and sports teams stakeholders in order to inform future concessions decisions.
31.	Finding	There are opportunities to revise the ASM Stockton contract to support more clearly defined decision-making authority, shared responsibilities, reporting requirements, and performance incentives.
	Recommendation	When the City's contract with ASM Stockton is due for renewal, the City and ASM Stockton should consider implementing strategic changes to support an improved partnership.
Sports Team Findings		
32.	Finding	Some strains exists between the City and local sports teams regarding contract terms, revenue sharing, and community building.
	Recommendations	<p>A. As each sports team contract expires, the City should collaborate with ASM Stockton leadership during contract negotiations to support a mutually advantageous agreement.</p> <p>B. The City and local sports teams should continue to improve their partnership to build community.</p>
33.	Finding	There may be opportunities to revise contracts with sports teams to create more mutually beneficial relationships between the City and teams.
	Recommendation	As City contracts with local sports teams become due for renewal, the City and individual sports teams should consider implementing strategic changes to support improved partnerships.



II. BACKGROUND, SCOPE, AND METHODOLOGY

A. BACKGROUND

The City contracts its venue management to ASM Stockton, which manages the entirety of operations at the following five City-owned venues:

- Stockton Ballpark: 5,000 seats
- Stockton Arena: 12,000 seats
- Bob Hope Theatre: 2,042 seats
- Oak Park Ice Rink: 350 seats
- Stockton Downtown Marina

The first four venues continue to require a \$2.7 million subsidy from the general fund, in addition to a \$262,00 subsidy for the Stockton Downtown Marina. Over the last several years, the financial performance of these venues has not met City expectations and in FY 2019–2020 ASM Stockton required an additional \$1.3 million to fund a budget deficit at the end of the fiscal year.

The City also has three local sports teams contracted to play at City-owned venues, including:

- Stockton Kings (Basketball)
- Stockton Heat (Ice Hockey)
- Stockton Ports (Baseball)

Events hosted at the venues are intended to provide positive exposure to the City as well as direct and indirect benefits to the community through increased economic activity, such as hotel stays, local tax proceeds, and parking revenues.

B. SCOPE AND METHODOLOGY

The City requested a performance audit of the City's contract with ASM Stockton for the management of City-owned venues. The goal of this performance audit was to evaluate the performance of ASM Stockton in comparison to contract terms and industry best practices, including:

- Operational efficiency and effectiveness
- Compliance with contract terms and relevant laws and regulations
- Internal controls
- Policies and procedures
- Communications and reporting
- Collaboration between the City, ASM Stockton, and local sports teams

The performance audit also assessed the City's structure and operations for oversight of the venue management contract and vendor for efficiency, effectiveness, and alignment with best practices.



The assessment was conducted between April 2020 and October 2020. Our analysis was informed by interviews, document review, sampled event reconciliations testing, peer benchmarking analysis, and research into industry best practices. The project consisted of four major phases:

1. **Project Initiation and Management:** This phase concentrated on comprehensive planning and project management, including identifying City, ASM Stockton, and each sports team's employees to interview and documents to review as well as communicating results and establishing regular reports on project status.
2. **Fact Finding:** This phase included interviews, document review, sampled event reconciliations, peer benchmarking, and best practice research. We worked with City staff and ASM Stockton to obtain the most currently available information and insights.
 - *Interviews:* We conducted interviews with City staff in the Economic Development Department and Administrative Services Department, ASM Stockton staff, and representatives from local sports teams.
 - *Document review:* We reviewed documents including contracts, financial reports, business plans, and others.
 - *Event reconciliation testing:* To review the compliance of individual events within the venue management agreement, sports team agreements, and promoter agreements, we judgmentally selected 31 events from FY 2018 through FY 2020 and tested each event settlement statements in accordance with sports team/promoter agreements and supporting documentation. Our procedures included:
 - Confirmation of complete event settlement packages for sampled events, including detailed financial settlement, supporting documentation, and executed event agreements as required by the venue management agreement.
 - Reconciliation of sampled events' attendance and financial settlement detail with third-party ticket audit reports.
 - Confirmation compliance of sampled events' financial settlement detail with sports team, promoter, and co-promotion agreement terms.
 - *Peer benchmarking:* We compared venue management practices with two peer cities, Ontario, California and San Jose, California. Although several other cities were contacted to participate in benchmarking practices, most venues were not staffed or operational as a result of the COVID-19 pandemic.
 - *Best practice research:* Based on the opportunities for improvement identified, we conducted research to ascertain best practices found in other governmental agencies and venue management operators.
3. **Analysis:** This phase served as the assessment portion of the project where, based on information gathered, we evaluated the importance, impact, and scope of our findings in order to develop recommended efficiency and effectiveness changes.
4. **Reporting:** This phase concluded the project by reviewing draft observations and recommendations with the Economic Development Department and ASM Stockton to validate facts and confirm the practicality of recommendations, as well as providing a finalized report and presentation to the City's Audit Committee.



C. COMMENDATIONS

Based on the insights gathered through interviews and document review, it is evident that the City and ASM Stockton have many commendable attributes. Examples include:

- Improved communication, transparency, and drive for results with new ASM Stockton leadership, as reported by the City and ASM Stockton staff
- Renewed energy toward developing collaborative relationships between the City, ASM Stockton, and sports teams
- Adjusted budgeting and forecasting process to better reflect actual anticipated costs and expenditures
- ASM Stockton's timely response to the impacts of COVID-19 on venue operations, including reducing staff and transitioning to remote work

We would like to thank the City, ASM Stockton, and sports team staff and leadership for participation in this engagement.



III. FINDINGS AND RECOMMENDATIONS

A. CITY FINDINGS

ASM Stockton Contractual Oversight

1.	Finding	While the City receives and reviews monthly reporting from ASM Stockton, it has not placed adequate focus on evaluating financial and operational performance in a proactive manner. Additionally, roles and responsibilities between the City and ASM Stockton could be more clearly defined to support appropriate oversight.
	Recommendations	<p>A. The City should develop formal contract management policies and procedures and incorporate financial and nonfinancial components into ongoing management practices.</p> <p>B. The City and ASM Stockton should clearly define their respective roles, responsibilities, and decision-making authority.</p>

In order to ensure that vendors supply the City with the goods and services agreed to under the terms and conditions outlined in their contracts, it is vital to conduct proper oversight of each contract. Good oversight holds vendors accountable and supports the achievement of performance objectives.

The City assigned the Parking and Venue Manager in the Economic Development Department (EDD) to oversee and manage the contract with ASM Stockton. The City's Administrative Services Department (ASD) also receives detailed financial reports for inclusion in its accounting system. However, the City lacks contract management policies and procedures to guide how financial and nonfinancial aspects of contracts should be monitored. As a result, the Parking and Venue Manager responsible for ASM Stockton oversight must attempt to coordinate contract management practices between EDD and ASD, including developing individualistic practices specific to this particular contract. For example, as a result of recent challenges with ASM Stockton, EDD instituted monthly meetings to review monthly reports together. However, due to a lack of capacity and transactional rather than strategic reporting from ASM Stockton, City personnel cannot always closely review the content of monthly reports to identify red flags and consistently monitor key aspects of vendor performance.

Local government contract management policies and procedures typically focus on monitoring the financial elements of a contract, such as invoice payment, budget monitoring, and cash handling controls. However, nonfinancial contract terms and conditions closely tie to vendor performance and the quality of services rendered. Therefore, comprehensive contract management guidance should address both financial and nonfinancial components, while also defining roles and responsibilities for each area.

According to the International City and County Managers Association (ICMA), contract management should take a risk-based approach to monitoring nonfinancial components of a contract by establishing metrics to measure vendor performance. These metrics enable the City to identify and



trend issues related to vendor performance and can help inform future decisions. For additional information on performance reporting, please see Recommendation #21. In addition to reviewing financial information on a monthly basis, the City and ASM Stockton should also incorporate performance monitoring and discussion into regular reporting and communication practices.

Finally, both the City and ASM Stockton report that roles, responsibilities, and levels of decision-making authority are sometimes unclear or shift depending on personnel or the reported financial position of the venues. Fluctuating expectations and management practices often creates confusion and operational inefficiencies. Therefore, the City and ASM Stockton should develop a matrix that clarifies roles, responsibilities, and levels of decision-making authority. For example, the City may choose to implement approval requirements for expenditures exceeding a specified dollar threshold. Overall, the goal of the matrix should be to define and standardize expectations and ensure both the City and ASM Stockton are able to understand one another's roles, especially given the new leadership at ASM Stockton. Additional clarity supports increased trust and cooperation over time.

Cash Flow Monitoring

2.	Finding	The City does not conduct cash flow monitoring of the venue operating accounts.
	Recommendations	<p>A. The City should request ASM Stockton to include a Statement of Cash flows within their monthly reporting.</p> <p>B. The City should utilize ASM Stockton reporting to perform timely cash monitoring and reconciliation of operating accounts.</p>

Although the City has ownership of the venue operating account, the City does not monitor cash flow on the accounts. Additionally, based on the provided monthly reports, it does not appear a statement of cash flows is maintained or reported by ASM Stockton. City staff report that starting in summer 2020, ASM Stockton began including bank statements in monthly reporting, which could be used as a basis for cash flow monitoring.

The City should implement a timely cash monitoring and/or cash flow reporting control, including determining whether this oversight would most appropriately be conducted by someone within the EDD or ASD. Implementation of such control would promote transparency, build trust, and ensure cash is being used appropriately. Additionally, cash flow reporting and monitoring can give management a clearer picture of current and future financial status, liquidity risks, and aged receivables (deferred revenue) and liabilities (unpaid vendors).



Capital Improvements

3.	Finding	Capital improvements within the venues are prioritized against other pressing Citywide needs, presenting the risk that over time venue assets may not be adequately preserved and remain competitive.
	Recommendation	As venue financial performance improves, the City should consider establishing a dedicated capital improvement account to fund venues' needs.

ASM Stockton provides the City with information related to capital improvement needs at each venue in its annual report. As facilities age, the need for improvements continues to expand and impact operations. For example, most HVAC and concessions equipment were part of the original venue build for the Stockton Arena and can experience outages that negatively impact the attendee experience. The City incorporates reported needs into the Citywide Capital Improvement Plan (CIP) and prioritizes these needs relative to the other capital improvement needs across the City. For example, the following venue-related items were included in the proposed 2020–2021 CIP, which provides five years of prioritized projects:

- FY 2021–2024: Stockton Arena and Stockton Ballpark Infrastructure Upgrade and Replacement Project estimated \$1,200,000
- FY 2021–2022: Stockton Arena Video Equipment and Scoreboard, estimated \$1,500,000
- FY 2021–2024: Bob Hope Theatre Facilities and HVAC Repairs, estimated \$200,000
- FY 2021–2024: Stockton Downtown Marina Sail Covering Replacement, estimated \$600,000
- FY 2021–2025: Oak Park Ice Rink Upgrades and Rehabilitation, estimated \$400,000

Despite these plans, the City is only able to dedicate a portion of funding to capital improvement projects each year and has many outstanding needs that impact City operations. In order to ensure each venue remains competitive, the City should consider establishing a separate capital improvement fund to provide consistent funding for improvements. Establishing a separate capital improvement fund for each venue is common practice within the industry. For example, in Ontario, California, the venue management contractor deposits a calculated amount into the fund each month based on upcoming needs. Similarly, in San Jose, California, the contract with the venue manager establishes a specified dollar amount that both the venue manager and city of San Jose contributes annually to fund capital improvements. While the City should consider establishing a separate account to help each venue remain in excellent condition, the ability to make contributions to a dedicated capital improvement fund is reliant on the venues performing well financially.



Procurement Process

4.	Finding	The City could better leverage the expertise of ASM Stockton during procurement processes for capital improvements related to the venues.
	Recommendation	The City should continue to incorporate a member of ASM Stockton leadership in future capital improvement procurements to provide subject matter expertise.

Despite numerous pressing capital needs across the City, the City has completed some capital improvements at the venues in recent years. For example, in FY 2018–2019, the Banner Island Ball Park Scoreboard and the chiller system for the Oak Park Ice Rink were both allocated funding, totaling \$2.8 million. This represents a significant investment on the part of the City, especially given the limited resources available to support capital improvement projects.

During the capital project contracting process, there is an opportunity to consistently leverage the subject matter expertise of ASM Stockton to provide guidance on terms, warranties, payments, timelines, and other potential matters to ensure the best contract is secured. The City should consider increasing collaboration with ASM Stockton during the procurement of venue-related capital improvements to support the City in securing the best value. For example, when the roof of the Stockton Ballpark was replaced in 2015 under a prior administration, the negotiated warranty was voided due to contact with foul balls. This places a greater financial risk on the City for ongoing replacements that could have been better informed by the vendor, which has subject matter expertise in the area. In recent years, the City has involved local ASM Stockton staff in the procurement process for large capital investments, such as the Banner Island Ball Park Scoreboard replacement. This practice should be continued to support the best possible deal for the City in pursuing capital improvements at the venues.

City contracting practices often involve employees from other municipal or outside agencies to ensure a fair process. The City should consistently incorporate a member of ASM Stockton leadership in future procurements related to venues to provide an opportunity to share expertise and inform the contracting and warranty process, if applicable.

Financial Expectations

5.	Finding	The City has historically maintained a flat subsidy for ASM Stockton, even as costs have increased.
	Recommendation	The City should reevaluate historic subsidy levels by considering current sports team agreements and cost requirements.

Post-bankruptcy, the City's general fund has been very limited in its flexibility to address needs across the City. Similar to the restricted budgets across other City departments, the City has maintained the ASM Stockton subsidy at a consistent amount of \$2.7 million each fiscal year. However, like other City departments, operating costs increase annually. The City should consider assessing the subsidy amount on a regular basis based on a three-year rolling average, and include



in the analysis a consideration of current sports team agreements and variable costs increases, such as utilities and minimum wage rate changes. Without up-to-date expectations for the current operating environment, financial projections can become unrealistic and result in unexpected end-of-year budget deficits.

Additionally, the City should continue to meet with ASM Stockton on a regular basis to review operational performance and conduct strategic analysis on funding restrictions. As noted previously, the City's limited capital budget impacts venue maintenance and additional communication during the year could help to more effectively prioritize needs in the CIP. The City should also consider additional tools to incentivize operational and financial buy-in from ASM Stockton (see Recommendation #25).

Venue Economic Impact Analysis

6.	Finding	The City has not recently calculated the economic impact of the venues.
	Recommendations	<p>A. The City should conduct an economic impact study to determine the return on investment of events hosted at City venues.</p> <p>B. The City should incorporate the venues' direct economic impact into the reported financial performance of venues and events.</p>

Events hosted at City venues drive additional revenue apart from ticketing and concessions, such as parking, dining sales tax, and transient occupancy taxes from local hotels. When events drive outside visitors to the City, they are likely to dine in restaurants, which not only provides a community benefit to local restaurateurs but also provides additional sales tax. Furthermore, some attendees are likely to require lodging in the City, which in turn results in additional transient occupancy taxes. Finally, the City operates a parking authority that manages parking downtown and at the venues. Special event parking is tracked separately from other types of parking, and approximately 90% of parking revenue is attributable to events hosted at City venues. Special event parking revenues over the last three fiscal years are as follows:

- FY 2017–2018: \$474,245
- FY 2018–2019: \$569,603
- FY 2019–2020: \$515,801

However, the City has not historically incorporated these additional revenue sources into reported financial performance of the venues. Because parking and taxes drive significant revenue to the City, exclusion results in underreporting the financial viability of each venue. While these factors fall outside of the purview of ASM Stockton's contract, they should be incorporated to the extent possible into the overall calculation of venue revenues and expenses to provide a complete picture of each venue's financial performance.

In order to determine how to best reflect these other revenue sources into the calculation of venue financial performance, the City should conduct an economic impact study. Economic impact studies measure the impact of events to better evaluate a host's return on investment and quantify how



events drive economic benefits to the community.¹ Most municipalities measure economic impact through direct economic impact, which is comprised of additional visitor expenditures in the local area from events and therefore reflects the net increase in spending as a result of the event. In order to reflect the true costs and benefits of the venues, the City should conduct an economic impact analysis and incorporate direct economic impacts in future reporting.

Sports Team Contractual Oversight

7.	Finding	The City delegated the bulk of sports team contract management to ASM Stockton, resulting in limited communication with teams and unclear decision-making authority.
	Recommendation	The City should develop and implement a Responsible, Accountable, Consulted, Informed (RACI) matrix and standardized communication practices to support a productive partnership between the City, ASM Stockton, and local sports teams.

The City has three local sports teams (the Stockton Ports, the Stockton Kings, and the Stockton Heat) that regularly host seasons at its venues. Historically, the City delegated the bulk of sports team contract management and oversight to ASM Stockton as the venue manager. As a result, City staff report that ASM Stockton has sometimes taken action to ensure contractual obligations are fulfilled without City approval, resulting in additional costs or consequences to the City. For example, the number of concessions stands open during an event is not reviewed or approved by the City. Additionally, the relationships between the City and local sports teams have been somewhat strained due to inconsistent communication and competing priorities.

Roles, responsibilities, and authority should be better defined to improve contractual oversight and ensure the City is involved at the appropriate level of decision-making and remains informed. The City, ASM Stockton, and each sports team should develop a matrix to clarify decision-making roles. There are several common matrices used in organizations, usually denoted by an acronym that represents the roles individuals hold during the decision-making process, such as RACI:

- **Responsible:** Who is responsible for carrying out the decision once it has been made?
- **Accountable:** Who has the authority to make this decision? If it is more than one person, how will the decision be made (e.g., majority vote, consensus)?
- **Consulted:** Who has important information to inform this decision?
- **Informed:** Whose work will be impacted by this decision? Who needs to be kept in the loop?

When routinely applied, a decision-making framework and clearly defined roles help ensure that decisions are made in a consistent manner and promote stronger partnerships between stakeholders.

As a result of the COVID-19 pandemic, the City implemented monthly calls with ASM Stockton and each sports team to facilitate improved communication. This communication should be continued

¹ eventIMPACTS: Economic Calculator <https://www.eventimpacts.com/impact-types/economic/content/economic-calculator>



indefinitely to build stronger partnerships between the City and each team, by potentially having individual calls on a monthly basis with ASM Stockton and each sports team. Overall, the City and sports teams should strive to improve their relationship in order to build community in support of attendance at local games.

B. ASM STOCKTON FINDINGS

Financial

Financial Planning

8.	Finding	Historically, ASM Stockton financial forecasting has over-estimated revenues, resulting in unexpected funding requirements at end of year.
	Recommendation	ASM Stockton should implement multi-scenario forecasting to better evaluate and communicate worst, anticipated, and best case outcomes, along with the key assumptions for each scenario.

In recent years, ASM Stockton budget projections have resulted in significant budget shortfalls at the end of the year. For instance, during FY 2019–2020 ASM Stockton required an additional \$1.5 million general fund contribution at the end of the fiscal year to support venue operations. In response to this concern, ASM Stockton reported that it recently revised its budgetary process and continues to fine tune projections and templates accordingly.

In order for the City to accurately project revenues and expenditures and communicate trade-offs, ASM Stockton and the City should work to improve collaboration during the budget development process. For example, the City typically has a specific dollar amount available to fund venue operations each year. ASM should communicate the service reductions or cuts that may need to occur to stay within budget. By effectively communicating trade-offs to contain expenditures, the City is empowered to make decisions regarding budget projections accordingly. Examples of increasing timely, collaborative, and transparent budgeting practices include:

- Formalizing detail cost analysis procedures and implementing multi-outcome forecasting tools for strategic evaluation and decision-making
- Formalizing at least quarterly budget reviews and utilizing budget-to-actual analysis as well as revenue forecast revisions and analysis
- Continuing to meet on a monthly basis to review and adjust forecast, especially during the COVID-19 pandemic as event regulations continuously shift

Additionally, following the development of an enhanced strategic plan (see Recommendation #20), ASM Stockton should develop future budgets to support strategic objectives, as opposed to historic expense figures. During the budgeting process, the City's departments should focus on aligning resources with the strategic plan to help bridge the gap between present conditions and the envisioned future. By tying resources to goals, organizations are better able to focus budget decisions on results and outcomes. Additionally, this approach supports effective and transparent communications with the City by actively demonstrating how ASM Stockton is pursuing goals.



Transparency

9.	Finding	Historically, ASM Stockton management has struggled to provide consistent, transparent communication regarding venue operations and financial management.
	Recommendations	<p>A. ASM Stockton should provide financial management and reporting training to internal department directors.</p> <p>B. ASM Stockton should continue and formalize timely communications and meetings with the City.</p>

ASM Stockton directors reported being previously unaware of their budget and actual revenues and expenses, which limited their ability to make sound decisions. With new management, directors have enhanced access to this information and other key operational information that impacts decision-making such as staffing and ordering requirements. Within the Venue Professional Competency Standards (Section A3), ASM Stockton managers should review budget and financial reporting and be an active participant in the financial performance monitoring, budgeting, and reporting of their operations (Section B9) (see Recommendation #10). ASM Stockton should consider providing internal directors and managers training on financial management and reporting in order to support new directors in understanding the financial implications of operational decisions and effectively leveraging reporting to evaluate divisional performance.

Financial training will improve financial decision-making skills, better inter-departmental communication, and give mid-level managers and directors the tools to increase financial performance. Per the Venue Professional Competency Standards, mid-level managers should not only have the skills to review budgets and prepare financial reports and forecasts within daily operations, but also the skills to establish budget control guidelines, revise budgets based on current realities, and monitor revenue and expenses within established timeframes. Sufficient training should be available to support and develop these skills on an ongoing basis, and be required for all new mid-level managers and directors.

Additionally, City staff also reported limited historical transparency related to venue financial and operational performance, which has resulted in shifting reporting and monitoring expectations. ASM Stockton and the City should continue to improve trust and transparency together as a team.

Examples include:

- Structuring pointed and timely communications with the City
- Evaluating appropriate information to communicate and to which team members (see Recommendations #1 and #7)
- Facilitating focused and timely communications among stakeholders, including vendors and sports teams
- Streamlining financial and performance reporting (see Recommendations #12 and #21)



Departmental Financial Management

10.	Finding	Current budget-to-actual monitoring is limited to, and primarily conducted by, ASM Stockton's Finance Department.
	Recommendations	<p>A. ASM Stockton should develop monthly budget-to-actual reports for review by internal department directors to serve as a management tool.</p> <p>B. ASM Stockton should implement quarterly budget reviews with the CFO and General Manager to proactively monitor and address financial and operational performance.</p>

Historically, ASM Stockton department directors performed limited budget monitoring with most of the responsibility for reviewing budget-to-actual information falling on the Finance Department. Due to turnover in these positions, department directors have varying levels of understanding and visibility of their budget and financial information. However, per the Venue Professional Competency Standards (B9), best practice procedures would include:

- Schedule regular budget reviews:
 - Review bank reconciliations, expenses, and variance history
 - Compared budgeted amounts to actual revenues and expenses
 - Identify variances between budgeted and actual figures
- Monitor revenues and expenses within established time frames
 - Determine causes of variance
 - Response, reallocate funds
- Identify opportunities for improved budget performance, such as:
 - Seek out new suppliers and revenue streams
 - Present recommendations to appropriate individuals
 - Pursue ideas for increasing income or reducing expenditures

Regular reviews of budget-to-actual information ensure financial and operational plans that were approved by the City are being implemented and progressing accordingly. Regular monitoring of budgetary performance provides an early warning of potential problems and gives decision-makers time to consider actions in response to major deviations. This reporting process should be institutionalized in a departmental policy.

The budget monitoring policy should address roles and responsibilities definition and assign ownership to budget monitoring. For example, ASM Stockton's Finance Department could be responsible for producing budget-to-actual reports 10 days following monthly close and providing the reports to department directors for review. Ideally, this report would be automated within the financial system to reduce manual processes and increase efficiency. Department directors would be responsible for identifying variances or potential issues such as accelerated or decelerated spending according to plan. As needed, the Finance Department should be available to discuss potential discrepancies and provide additional training that may be required by user departments. Ultimately, department directors should understand the importance of the budget-to-actual reporting tool and



how to effectively utilize the information in their decision-making. According to Venue Professional Competency Standards, venue managers should continuously identify opportunities for improved budget performance such as new supplies and revenue streams, individual recommendations, and ideas to increase income or reduce expenditures.

In addition to receiving monthly budget-to-actual reports, ASM Stockton's department directors should also have read-only access to the financial system in order to research specific transactions as needed. The Finance Department should provide an orientation to the system for directors to support this level of oversight.

ASM Stockton should also implement quarterly review meetings with the CFO, General Manager, and individual department directors. These meetings provide an opportunity for all parties to review budgets, expenditures, as well as actual and planned performance. ASM Stockton should develop a policy to institutionalize quarterly reviews. These reviews should serve the following purposes:

- **Budget-to-actual progress:** Compare anticipated revenues with actual revenues, including evaluating upcoming events, attendance, and promotions; monitoring budgetary trends; and discussing significant deviations. Additionally, expenditures should be collaboratively reviewed in the quarterly meetings to evaluate staffing levels (including vacancy rates, turnover, and overtime), significant contracts and purchases, and other variable costs.
- **Performance progress:** A component of each meeting should address progress toward departmental goals and objectives to evaluate whether services are being provided as anticipated.
- **Departmental transparency:** Meetings should be strategic in nature and allow ASM Stockton leadership greater visibility to enable support to the City in pursuing enterprise-wide prioritized goals, while also giving directors an opportunity to discuss performance relative to resourcing and identify opportunities to drive revenue.

Financial System and Processes

11.	Finding	ASM Stockton financial and accounting systems and processes lack effective reporting capabilities to analyze and report key financial information.
	Recommendations	<p>A. ASM Stockton should consider implementing new financial system software or training on reporting capabilities of the current system.</p> <p>B. ASM Stockton should organize financial records and systematic reporting to support efficient financial analysis of event types.</p>

According to the ASM Stockton Finance Department, there are restrictions within the current financial reporting system. For example, upon request for overall reporting categorized by venue and event type, we were informed that reporting by venue was available, but must be queried separately by venue in order to include the appropriate category. Additionally, reporting by event type category was not available or easily produced. Therefore, it would appear financial analysis and reporting for individual venues and event types is not easily accomplished, which impacts ASM Stockton's and the City's ability to make data-driven decisions.



Furthermore, it is unclear whether there is financial reporting or analysis available by event type or specific event. ASM Stockton should consider developing a process to evaluate the profit/loss for each event and event type, including review of direct and indirect, variable, and fixed costs. Identification of the individual revenue and cost drivers will help determine pointed solutions to increase profitability (i.e., facility fee adjustments, variable labor costing).

Overall, the current financial system and processes limit the ability of ASM Stockton to meet the information needs and requests of the City. These limitations impact the quality of financial analysis that is able to occur in order to inform future operations, marketing strategies, and events.

Financial Reporting

12.	Finding	ASM Stockton's monthly reporting format is cumbersome and lacks clear and specific information needed by City management.
	Recommendation	ASM Stockton and the City should conduct a workshop, including key stakeholders, to identify critical information needed within monthly reporting.

According to City staff, the pertinent management information is unclear within the current monthly reporting. For example, reporting by event or event type was not available nor provided to the City in monthly or annual reports. This level of reporting can help the City better understand current operations and profit margins to increase transparency. For instance, categories such as Sports Teams, Ticketed Concerts, Other Ticketed Events, Co-Promoted Events, and Non-Ticketed Events could help better breakdown profit and loss. In turn, this information can provide more feasible performance targets to achieve desired revenue and/or community benefits.

Additionally, per inquiry with both the City and ASM Stockton, financial reporting is cumbersome and the data presented is not always relevant, with the full report rarely utilized in its entirety. The information provided is highly transactional and provides a snapshot in time rather than including key metrics that would enable a shared understanding and analysis of performance. ASM Stockton and the City should collaborate to improve reporting content and provide more concise and relevant information to appropriate stakeholders.

The City should identify key users of the monthly venue financial reports and have each user note information strictly required to complete monthly and recurring tasks. This information should be reviewed and determined whether relevant to be included in monthly reporting or generated as needed. Next, the City venue management team members should identify the appropriate level of financial detail required for understanding current performance and strategic decision making. For example, the financial detail might include:

- Summarized month-to-date and year-to-date income statements
 - One statement showing total with columns for each venue, including budget and actual
 - One statement showing total with columns for each event type, including budget and actual
- Summarized balance sheet
- Indirect statement of cash flows, reconciling cash, and detailing appropriate accruals and deferrals



Additionally, the City and ASM Stockton should identify the top five key performance indicators (KPIs) to assess monthly performance and enhance strategic decision making. Some examples may include:

- Profit/loss margins by event type
- Monthly/annual events booked, by event type
- Monthly/annual event leads, by event type
- Specific key operating expense categories and metrics, such as:
 - Month-over-month and/or year-over-year change as a percentage
 - Total month-to-date and/or year-to-date as a dollar and percentage of total
- Concessions financial reporting, such as:
 - Profit margins by venue or event type
 - Gross sales by venue or event type

This list should be drafted and then utilized within a workshop, which includes key stakeholders of the monthly financial statements from both the City and ASM Stockton, to better understand information availability and desired formatting as well as collaboratively looking for other areas of improvement within reporting. At the conclusion of the workshop, there should be a finalized outline/format for monthly financial reporting, including detail on sufficient and digestible strategic operations. ASM Stockton should implement financial reporting systems and procedures to automate and standardize the finalized reporting format to the highest extent possible.

Compliance-Related

Event Reconciliation

13.	Finding	ASM Stockton lacks complete and accurate information to support event reconciliation, which does not comply with contractual requirements related to records retention.
	Recommendations	<p>A. ASM Stockton should compile and maintain comprehensive records for each event settlement, including system-generated ticket reports, invoices, and check copies in accordance with contract requirements.</p> <p>B. The City should conduct quarterly audits of a sample of event reconciliations to ensure accurate event reconciliations and payments to the venue operating account.</p>

ASM Stockton completes an event settlement at the end of each event held at the City's venues. The settlement details the number of attendees, revenues, and expenses, and serves as a basis to calculate promoter/artist payments. The following eight findings in this report note deficiencies within the event reconciliation process based on testing a sample of events that took place in the prior three fiscal years. Key issues noted include:

- Facility fee application (Finding #14)



- Ticket reporting (Finding #15 and #18)
- Co-promotion fee treatment (Finding #16 and #17)

To support accuracy of settlements going forward, ASM Stockton should compile complete event settlement packets for each event that include the following components:

- System-generated ticket reports from all sources and systems where tickets were sold, including from each sports team and Oak Park Ice Rink
- Invoices for supplies and payroll timesheets
- A copy of the check that was paid to the promoter/artist for the event
- The reconciliation calculations and documented reviews and approvals

This information should be compiled and maintained together in order to ensure accurate recordkeeping of event financial records as well as compliance with contract requirements that specify a seven-year retention schedule for financial information. This is imperative to increasing trust with the City and demonstrating transparency.

Additionally, the City should institute quarterly audits of a sample of events hosted in the prior quarter, specifically to ensure that the correct ticket numbers and facility fees are reported and remitted to the venue operating account. This should be incorporated as a component of the City's routine contractual oversight practices.

Hockey – Facility Fee Application

14.	Finding	The facility fee was under-applied for all four sample hockey events, resulting in \$1,003.18 of potential revenue loss within the sample set.
	Recommendation	ASM Stockton should implement additional controls to ensure accurate fees are applied during ticketing and event settlement.

According to the Original Hockey Lease agreement, a facility fee is to be applied at every hockey home game, starting at \$1.75 per ticket sold, and adjusted every three years utilizing the annual Consumer Price Index (CPI) according to the terms of the agreement (Pg. A-2, A-4, and A-5). Within our event sampling procedures, we requested event settlement packages with supporting documentation, and recalculated facility fee applications in accordance with sport's team lease agreements. After review, we identified ASM Stockton under-applied facility fee charges in all sampled hockey event settlement packages, as detailed in the following table.

Sample No.	Hockey Game Date	Ticket Sold Per Settlement Package	Applied Facility Fee	Calculated Facility Fee	Facility Fee Variance	Potential Lost Revenue
3	January 20, 2018	4,895	\$1.85	\$1.90	\$0.05	\$244.75
14	January 19, 2019	4,739	\$1.85	\$1.94	\$0.09	\$426.51
23	October 12, 2019	2,399	\$1.85	\$1.94	\$0.09	\$215.91



Sample No.	Hockey Game Date	Ticket Sold Per Settlement Package	Applied Facility Fee	Calculated Facility Fee	Facility Fee Variance	Potential Lost Revenue
29	March 6, 2020	1,289	\$1.85	\$1.94	\$0.09	\$116.01
					Total	\$1,003.18

Appendix A includes detail on the calculated facility fee and contract requirements. Overall, ASM Stockton applied incorrect facility fees to some hockey events, resulting in a loss of revenue for the City's venue operating account. Within our sample of four events, we identified \$1,003.18 in potential lost revenue. ASM Stockton should review the appropriateness of past facility fee applications to calculate the total lost revenue over the past three years. Additionally, ASM Stockton should implement additional controls to ensure correct facility fee amounts are applied during ticketing and event settlement in accordance with contract terms. For example, event facility fee assessments should be reviewed annually for compliance with the contract terms as well as reasonableness and viability. At event settlement, each package should be reviewed and approved prior to finalization, including the review and reconciliation of the event's facility fee application with the annual facility fee assessment.

Event Settlement Reporting – Ticket Reconciliation

15.	Finding	Ticket audit reports did not reconcile to the event settlement package ticket count for 5 of 31 sample events.
	Recommendation	ASM Stockton should implement and formalize event settlement control procedures to ensure accurate figures.

As part of each event reconciliation, ASM Stockton notes the number of tickets sold and the number of “drop count” tickets, which indicates the actual number of attendees at an event. The number of tickets sold serves as a basis for facility fee charges, which are applied to each ticket sold. Therefore, an accurate record of tickets sold is a vital component to the event reconciliation process with event hosts, such as sports teams, artists, and promoters.

Within our event sampling procedures, we requested event settlement packages with supporting documentation, including ticket audit reports and promoter agreements. After review, we identified five instances where the provided ticket audit report counts did not agree with the provided event settlement packages, as detailed in the following table.

Sample No.	Event	Date	Ticket Count Per Settlement Package (Paid)	Ticket Count Audit Reports (Paid)	Variance
4	Disney on Ice	February 11, 2018	26,101	25,536	565
14	Stockton Heat Hockey*	January 19, 2019	4,739	1,361	3,378*



Sample No.	Event	Date	Ticket Count Per Settlement Package (Paid)	Ticket Count Audit Reports (Paid)	Variance
16	Disney on Ice	February 7, 2019	23,736	23,198	538
23	Stockton Heat	October 12, 2019	2,399	638	1,761
27	Disney On Ice	February 6, 2020	26,924	24,118	2,806
Sampled Totals			83,899	74,851	9,048

**The hockey event variance comes from a lack of ticket audit reporting readily available for tickets sold by the hockey team. The hockey team ticket audit reporting was available for three of four sampled hockey events.*

It is imperative that ticket counts and attendance are accurately reported to ensure the appropriate fee charges are assessed and accurate attendance counts are maintained. ASM Stockton should implement additional event settlement control procedures, including appropriate reviews, approval, and document retention to ensure accurate event settlement and compliance with the venue management agreement. Per Section 2.3 of the ASM Stockton agreement, the vendor “shall provide in a timely manner to the City, upon written request, documentation supporting the methodology used by SMG pertaining to the allocation of costs, expenses and revenue for any Event or for the operation and maintenance of any Facility.”

Event Settlement –Co-Promotion Fee Treatments

16.	Finding	ASM Stockton shared facility fees as a revenue item with the promoter and did not charge the license fee for all sampled co-promotion events.
	Recommendation	The City and ASM Stockton should revisit the intent of required facility and license fees in relation to co-promotion revenue sharing and update policies and contract agreements accordingly.

ASM Stockton often participates in co-promotions with event hosts, which provides a 50/50 split of all revenues and expenditures. Event settlements should reflect this accordingly.

Within our event sampling procedures, we requested event settlement packages with supporting documentation, including promoter agreements and co-promotion memorandums of understanding. After review, we identified eight instances where facility fee revenues were split 50/50 with the promoters in accordance with the co-promotion memorandums of understanding, as detailed in the following table.

Sample No.	Event	Date	Ticket Sold Per Settlement Package
1	Tim Allen	March 16, 2018	1,986
7	USA vs Mexico	June 2, 2018	1,711



Sample No.	Event	Date	Ticket Sold Per Settlement Package
9	Disney Junior Dance Party	November 16, 2018	1,395
10	Ken Jeong	February 15, 2019	2,009
11	Banda MS	August 10, 2018	4,706
21	Switchfoot	November 9, 2019	1,245
22	Jo Koy	November 16, 2019	6,008
26	Willie Nelson and Family	January 13, 2020	2,875
Sampled Total			21,935

Based on the venue management agreement, it is unclear whether the facility fee should be assessed outside of any co-promotion revenue sharing. For instance, the agreement establishes a minimum per ticket facility fee charge (Article 2.6(k)) for events held at the Stockton Arena. However, the agreement does not expressly exclude the facility fee from co-promotion revenue sharing. Because the facility fee is due to the City for venue upkeep and maintenance; most facility do not consider the fees to be a revenue that is included in the co-promotion calculation.

Additionally, we identified the same eight co-promotion instances where event settlement packages did not incorporate the contractually agreed upon license fee, which typically serves as a form of rent for the facility, as documented in the event's promotion agreements.

Sample No.	Event	Date	License Fee identified within Promotion Agreement
1	Tim Allen	March 16, 2018	\$5,000
7	USA vs Mexico	June 2, 2018	\$15,000
9	Disney Junior Dance Party	November 16, 2018	\$5,000
10	Ken Jeong	February 15, 2019	\$3,000
11	Banda MS	August 10, 2018	\$25,000
21	Switchfoot	November 9, 2019	\$6,000
22	Jo Koy	November 16, 2019	\$3,000
26	Willie Nelson and Family	January 13, 2020	\$25,000
Sampled Total			\$87,000

Each of the above events was completed as a co-promotion with the venue in which revenue and expenses were to be split equally (50/50). Based on inquiry with current ASM Stockton management, in the cases of co-promotion, it was assumed the license fee was intended to be a placeholder figure



until settlement of actual rent expenses incurred. However, based on the promotion agreement, the license fee was established as a flat fee, and in the instances noted above, was not accounted for or assessed within the event settlement with the promoter.

The City and ASM Stockton should assess the intent of the facility fee and update policies and contract language to clarify the appropriate application of future facility fee charges, particularly in the case of co-promotion agreements. A similar review should also occur for the intent of license/rent fees within co-promotion agreements, with promoter contract language adjusted accordingly to reflect the clarified intention. For instance, if the intention of co-promotion agreements is to forgo a flat license fee, and instead only account for actual incurred costs, contract language should be updated to remove flat license fee amounts and specify and define actual costs settlement mechanisms.

Unavailable Ticket Audit and Settlement Support for Baseball Games

17.	Finding	Supporting documentation for sampled Stockton Ports baseball games was not available.
	Recommendations	<p>A. The City should require the Stockton Ports to provide event settlement reports to ASM Stockton on a timely basis in order to reconcile facility fee deposit figures.</p> <p>B. The Stockton Ports should provide ticket audit reports upon request to support historical attendance and event settlement packages.</p>

Within our event sampling procedures, we requested event settlement packages with supporting documentation, including ticket audit reports. Our sample included five Stockton Ports games across three fiscal years. Based on inquiry with ASM Stockton, no settlement packages or ticket audit reports are provided by the team. As such, we were unable to review the accuracy and compliance of sampled baseball games.

Based on Section 6.1 of the Stockton Ports original lease agreement, a facility fee is to be collected for Ports event tickets sold and deposited into the Ball Park Fund. As such, the Ports should be required to submit an event settlement report, detailing and reconciling facility fee deposits in accordance with the agreement terms. Additionally, the City and ASM Stockton should request the ticket audit reports be provided on a timely basis in order to support and reconcile attendance and facility fee calculations, as required by Section 12.8 and Exhibit G of the Ports original lease agreement.

Incomplete Documentation

18.	Finding	<p>Complete event settlement and supporting documentation was not available for 3 of 26 sampled events (excluding Ports games). Additionally, supporting documentation for sampled reported monthly ice rink attendance was not available.</p>
	Recommendations	<p>ASM Stockton should retain complete event settlement and supporting documentation, as required by the venue management agreement.</p>



Within our event sampling procedures, we requested event settlement packages with supporting documentation, including promoter agreements, ticket audit reports, and proof of facility fee applications. After review, we identified the following three instances where a complete event settlement package with supporting documentation was not available:

Sample No.	Event	Date	Unavailable Documentation
17	World Championship Boxing	May 4, 2019	Promoter Agreement
20	Beetlejuice	October 13, 2019	Event Settlement, Promoter Agreement*
26	Willie Nelson and Family	January 13, 2020	Proof of Facility Fee Application

* Event settlement and promoter agreement were not maintained because event was hosted by non-profit group "Friends of the Fox."

Per Section 2.3 of the SMG/ASM Stockton agreement, "SMG shall provide in a timely manner to the City, upon written request, documentation supporting the methodology used by SMG pertaining to the allocation of costs, expenses and revenue for any Event or for the operation and maintenance of any Facility."

Based on inquiry with ASM Stockton, the World Championship Boxing promoter agreement was lost or misplaced. However, for the Beetlejuice event, ASM Stockton noted no event settlement or promotion agreement was maintained because this event was put on by a non-profit called "Friends of the Fox." According to ASM Stockton, all revenue was turned over during the event, with a reported attendance of 118. Finally, the Willie Nelson and Family ticket price was set up to include the facility fee within the Ticketmaster system. As such, no documentation was available to support a separate application and collection of facility fee.

Additionally, we sampled monthly Oak Park Ice Rink attendance figures and requested documentation to support the reported attendance amounts. Upon request, no monthly reporting was available to reconcile or support the attendance figures. According to the ASM Stockton team, a complete understanding of Oak Park Ice Rink reporting capabilities was not currently available because the responsible employees were furloughed due to the COVID-19 pandemic.

Hockey and Basketball – Complimentary Tickets

19.	Finding	No contractual language criteria identified in the hockey and basketball agreements to assess facility fee application and/or limitations on complimentary ticketing.
	Recommendation	The City and ASM Stockton should assess the implications of complimentary tickets and determine whether contractual limitations are appropriate.

Based on our sampled Heat and Kings games, 35% of tickets issued were reported to be complimentary; however, no contractual language was identified addressing or directing complimentary ticket requirements.



Sample No.	Event	Date	Paid Tickets Per Settlement Package	Complimentary Ticket Count Per Settlement Package	Percent Complimentary
3	Stockton Heat Game	January 20, 2018	4,895	1,147	19%
14	Stockton Heat Game	January 19, 2019	4,739	1,528	24%
15	Stockton Kings Game	January 25, 2019	2,545	1,205	32%
23	Stockton Heat Game	October 12, 2019	2,399	1,819	43%
25	Stockton Kings Game	November 8, 2019	2,251	1,479	40%
29	Stockton Heat Game	March 6, 2020	1,289	2,699	68%
Total Sampled			18,118	9,877	35%

Unlike the Ports lease agreement, no complimentary ticket limitation or mechanism for facility fee assessment was identified within the Heat or Kings agreements. As such, there was no criteria to assess the appropriateness of complimentary tickets as it relates to contract compliance. The City and ASM should review implications of complimentary tickets at Heat and Kings games and determine whether limitations or caps are appropriate.

Operational

Planning

20.	Finding	ASM Stockton conducts short-term planning that does not reflect its strategic goals, demonstrate alignment across venue management operations, or fulfill contractual requirements.
	Recommendations	<p>A. ASM Stockton should develop a three- to five-year strategic plan that identifies goals in support of improved venue management and event growth.</p> <p>B. ASM Stockton should ensure annual business plans incorporate all contractually required components (marketing plan, security plan, community engagement plan) and establish key performance indicators to measure progress towards goals.</p>

ASM Stockton provides the City with a combined annual report and one-year business plan, but otherwise conducts limited strategic planning to support venue operational performance. ASM



Stockton has largely not met the annual business plan requirements stipulated in the contract with the City. For example, operating revenue and expense goals are included in the budget but not analyzed or described in relation to the vendor's overarching business strategy. Events in pursuit are not noted and attendance goals were not included in the last three annual business plans. The marketing plan is currently limited to social media engagement and a snapshot of current sponsors rather than a forward look on how to target audiences as well as increase ticket sales and event bookings. Security plans were not included in any of the three prior fiscal year business plans reviewed. Finally, while a community engagement look-book and plan were included, the plans lacked measurable goals and objectives as required in the contract with the City.

According to the contract with the City, ASM Stockton's annual business plan should define its strategy for managing, operating, maintaining, marketing, and promoting each facility for the upcoming fiscal year, including:

- The types and quantity of events to be pursued and booked to each facility
- Attendance goals
- Operating revenue goals
- Operating expense goals for each facility

The business plan should also include the following plans:

- **Budget plan:** Including operating and annual cash flow budgets, consisting of anticipated capital expenditures for the upcoming year and a five- and ten-year capital expenditure forecast
- **Comprehensive marketing plan:** Outlining marketing and promotional activities to optimize the use of each facility
- **Security plan:** Including both emergency and non-emergency procedures and protocols for each facility for event and day-to-day security
- **Community engagement plan:** Reporting on the success of previous community engagement efforts, including measurable goals and objectives as well as describing how the vendor will meaningfully engage with all segments of the community and examine employment opportunities for venue operations

Although events are often booked well in advance, the overarching strategy to ASM Stockton's operations are unclear and do not align with plans related to other facets of operations such as marketing, security, and community engagement. In addition to providing a robust annual business plan that clearly defines ASM Stockton's overarching strategy and operations to manifest that strategy, ASM Stockton should also develop and maintain a three- to five-year strategic plan. Strategic plans are useful tools to align activities in support of defined strategic goals.

Strategic plans outline a clear path to the future for the company, clearly define objectives, and provide a method to achieving and measuring objectives. A strong strategic plan incorporates measurable objectives and performance measures that link goals, strategies, and actions in the plan with activities performed by various departments. Each goal should have time-bound and specific objectives that are tied to enterprise and department-specific performance measures. ASM Stockton should use its long-range strategic plan to then inform annual business plans that are required in the contract. The business plan should include planned operationalization of the strategic plan, performance measures, and all other components required in the contract (e.g., security, community



engagement, marketing). As noted in Recommendation #21 performance measures should be regularly monitored and reported to evaluate progress, identify additional required resources, and promote transparency.

Performance Reporting

21.	Finding	The City and ASM Stockton have not defined performance measures or implemented regular performance reporting practices.
	Recommendation	In alignment with a strategic plan and refined contractual terms, ASM Stockton should establish a core set of performance measures and implement quarterly reporting to monitor progress.

ASM Stockton conducts limited performance reporting that demonstrates achievements in its annual report/business plan. For example, the annual report includes some performance-related information for certain venues, such as:

- Number of events
- Number of sellouts
- High-profile events
- Cumulative attendees at a venue
- Top-selling concession items (e.g., Bavarian pretzels, water bottles, chicken baskets)
- Ticket purchaser demographics

Although these metrics may be reported, they have not been consistently reported on in the last three annual reports/business plans. Without consistency in performance reporting, actual performance is difficult to evaluate over time. Furthermore, ASM Stockton and the City have not established performance measures to evaluate the efficacy of ASM Stockton's operations. Although the contract requires specific elements of a business plan to be present, it does not define performance measures or otherwise suggest how performance toward plans will be monitored.

Across the industry, there is a tendency to focus solely on financial performance in assessing venue management practices. However, other metrics are also useful for evaluating operational performance and contributions to financial success. Examples of potential performance measures include:

- Number and type of events hosted at each facility
- Profit/loss of each event or facility
- Lowest, median, and highest occupancy rates per venue
- Attendee satisfaction
- Promoter satisfaction
- Use days
- Won business ratio
- Number of lost opportunities and reason why (e.g., insufficient space, canceled/postponed, transportation/access issues, lodging issues, safety concerns)



- Concessions profit margin
- Concessions revenue per attendee

The City and ASM Stockton should define relevant performance measures and implement quarterly reporting in addition to annual reporting. Additional performance measures could and should be identified as a component of ASM Stockton's strategic plan and may focus on internal operations, such as number of business days to perform monthly close, employee engagement, timeliness of reporting to the City, and others. Overall, the metrics identified by ASM Stockton and the City should provide an objective mechanism to evaluate ASM Stockton's progress in achieving strategic and operational goals. This also promotes alignment between ASM Stockton and City expectations.

Policies and Procedures

22.	Finding	ASM Global has a robust central repository for policy and procedure requirements and best practices; however, there are venue-specific operational policy gaps at the ASM Stockton level.
	Recommendation	ASM Stockton should develop venue-specific operational policies and procedures to support employee accountability and operational continuity.

ASM Global has a centralized repository of best practice policies and procedures, as well as mandatory policies and procedures for all its venues. For example, compliance-focused items such as Occupational Safety and Health, COVID-19 precautions, and personnel policies are mandated by the corporation. Some areas also include compliance reporting to demonstrate the appropriate preventative maintenance or activities were completed. ASM Global also hosts a number of best practice policy and procedure examples for other operational issues, such as guest relations, security, vendor/partner relations, ADA accommodations by facility, and others. However, employees working at the venues are not beholden to these policies, and best practice examples may need to be adjusted to fit a particular venue's specifications.

ASM Stockton should identify, prioritize, develop operational policy gaps, such as guest relations, advertising, marketing, and vendor/partner relations. Well-developed policies and procedures will reduce ASM Stockton's operating risk and employee accountability, especially following reopening of the venues due to COVID-19. Once policies and procedures are created, they should be available in a centralized location that is convenient for all staff to access. Well-documented and consistently applied procedures help smooth employee transitions and promote employee accountability. Employees should also receive training on relevant policy updates to support good communication and clear expectations.



Advertising and Sales

23.	Finding	ASM Stockton lacked operational emphasis on sales activities due to staffing shortages, potentially restricting additional event opportunities.
	Recommendations	<p>A. ASM Stockton should establish a Booking Manager position to support the General Manager in pursuing sales opportunities and consider assigning an employee to focus on pursuing sponsorships.</p> <p>B. ASM Stockton should develop a comprehensive sales and marketing plan and monitor sales goals to drive growth.</p>

Prior to COVID-19, ASM Stockton employed a Marketing and Advertising Manager. Although this employee was unavailable during the pandemic, staff report that the role focused primarily on marketing the City's venues. As a result, the General Manager of ASM Stockton adopted the lead sales role; however, this role fulfills many other functions as well, so the sales function could be better resourced. While it is common under some venue management models for the General Manager to serve as the primary lead generator and contact, it may not be the most effective model for the City for the following reasons:

- ASM Stockton's General Manager oversees operations and sales generation for four buildings and a marina, while most other venue General Managers oversee one or two buildings, as noted in both operational procedures for Ontario, California and San Jose, California.
- Due to the City's geographic location, shows can be more difficult to secure and attendance can require additional promotional efforts.

In order to ensure sufficient resources and attention are allocated to pursuing sales opportunities for each venue, ASM Stockton should consider establishing a Booking Manager position. This position can help support the General Manager in sales and promotional activities, including attending networking events, developing targeted marketing materials, pursuing partnerships to increase attendance, and overall executing the sales and marketing plan. ASM Stockton also lacked operational emphasis on pursuing sponsorship opportunities, as noted in Finding #24. Given the importance of sponsorships in increasing the financial viability and community excitement related to the venues, ASM Stockton should also consider creating a position to focus on this area. In order to align incentives, ASM Stockton should assess whether a commission-based compensation package for these employees may be appropriate.

ASM Stockton's annual business plan describes a three-tiered booking approach that includes involvement of the National Booking Department, Regional Booking Director, and local office relationships. However, it is unclear how this strategy is operationalized and what opportunities exist for local sales representatives to build a network of promoters to solicit additional events at the City's venues. Additionally, the business plan did not consistently define sales targets for each venue; instead, it provided the budget spent on marketing over the prior years and listed current sponsors. In order to drive more event bookings and increase ticket sales, venue marketing and sales tactics should be better defined and implemented strategically.



According to the Venue Professional Competency Standards, venue managers should develop and implement an integrated marketing plan. This plan requires venue management leadership to identify target markets through environmental analysis, collaborate with promoters on the development of products and services such as event-themed concessions, and establish sales targets. A strong sales and marketing plan incorporates the following components:

- **Target market:** Define target markets of people, promoters, and organizations that could host events at each venue. Develop promotions, packages, and prices for specific target audiences to support sales opportunities.
- **Marketing strategy:** Evaluate which outreach and social media channels are most effective for each target market and define the City's unique selling position.
- **Sales proposition:** Develop the ASM Stockton brand to define what unique services, features, and opportunities the City's many venues deliver to promoters and organizations. A connection to a brand can often help promote sales when the sales proposition has been well-defined.
- **Sales goals:** Establish clear goals about what you want to achieve, such as increasing event bookings, paid attendance, and/or concessions sales, and ensure they are relevant and achievable. Goals should also include defined metrics for performance reporting purposes and align with ASM Stockton's overarching strategic plan goals.
- **Sales tools, tactics, and incentives:** Define sales tactics that will be used, including lead generation, sales calls, presentations and networking opportunities, packaging products, and other sales incentives.

A successful sales and marketing program increases reputability among potential event promoters, which supports repeat business. In particular, following the COVID-19 pandemic, sales must be a priority for ASM Stockton in order to ensure the future financial viability of the City's venues.

Sponsorships and Community Engagement

24.	Finding	ASM Stockton has not successfully secured expected volumes of sponsorships or naming rights deals to drive greater revenue to the City, potentially due to local perception of the venues.
	Recommendations	<p>A. ASM Stockton should develop a sponsorship strategy to intentionally align sponsorship opportunities with venues and events.</p> <p>B. ASM Stockton should partner with the City and sports teams to improve public relations related to the venues through enhanced events, joint advertising, and community integration.</p>

Unfortunately, the venues were a major component of the City's bankruptcy proceedings. As a result, ASM Stockton and sports team staff report that some local businesses are unwilling to support the venues through sponsorship opportunities or naming rights deals. This results in revenue shortfalls related to this category and missed opportunities to leverage the local community in support of events. For example, the Stockton Arena has not been renamed, despite there being an opportunity that would not only drive revenue but also excite residents and redefine the perception of the venue. However, in order to be successful, the City's venues must demonstrate success through their



performances and event offerings. Therefore, the quality of acts and success of the City's sports teams are closely related to the ability of ASM Stockton to secure sponsorships.

Companies sponsor venues and events in order to promote their brands to the public; therefore, there is a natural connection between sales/advertising and solicitation of sponsorships in order to align target markets between potential sponsors and event attendees. In alignment with the sales and marketing plan, ASM Stockton should develop a sponsorship strategy to identify potential sponsors in collaboration with the City, sports teams, and other engaged community organizations. This strategy should assess compatibility of potential sponsors with each of the City's venues as well as identify revenue or cost-avoidance goals and advertising options. ASM Stockton should develop or enhance a sponsor benefit package that reiterates each venue's unique selling proposition, history, notable qualities, value for sponsorship, audience demographics, and the potential for sponsors to complement one another. When sponsorship is successful, it drives a connection between the venue, sponsor, and attendees to promote mutually beneficial success and pride.

The City, ASM Stockton, and the sports teams should collaborate to improve each venue's public relations, which will encourage greater investment of community organizations and businesses. The negative public perception of the venues must be shifted in order to support sponsorship and event success; in order to accomplish this, the five organizations (the City, ASM Stockton, and three local sports teams) most involved in venue management should coordinate and collaborate on their individual public relations efforts. Some potential opportunities to redefine the public perception of venues include:

- Developing public newsletters or brief reports to communicate venue improvements and events to the local community, including event revenue benefits through transient occupancy taxes and sales tax
- Enhancing partnerships with large community-based organizations to demonstrate good will toward the City's community through event deals and discounted sales opportunities, which is a best practice noted by the SAP Center at San Jose arena authority to build community relationships with the venues
- Hosting and/or co-promoting events that support City pride and history to integrate ASM Stockton into the community

Public relations are an essential component of management and sponsorship success at the local level, with trust and positive perception as the basis for success.

Employee Performance Management

25.	Finding	ASM Stockton does not effectively incentivize cost-effective employee performance through performance management or incentives.
	Recommendation	ASM Stockton should use cascading goals, a robust performance evaluation process, and employee financial incentives to drive performance in support of its strategic plan and performance measures.

Several ASM Stockton employees noted that prior leadership was not effective in motivating employees to provide friendly, cost-effective, and accountable service. In order to ensure employees are appropriately motivated to operate the venues and equipped with the proper tools to complete



their responsibilities, ASM Stockton should align employee evaluations and incentives with performance goals.

As ASM Stockton develops a three- to-five-year strategic plan, it should use cascading goals to align employee performance and goals with broader organizational goals and objectives. Employee goals are a critical element of overall performance management and should align with the employee's job description, development areas, and organizational objectives. In addition to employee goals, ASM Stockton should define role-based competencies for staff in order to clarify expectations, encourage strong performance, and demonstrate a career ladder for successful employees. Competency frameworks should define expected knowledge, skills, and abilities at each layer of employment with the organization. Several staff currently operating in director-level positions have worked at the City's venues for several years, demonstrating a commitment to elevating employees within the organization and providing opportunities for ongoing development. By formalizing employee expectations and developing a clear road map for employees on how to achieve promotions, this value can be institutionalized and encourage strong performance.

In order to support positive employee and patron experiences, performance feedback should be provided meaningfully and on a timely basis. When used properly, effective performance management can provide numerous benefits to an organization, including:

- Enhancing individual and team productivity
- Employee development opportunities through feedback and coaching
- Aligning behavior with values, strategies, and goals
- Serving as the basis for personnel decisions, including compensation

To ensure the performance evaluation process is meaningful for both employees and managers, ASM Stockton should develop an evaluation process that includes clear timelines and key steps such as employee self-evaluation, manager evaluation, performance ratings, discussion between employees and managers, and ongoing goal-setting.

Extrinsic employee rewards and recognition programs also support retention of high-performance employees and encourages elevated performance. Therefore, ASM Stockton should establish a comprehensive strategy to define its reward and recognition program to incentivize strong employee performance. Rewards may include recognition programs, merit increases, promotional opportunities, and awards (individual or team). In order to ensure the program is optimally effective, ASM Stockton leadership should consider surveying employees after reopening to determine what rewards would be the most meaningful and use this information accordingly in strategy development.

Staffing

26.	Finding	ASM Stockton has significantly reduced its staffing as a result of COVID-19, and staffing gaps related to sales and financial management have negatively impacted operations.
	Recommendation	ASM Stockton should reassess staffing level needs related to sales and finance as the pandemic subsides to support optimal operations and financial reporting.



ASM Stockton significantly reduced its staffing levels as a result of the COVID-19 pandemic and currently operates with minimal staffing. However, prior to the pandemic, ASM Stockton lacked a Booking Manager that could lead sales efforts and instead relied on the General Manager to perform most sales activities. As noted previously, General Managers often lead sales efforts but typically manage only one or two buildings. However, the ASM Stockton General Manager oversees four buildings and a marina and therefore needs additional support to pursue sales opportunities for each venue. In particular, due to the City's geographic location and nearby competition, ASM Stockton should invest in a position that drives sales as it reopens for events. Additionally, as noted in Recommendation #24, ASM Stockton needs to place greater emphasis on sponsorships, which may also require a dedicated employee.

Additionally, some ASM Stockton leadership reported that the employee classifications (hourly versus salaried) should be revisited to ensure cost effective use. As the pandemic subsides, ASM Stockton leadership should evaluate the staffing needs and requirements associated with each position to determine potential reclassifications that may produce cost savings. For example, it may be beneficial to staff most building-level positions in hourly positions until normal operations can fully resume.

Finally, ASM Stockton lacks sufficient finance staffing to support accounting, forecasting, and financial reporting. Currently, the CFO solely processes transactions, develops and monitors budgets, and conducts extensive reporting for the City. Due to personnel and system constraints, it takes approximately three weeks to close books at the end of each month. Increased functionality from either additional personnel or improved accounting and reporting software/capabilities will help conduct reporting in a timely manner. Because financial reporting is critical to rebuilding trust between the City and the ASM Stockton team, this function should be adequately supported to enable timely financial reporting and requested analyses.

Stockton Downtown Marina Website

27.	Finding	Although the Stockton Downtown Marina has experienced success in increasing the number of berth holders, the existence of a ghost website presents challenges in responding to potential customers.
	Recommendation	In collaboration with the City, ASM Stockton should take appropriate action to eliminate cybersquatting and streamline the Stockton Downtown Marina website to provide potential customers easy access to information.

The Stockton Downtown Marina has several unrelated websites, including a ghost website with no affiliation to the Stockton Downtown Marina despite having the www.stocktonmarina.com domain. This website is the first link available when "Stockton Marina" is entered into a search engine and includes incorrect contact information to reach the marina operators. As a result, potential customers are unlikely to contact the appropriate personnel to secure a berth or arrange events and other activities that serve as drivers of economic activity. Messages sent to the contact information provided on the ghost website are reportedly returned as unable to be sent.

The existence of a ghost website that resembles the name and brand of the Stockton Downtown Marina appears to qualify as cybersquatting. Cybersquatting entails registering, selling, or using a domain name with the intent of selling the name back to the trademark owner for a profit. Marina



leadership reports that previous attempts to contact the domain name registrant have resulted in payment demands that the City was unwilling to agree to. However, the web presence of venues, in particular the Stockton Downtown Marina which largely operates as a standalone venue, is critical to driving customers and potential events that in turn support financial and performance success. The confusion between Stockton Downtown Marina websites likely results in lost business opportunities that negatively impact operations. Therefore, ASM Stockton and the City should evaluate options to remove the cybersquatting website, including negotiating a payment with the domain name registrant, filing a lawsuit under the provisions of the Anti-Cybersquatting Consumer Protection Action, or initiating an arbitration hearing.

Stockton Downtown Marina Guest Docks

28.	Finding	Stockton Downtown Marina guest dock usage fees are not consistently enforced.
	Recommendation	ASM Stockton should increase enforcement of guest dock parking fees by implementing enhanced security mechanisms and control systems.

The Stockton Downtown Marina operates guest docks and provides the first two hours of docking for free and afterwards requires a docking fee ranging between \$20 and \$25, depending on the season. Access to the guest dock is controlled through a gate with a keypad that requires a code for entry. However, this code has become well-known in the community and therefore enforcement of guest dock parking fees has not been feasible. Marina leadership reports that the guest dock payments have historically not been enforced, which may create a perception among boat owners that the guest dock is free to use for any period of time.

ASM Stockton should determine whether it wishes to charge for guest dock parking and, if so, increase enforcement of payment for use of guest docks by implementing additional control systems. Enforcement of parking fees will require an upgrade to the existing access control system to enable marina operators greater control over access and require payment. Both cash transactions as well as the docking fee administration system (Dockwa) could be utilized for guest dock payments in combination with an upgrade to the security system. However, this security system may not be in place for several years as it gets added to the Citywide CIP and is prioritized against other needs.

Stockton Downtown Marina Parking

29.	Finding	The Stockton Downtown Marina parking fee administration relies on tenants to self-report and has minimal controls in place.
	Recommendations	<p>A. ASM Stockton should consider implementing marina parking payment alternatives such as contracted administration or automated parking meters to increase enforcement of parking fees.</p> <p>B. ASM Stockton should develop and implement cash handling policies and procedures to protect cash assets from risk of misappropriation.</p>



Parking at the Stockton Downtown Marina is currently managed using the honor system; the marina parking lot has a metal box with a slot and envelopes for cash payments. The Director of the Stockton Downtown Marina reports that payments from the box are retrieved and processed daily. However, there are minimal controls in place over this system, although parking enforcement includes the marina during its weekday patrols. For example:

- Not all tenants may provide parking payments because there is no tracking system in place, such as tracking by parking space or time in and out.
- Tenants reportedly write IOUs on cash envelopes for parking payments with no tracking to determine what the parking tally for the patron may be over time.
- There is no dual control over cash handling at the marina operations and, as a result of the issues noted above, reconciliations between due and paid amounts are not reliable.

Inadequate parking and cash handling controls results in the risk that fees due to the marina are not collected and may be misappropriated. In order to support adequate internal controls over marina parking, ASM Stockton should consider the following options:

- Transition marina parking operations and management to the City's parking authority, potentially as a contract
- Implement automated parking meters to increase enforcement and reduce cash handling; however, this would require a significant up-front capital outlay

If the Stockton Downtown Marina continues to accept cash payments for parking in any capacity, leadership and the ASM Stockton CFO should create policies and procedures related to cash handling to increase internal controls. For example, segregation of duties and dual custody for transporting, counting, and depositing cash is vital to protecting cash assets and should be implemented without exception.

Concessions

30.	Finding	Stakeholders reported concerns regarding the concessions experience for guests, and they do not have access to reports that would contribute to transparency in concessions decision-making.
	Recommendation	ASM Stockton should provide concessions reporting to the City and sports teams in order to inform future concessions decisions.

Stakeholders, including sports teams and City staff, report concerns related to the concessions experience for guests at ASM Stockton venues. Noted concerns are primarily related to long lines, closed stands, and high prices for the quality of concessions provided. ASM Stockton leadership reports that low attendance and minimum wage increases have impacted the number of open food stands and increased prices.

In order to evaluate the impact of these decisions on guests and the financial position of the venue, ASM Stockton should provide reporting on attendance, open food stands, and profit/loss to facilitate greater transparency and work with stakeholders to evaluate the best course of action for each event. Currently, there are not concessions reporting requirements or standards in place despite the integral



role concessions play in event experiences for consumers. Key elements of concession operations and potential related KPIs for reporting include:

- **Concession stand staffing:** Determine how many staff are needed to adequately prepare concessions and process purchases. While interactions are quick, customer service should still be of the upmost importance.
 - *Potential KPIs:* Number of staff, total staff cost per event, customer service satisfaction
- **Stand location:** Map the stands that are open based on convenience for event attendees to the extent possible. Mobile carts are often used to help alleviate half-time rushes for concessions purchases.
 - *Potential KPIs:* Number of stands open, number of mobile stands, average wait time, map of open stands to demonstrate distribution across the venue
- **Menu:** Consider simplifying options to ensure best-selling food items are always prepared and support a seamless buying process.
 - *Potential KPIs:* Number of total concessions sold, total concessions revenue, concessions net revenue, top five best-selling concessions items, customer satisfaction

Potential Contract Revisions

31.	Finding	There are opportunities to revise the ASM Stockton contract to support more clearly defined decision-making authority, shared responsibilities, reporting requirements, and performance incentives.
	Recommendation	When the City's contract with ASM Stockton is due for renewal, the City and ASM Stockton should consider implementing strategic changes to support an improved partnership.

Although the City recently extended its contract with ASM Stockton, both parties should consider the following improvements to the contract to align with best practices and support improved operations in the future:

- Sharing budget overage responsibility between the City and ASM Stockton to support accountability and proactive transparency. Under the current contract, the City is fully responsible for any ASM Stockton budget overages, which has resulted in significant year-end amendments and does not adequately hold the vendor responsible for adhering to approved budgets.
- Streamline reporting requirements and incorporate quarterly performance reporting on key indicators. Recommendations #1, #2, #20, and #21 provide additional information on potential reporting options.
- Better define roles and responsibilities, including decision-making authority. Recommendations #1 and #7 describe ways to define roles and responsibilities, which ideally will be incorporated into a renewed contract.
- Revise monetary incentives to align with performance expectations, in particular those related to events with a community benefit versus high profit margin.



C. SPORTS TEAM FINDINGS

Sports Team Contracts

32.	Finding	Some strains exists between the City and local sports teams regarding contract terms, revenue sharing, and community building.
	Recommendations	<p>A. As each sports team contract expires, the City should collaborate with ASM Stockton leadership during contract negotiations to support a mutually advantageous agreement.</p> <p>B. The City and local sports teams should continue to improve their partnership to build community.</p>

City and ASM Stockton staff report that sports team contracts are not advantageous to the City, which has impacted the relationships between the sports teams, ASM Stockton, and the City. The contracts were largely negotiated when the City was in a weaker financial position and reportedly resulted in elevated costs to the City; however, the City has not conducted a cost-benefit analysis for each team to understand the full implications of the current team subsidies. Attendance at games can be low, further increasing financially-driven tensions and abnormal revenue sharing and reporting contract terms. Overall, the City and sports teams lack a productive partnership that would support community building, pride, and increased attendance at games.

As each local sports team contract requires revision, the City should consider incorporating ASM Stockton leadership in negotiations as a major stakeholder in the operation. Across the industry, it is common for sports teams to enter into contracts directly with the building operator rather than the City. As a result, ASM Stockton leadership has experience in negotiating and executing these types of contracts; the City should leverage this expertise to its advantage.

Additionally, the City and local sports teams should strive to improve their partnership in order to support community building and City pride. Opportunities to improve sports team partnerships include:

- Joint volunteer and community engagement events
- Improved contract management (see Recommendation #7)
- City promotional events, games, and advertising during games
- Coordinated advertisements and game promotions



Potential Contract Revisions

33.	Finding	There may be opportunities to revise contracts with sports teams to create more mutually beneficial relationships between the City and teams.
	Recommendation	As City contracts with local sports teams become due for renewal, the City and individual sports teams should consider implementing strategic changes to support improved partnerships.

As the City contracts with local sports teams become due for renewal, the City and teams should consider the following improvements to their respective contract to support improved partnerships in the future:

Hockey

- Set a due date for sports team games to be finalized in order to enable ASM Stockton to plan other events on non-game days. Although scheduling practices are driven by the broader AHL, late notification of game schedules results in missed opportunities to book other events on non-game days.
- Require timely reconciliations for games by setting timeliness expectations and consequences for not meeting due dates. Failure to do so creates delays in financial reporting from ASM Stockton to the City.
- Reconsider some revenue sharing options to align with industry practices.
- Consider incorporating community engagement strategies into the contract to support community partnerships and increase game attendance.

Baseball

- Require a ticket audit for settlements. Currently, the Stockton Ports do not provide supporting documentation to demonstrate the number of paid tickets sold, which serves as the basis for the venue's facility fee. However, the City and ASM Stockton have no way to determine whether the number of paid tickets sold is accurate without the ability to audit the team's records.
- Reconsider some revenue sharing options to align with industry practices.
- Consider incorporating community engagement strategies into the contract to support community partnerships and increase game attendance.

Basketball

- Require timely reconciliations for games by setting timeliness expectations and consequences for not meeting due dates. Failure to do so creates delays in financial reporting from ASM Stockton to the City.
- Reconsider some revenue sharing options to align with industry practices.
- Consider incorporating community engagement strategies into the contract to support community partnerships and increase game attendance.



The City may also consider including ASM Stockton in sports team contract negotiations. ASM Stockton often contracts directly with sports teams in other municipalities and therefore may have additional subject matter expertise on mutually beneficial contract terms and conditions.



APPENDIX A: HOCKEY FACILITY FEE ADJUSTMENT

Per the Original Hockey Lease agreement, a facility fee is to be applied at every hockey home game, starting at \$1.75 per ticket sold, and adjusted every three years utilizing the annual Consumer Price Index (CPI) according to the terms of the agreement (Pg. A-2, A-4, and A-5). The Average Annual Index Adjustment Factor was defined in the agreement as follows:

"Average Annual Index Adjustment Factor" means, subject to the following limitations, the sum of one (1) plus the average annual change in the Index during the three year period ending on the September 1st immediately preceding the Team Season for which the Facility Fee Amount is being determined. By way of illustration, if the Index increased by 1.0% (.01) in the first year of the applicable three-year period, by 3% (.03) in the second year of the applicable three-year period, and by 2% (.02) in the third year of the applicable three-year period, then the Average Annual Index Adjustment Factor would equal:

$$1 + [(.01 + .03 + .02) / 3] = 1 + [.06 / 3] = 1 + .02 = 1.02$$

In no event shall the Average Annual Index Adjustment Factor be less than 1.00 or more than 1.03."

The following table presents our recalculation of the required facility fee by year:

Description	Year	Required Facility Fee	Average Annual Index Adjustment Factor	Calculation
First Facility Fee Amount	2004	\$1.75		
	2005	\$1.75		
	2006	\$1.75		
Second Facility Fee Amount	2007	\$1.80	1.031	Average CPI Change 2004–2006
	2008	\$1.80		
	2009	\$1.80		
Third Facility Fee Amount	2010	\$1.84	1.020666667	Average CPI Change 2006–2009
	2011	\$1.84		
	2012	\$1.84		
Fourth Facility Fee Amount	2013	\$1.88	1.023	Average CPI Change 2010–2012
	2014	\$1.88		
	2015	\$1.88		
Fifth Facility Fee Amount	2016	\$1.90	1.010666667	Average CPI Change 2013–2015
	2017	\$1.90		



Description	Year	Required Facility Fee	Average Annual Index Adjustment Factor	Calculation
	2018	\$1.90		
Sixth Facility Fee Amount	2019	\$1.94	1.019333333	Average CPI Change 2016–2018
	2020	\$1.94		
	2021	\$1.94		

The following table lists the increase/decrease in the CPI, as reported by the US Bureau of Labor Statistics, utilized within our calculation of Average Annual Index Adjustment Factor above.

Year	Average CPI Change
2004	2.70%
2005	3.40%
2006	3.20%
2007	2.80%
2008	3.80%
2009	-0.40%
2010	1.60%
2011	3.20%
2012	2.10%
2013	1.50%
2014	1.60%
2015	0.10%
2016	1.30%
2017	2.10%
2018	2.40%
2019	1.80%

