



September 21, 2018

Updated: October 19, 2018

(Page number references to the audit report in Table 1)

To Our Valued Santa Clara Business:

On behalf of the City, I recently sent a letter to local businesses about the City Council's policy priorities and to provide some general information about an independent audit conducted on two City contracts for the Santa Clara Chamber of Commerce's (Chamber) management of the Santa Clara Convention Center (Convention Center) and Convention-Visitors Bureau (CVB).

The audit findings state that the Chamber mismanaged City facilities and seriously misused public resources. The audit findings revealed the Chamber's significant financial mismanagement, questionable accounting practices, self-dealing practices, conflicts of interest, and misuse of government resources, as well as a lack of City contract oversight. The Auditor recommends that the City engage state and federal agencies to investigate potential violations of law and the City has taken the appropriate actions.

Further, the auditor found that the City of Santa Clara lost \$20.5 million in revenue and City subsidies over the past 10 years. The mismanagement of the Convention Center and CVB services impacted the City and local businesses alike through loss of potential business opportunities, hotel occupancy, and services provided to our visitors. The full audit and its findings on the Chamber's management of the Convention Center and CVB are now available online: [www.santaclaraca.gov/cvb-chamber](http://www.santaclaraca.gov/cvb-chamber). The following table illustrates the financial impact for the time period audited:

**Table 1: Lost Revenues and City Subsidies Resulting from Chamber's Mismanagement of Public Funds**

Net Lost Revenue and City Subsidies	Amount (in Millions)	Note	Time Period	Audit
Facility Discounts (1,720 events)	(\$16.1)		2011-2018	Pg. 39
Facility Free Rent (353 events)	(\$2.8)	(1)	2011-2018	Pg. 40
Bonus Payments to Convention Center Staff	(\$0.3)	(2)	2014-2017	Pg. 25
City General Fund Capital Expenditures	(\$2.4)	(3)	2007-2017	Pg. 16
City Annual Payments to CVB	(\$14.9)	(4)	2007-2017	Pg. 56
City Paid Management/Administration Fee	(\$0.5)		2007-2017	Pg. 59
<b>TOTAL Lost Revenue and City Subsidies</b>	<b>(\$37.0)</b>			
Positive Direct Convention Center/CVB Financial Impact	\$11.3		2007-2017	Pg. 21
Convention Center Net Income	\$5.2	(5)	2007-2017	Pg. 15
<b>TOTAL Positive Convention Center/CVB Financial Impact</b>	<b>\$16.5</b>			
<b>TOTAL Net Lost Revenue and City Subsidies</b>	<b>(\$20.5)</b>			

(1) Includes free rentals for Chamber members, staff and other insiders for wedding receptions, birthday parties and other events

(2) Reflects bonus payments over four fiscal years only; likely to be higher with completion of more review

(3) Includes \$82,039 of City funds paid in 2007 not included in the audit

(4) \$14.9 million in City payments subsidized the Convention Center/CVB Net Loss of \$9.4 million

(5) Does not include the City-paid management/administration fee

The audit confirmed the Chamber's financial and operational mismanagement as well as serious misuse of public resources as summarized below:

- Issued \$18.9 million in undisclosed and improper fee waivers and discounts to Chamber members and others over the past seven fiscal years "which led to a direct financial loss to the City."

**RE: Audit of the Chamber of Commerce's Management of the Convention Center and Convention Visitors Bureau**

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- Issued \$300,000+ in staff bonuses over the past four fiscal years, without any public disclosure or Council authorization, with a portion of these funds paid “without a formal contract or written legal agreement in place.”
- Operated the Convention Center and Convention-Visitors Bureau at a \$9.4 million loss over a decade, while at the same time receiving \$17.3 million in operating and capital subsidies from the City. Direct tax and assessment revenue generated by CVB activities amounted to \$11.3 million during the last 10 years. During the same period, the City subsidized CVB operations with \$14.9 million, with the Chamber's business practices resulting in additional financial loss of \$3.6 million.
- Board members engaged in self-dealing, using City assets for their own financial gain, such as: political fundraising activities, diverting public funds to their personal business, and held personal weddings, birthday parties and more events at a direct loss to the City.
- Managed public assets without transparency, without proper documentation and under a business model rife with personal gain and conflicts of interests.

The audit findings also indicated that these serious fiscal issues might have been discovered sooner if the City had strong agreements in place or implemented effective contract oversight. The audit made a series of recommendations which the City has started to act on:

- Cooperate with California Fair Political Practices Commission and Internal Revenue Service (IRS) on potential violations.
- Utilize a professional consultant to address audit findings and industry best practices into a new management agreement.
- Select a qualified management company through a competitive procurement process.
- Implement contract oversight and reconciliation and close out of contracts based on audit findings.

During the October 9, 2018 Council meeting, the Chamber will be given the opportunity to provide a response to the audit. As directed by the Council, staff will present a Request for Proposal (RFP) procurement framework and business model for future operations of the Convention Center for Council discussion and public input with the goal to contract with an experienced and qualified operator.

The City is committed in the success of the Santa Clara Convention Center and the convention/tourism industry in Santa Clara. Success of the Convention Center and a robust convention/tourism industry in Santa Clara leads to the business community's success and benefits all of us. As such, we are taking the audit findings and recommendations seriously and implementing steps to ensure that the public trust and business community's trust will be restored.

You can stay informed on this topic by visiting the Updates for Santa Clara Chamber of Commerce and Convention-Visitors Bureau Agreement page on the City's website, <http://santaclaraca.gov/cvb-chamber>. For questions, please contact the City Manager's Office at [manager@santaclaraca.gov](mailto:manager@santaclaraca.gov).

Sincerely,



Deanna J. Santana  
City Manager