



City of Long Beach

Working Together to Serve

Memorandum

Date: April 6, 2015

To: Patrick H. West, City Manager *T.M.W.*

From: Michael P. Conway, Director of Economic and Property Development *M.P.C.*

For: Honorable Mayor and Members of the City Council

Subject: Management Agreement No. 21667 with SMG for the Management and Operation of the Long Beach Convention and Entertainment Center

This memorandum is provided to update the City Council on the financial obligations between the City and SMG under Management Agreement No. 21667 (Agreement) for Fiscal Year 2014 (FY14) for the Long Beach Convention and Entertainment Center (Center).

On February 12, 1991, the City Council authorized the execution of the Agreement with SMG for the management and operation of the Center. Under the terms of the Agreement, SMG is required to provide all personnel, services and materials required to manage and operate the Center consistent with a first-class convention center and theater complex. SMG is paid an annual management fee (Management Fee) for its services. To the extent that gross revenues at the Center exceed operating expenses and the Management Fee (Net Revenue), the City is then entitled to an overhead fee (Overhead Fee). SMG is then entitled to a 25% share (Incentive Fee) of any Net Revenue after payment of the Overhead Fee. The City is entitled to any remaining Net Revenue after payment of the SMG Incentive Fee and further adjustments as per the Agreement (Net Incentive Fee).

Over the years, the successful operations at the Center have provided both the City and SMG with Incentive Fees. The respective revenues for SMG and the City for Fiscal Years 2011-2013 were:

	SMG	CITY (Tidelands Fund)
FY11	Management Fee: \$1,823,259	Overhead Fee: \$479,265
	Incentive Fee: \$134,381	Net Incentive Fee: \$378,499
FY12	Management Fee: \$1,823,259	Overhead Fee: \$490,825
	Incentive Fee: \$86,406	Net Incentive Fee: \$238,559
FY13	Management Fee: \$1,823,259	Overhead Fee: \$502,114
	Incentive Fee: \$51,903	Net Incentive Fee: \$134,473

In FY10, the City commenced the construction of extensive capital improvements (Projects) to upgrade and modernize areas of the Center including improvements to the Terrace Theater Lobby, Plaza and fountain area; improvements to common areas, restrooms, concession and catering facilities; and new furniture, fixtures and

equipment. These Projects, critical to increasing the marketability and appeal of the Center, impacted the availability of certain areas of the Center for the booking and staging of events. The impact of the limited availability is evident in the decreasing Incentive Fee from FY11 to FY13. In FY14, the City undertook the most extensive of the Projects to redesign and modernize the Arena, the Arena lobby and the Promenade lobby. This resulted in the biggest impact on availability of the facilities at the Center for bookings.

Under the terms of the Agreement, if gross revenues are insufficient to cover the cost of the Management Fee and operating expenses, then the City is contractually obligated to pay the resulting deficit. Due to the extensive scope of the Projects at the Center in FY14, gross revenues were insufficient and the City was responsible for a deficit payment to SMG in the amount of \$453,339. This payment was made from the Tidelands Fund. As a result, the respective revenues for SMG and the City were:

	SMG	CITY (Tidelands Fund)
FY14 Management Fee:	\$1,823,259	Overhead Fee: \$0
Incentive Fee:	\$0	Net Incentive Fee: \$0

The improvements to the Center have been met with overwhelming success, in particular the unveiling of the Pacific Ballroom, the Pacific Ballroom lobby/reception area and Bogarts Restaurant and Bar Area. The Center is experiencing increased bookings for events. The Pacific Ballroom is nearly booked for every weekend through the end of 2015 with only two weekends currently available. As a result of increased bookings, the Center is experiencing corresponding revenue increases in parking and food and beverage sales. The versatility and popularity of the Center has attracted new filming opportunities leading to an increase in filming revenue of 300%. Net revenue for FY15 to date has increased 1700% over the same time period last year.

In the planning and preparation for major capital improvements at a convention center, a budget deficit is customarily anticipated for at least one year of the project. Staff at the Center are confident that the completion of the improvements at the Center will provide for a robust FY15 and beyond. If you have any additional questions, please contact Juan López-Rios, Manager, Economic and Property Development, at extension 8-6129.

cc: Tom Modica, Assistant City Manager
Arturo Sanchez, Deputy City Manager
Jyl Marden, Assistant to the City Manager/City Council Liaison
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