



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 11, 2024

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT WARDS: ALL

SUBJECT: LEASE AGREEMENT WITH LIVE NATION WORLDWIDE, INC. - FOX PERFORMING ARTS CENTER AND THE RIVERSIDE MUNICIPAL AUDITORIUM – 3801 MISSION INN AVENUE AND 3485 MISSION INN AVENUE - EIGHT-YEAR TERM WITH ONE EIGHT YEAR TERM TO EXTEND – FOR \$1,675,000 IN REVENUE

ISSUE:

Approve Lease Agreement for the operation and management of the Fox Performing Arts Center, and Riverside Municipal Auditorium, with Live Nation Worldwide, Inc.

RECOMMENDATIONS:

That the City Council:

1. Approve a Lease Agreement with Live Nation Worldwide, Inc. for the operation and management of the Fox Performing Arts Center and Riverside Municipal Auditorium for the initial term of eight (8) years through June 30, 2032;
2. Authorize the City Manager, or his designee, to execute renewal term, up to one (1) consecutive term administratively; and
3. Authorize the City Manager, or his designee, to execute any necessary financial, or legal documents, including making minor and non-substantive changes to execute the agreement.

BACKGROUND:

After languishing for many years in disrepair and underutilization, the Fox Performing Arts Center (Fox) opened in January 2010, while the Riverside Municipal Auditorium (RMA) was used by local and touring groups. Through the Riverside Renaissance revitalization program, both facilities received the attention and monies that were needed to change the direction and use of the facilities while improving the economic impact for the City and the quality of entertainment and arts for our residents and visitors.

Throughout the entire process of planning and constructing both facilities, the community was engaged and actively participated in various activities such as stakeholder meetings, construction tours, City Council meetings, and opening events. Under the direction of the City Council and its

committees, staff worked diligently to maximize opportunities, visibility, and the quality of facilities and programming.

Fox Performing Arts Center History

Prior to 2005, the Redevelopment Agency attempted to rehabilitate the Fox through an Owner Participation Agreement with the former owner. However, only minor improvements were made to the interior, and the agreement did not yield the intended results. Consequently, the Fox remained in a state of disrepair, adversely impacting the community, particularly the downtown area.

In November 2004, the Redevelopment Agency adopted a resolution of necessity for the acquisition of the Fox Theater and gained possession in February 2005 for \$2.9 million. In March 2005, the Redevelopment Agency entered into an agreement with R.F. McCann Theater Architects for pre-design and schematic design architectural and engineering services for the adaptive reuse of the Fox Theater as a performing arts facility. Additionally, in 2005, the City and community began formulating a vision for this venue. At the core of this vision was a consensus that the Fox was worth preserving and improving. Ultimately, the Redevelopment Agency invested over \$32 million in the restoration of the Fox.

Riverside Municipal Auditorium History

The Riverside Municipal Auditorium was dedicated on March 14, 1929. Aside from minor interior alterations and the addition of an elevator for ADA access, the building remained relatively untouched. However, repairs to the building envelope were needed, along with significant seismic upgrades to ensure the safety of patrons in the event of a major seismic event, and improvements to meet current ADA and Building Code requirements.

On October 3, 2006, the City Council approved the Riverside Renaissance Initiative, which included funding to define and develop the project scope of work for the Municipal Auditorium Improvement Project. The Redevelopment Agency invested approximately \$10 million into the restoration of the RMA.

It's important to note the funding history of both the Fox and RMA, especially considering the predominant source was Redevelopment monies. Redevelopment served as an effective economic development tool, facilitating investment in areas adversely affected by physical, environmental, and economic conditions that hindered new investment by private enterprises.

On January 17, 2013, the Development Committee reviewed the scope of services and information to be included in the Request for Proposals (RFP) for the Operation and Management of the Fox PAC, RMA, and other Entertainment Venues. The RFP was distributed on March 22, 2013, and a total of 29 organizations/individuals received it prior to the due date. A non-mandatory walk-through of the facilities was held on April 4, 2013, with 15 organizations in attendance. Seven proposals were received by the due date of April 23, 2013. Notably, in a prior Request for Qualifications in 2005, only three responses were received.

Live Nation

On October 8, 2013, the City Council approved the Operation and Management Agreement for the Fox and RMA with Live Nation Worldwide, Inc. (Live Nation). Throughout the agreement, Live Nation has consistently met and exceeded the terms of the agreement, particularly in the following areas:

1. Producing, presenting, or providing a wide variety of performing arts and visual presentations, in successful collaboration with promoters, performing artists, other performing arts organizations, and/or commercial promoters.
2. Successfully working with the Fox Riverside Theater Foundation with minimal issues throughout the agreement.
3. Providing a diverse range of programming. Before the agreement with Live Nation, entertainment primarily targeted an audience over the age of forty. As part of the 2013 agreement, Live Nation committed to diversifying programming in terms of genre, age, and multicultural offerings. Annual programming has consistently met this requirement, with positive audience feedback..
4. Presenting Broadway subscriptions: Prior to the agreement, providing Broadway productions incurred significant costs for the City with minimal return on investment. However, during the agreement, Live Nation structured and renegotiated agreements with producing organizations, resulting in no monetary loss for the City while still providing Broadway productions.
5. Maintaining a positive relationship with the City: Despite changes in staffing for both organizations, staff members have maintained a productive partnership, successfully achieving goals, addressing problems, and planning for the use of both facilities.

DISCUSSION:

The City received an unsolicited Letter of Intent proposing future terms for the Fox Performing Arts Center and Riverside Municipal Auditorium. On November 9, 2021, staff received direction from the City Council regarding the initial terms presented and approval to move forward with negotiations.

On June 27, 2023, the City Council approved the second amendment agreements for the operation and management of the Fox Performing Arts Center and Riverside Municipal Auditorium with Live Nation.

To align programming, plans, and opportunities relating to arts, culture, entertainment, and economic impact, staff is recommending this lease agreement with Live Nation.

Currently the agreements are operation and management agreements with Live Nation. At the time of execution in 2013 and the state of the City at that time, it was important to help to grow the programming, monitor the customer experience, and ensure that the customer service met our expectations for our community. Prior to Live Nation operating Fox and RMA for the City, these were concerns of the City Council, staff, and our residents for both facilities. Over the past ten (10) years, Live Nation has proven to be a good partner, collaborator and provider related to programming, customer service and customer experience.

Each facility, staffing and production is done to the highest quality with a focused perspective on the budget. Each facility is accounted for separately so that staff can identify trends or issues that are specific to that type of entertainment of the facility. Due to the nature of the facilities and the funding used for building renovations there are two separate accounts.

The Fox and RMA submit monthly statements and profit and loss reports for City staff review and discussion. A high-level summary for the past five fiscal years is shown below for the Fox and RMA, including the cost of the management fee.

General Fund Subsidy

Over the course of the agreements, the expenses for all programming and for the operation and management of the facilities were funded by the General Fund, partially offset by revenue generated by each facility. During the pandemic the City's contribution increased significantly due to the shuttering of the venues. Since reopening, the facilities have made a positive recovery that helps offset the General Fund subsidy.

The charts below illustrate the debt service and historical cost of operating and managing the Fox and RMA.

| Fox Theater | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|
| Operating Revenues | \$ 4,248,255 | \$ 3,585,833 | \$ 54,664 | \$ 3,457,507 | \$ 4,766,568 |
| Operating Expenditures | 3,927,009 | 3,786,079 | 588,402 | 3,479,852 | 4,223,376 |
| Management Fee | 500,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Net Profit/(Loss) | \$ (178,754) | \$ (700,246) | \$ (1,033,738) | \$ (522,345) | \$ 43,192 |
| General Fund Contribution | | | | | |
| Offsets & Other Expenses | \$ 108,593 | \$ 18,533 | \$ 244,741 | \$ 241,108 | \$ 278,058 |
| Debt Service | 2,170,125 | 2,243,645 | 2,244,930 | 2,245,232 | 2,129,335 |
| Total GF Contribution | \$ 2,457,472 | \$ 3,003,257 | \$ 3,356,742 | \$ 3,008,685 | \$ 2,364,201 |

| Riverside Municipal Auditorium | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Revenues | \$ 2,569,478 | \$ 1,659,945 | \$ 138 | \$ 2,791,996 | \$ 3,499,393 |
| Operating Expenditures | 2,592,149 | 2,167,770 | 543,800 | 2,927,825 | 3,256,904 |
| Management Fee | 168,274 | 91,667 | 66,667 | 100,000 | 100,000 |
| Net Profit/(Loss) | \$ (190,945) | \$ (599,492) | \$ (610,329) | \$ (235,829) | \$ 142,489 |
| General Fund Contribution | | | | | |
| Offsets & Other Expenses | \$ (12,353) | \$ (8,850) | \$ 49,756 | \$ 2,847 | \$ 15,717 |
| Debt Service | 145,879 | 146,454 | 146,470 | 16,866 | 15,961 |
| Total GF Contribution | \$ 324,471 | \$ 737,096 | \$ 806,555 | \$ 255,542 | \$ (110,811) |

Footnote: The RMA's net operating gain in of \$142,489 in fiscal year 2022/23, partially offset by miscellaneous additional expenditures, resulted in a net gain of \$110,811, effectively reducing the General Fund's 2023 contribution to the RMA to zero and allowing the application of that amount toward offset of prior year subsidies.

As the direction of the City and the state of finances have fluctuated over the last ten years and the direction from the Strategic Plan 2025 in particular of the priorities of fiscal responsibility and sustainability, staff researched options after the Letter of Interest was received, to review, discuss and provide information to City Council to access if the current structure of the agreements were still the best way to provide the programming for the Fox and RMA.

Over the course of the negotiations with Live Nation, staff were keenly focused on quality programming and fiscal responsibility of and for the City. The proposed lease will have a direct and reliable positive financial impact on the General Fund, particularly concerning programming. Changing the type of agreement with Live Nation carries significant financial benefits for the City. Under the lease, the City will not bear the risk if a production fails to perform well financially, nor will it be responsible for the day-to-day operational costs of running the facilities.

As the City aims to diversify revenue streams, increase financial stability, and reduce costs, this agreement represents the next logical step for both the Fox and RMA venues. It aligns with the goal of redevelopment that the City and community invested in these facilities.

Below is an estimate of the revenue anticipated to be generated by the lease agreement over the initial eight-year term. The revenue projections include the Year 1 ticket sales estimate provided by Live Nation and an annual 3% growth rate. Annual revenues generated by the proposed agreements are anticipated to generate between \$400,000 - \$480,000 annually. This stands in stark contrast to past Net Profit/Loss results shown in the previous table, which ranged from a combined \$1.6M loss during the pandemic to a small gain of \$186,000 in FY 22/23. The new agreement will provide a stable revenue source for the City, removing the burden and risk of operating losses on City finances.

| Fox Theater & RMA | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | 29/30 | 30/31 | 31/32 |
|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Lease Revenue | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 225,000 | \$ 225,000 | \$ 225,000 | \$ 225,000 |
| Ticket Revenue | 206,343 | 212,533 | 218,909 | 225,477 | 232,241 | 239,208 | 246,384 | 253,776 |
| Total Revenue | \$ 406,343 | \$ 412,533 | \$ 418,909 | \$ 425,477 | \$ 457,241 | \$ 464,208 | \$ 471,384 | \$ 478,776 |

Another crucial aspect of the lease agreement will be Live Nation's responsibility to maintain the structural integrity of the premises and all improvements in good order and condition. Currently, this responsibility falls on the City financially. The City will continue to be responsible for the foundation, plumbing, electrical, heating, air conditioning systems, etc., as is typical with most leases. Other expenses that will remain with the City include property insurance and landscape maintenance. Additionally, the City will continue to bear the cost of the debt service obligations, which will be fully paid off in FY 2036/37.

Deal Points

The deal points outlined in the attachment reflect the City's commitment to diversity, the promotion of arts and entertainment, economic development, and the original objectives of utilizing Redevelopment dollars to enhance amenities and foster economic growth in targeted areas and facilities.

These deal points prioritize quality programming and public safety for the venues and the community. By considering these factors, the agreement aims to ensure that the partnership with Live Nation not only maintains but also enhances the Riverside experience for residents, businesses, and visitors.

The diverse range of quality programming that Live Nation will continue to bring to Riverside is expected to further enrich the cultural landscape of the city, making it a more vibrant and attractive destination for all stakeholders.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 1 – Arts, Culture and Recreation**, and **Goal 1.1 - Strengthen Riverside’s portfolio of arts, culture, recreation, senior, and lifelong learning programs and amenities through expanded community partnerships, shared use opportunities, and fund development.** This item also contributes to **Strategic Priority 5 – High Performing Government**, and **Goal 5.4 - Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest**

impact.

The item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The Lease Agreement aligns City and Live Nation resources to continue quality programming for the community, while maintaining quality performances and professional management of both venues.
2. **Equity** – Live Nation will continue to the best of their abilities to provide diverse entertainment that includes Broadway, family, cultural and youth-oriented events, and programs that align with our community, our demographics, and our regional draw.
3. **Fiscal Responsibility** – The Lease Agreement will transition the City away from day-to-day fiscal responsibilities and duties of the venues. The Lease Agreement will also provide a consistent revenue stream for the City.
4. **Innovation** – The City and Live Nation have been innovative in this partnership, supporting programming, new ideas/events and collaborating on projects for the Fox Performing Arts Center and the Riverside Municipal Auditorium.
5. **Sustainability & Resiliency** – Entering into a Lease Agreement aligns resources efficiently and productively for the City and Live Nation.

FISCAL IMPACT:

The total fiscal impact of the lease over the initial eight-year term is expected to be \$1,675,000, with Live Nation covering all operational costs. Additional revenue from ticket sales is expected to exceed \$200,000 annually. Lease revenue will be recorded in the Entertainment Fund, Fox and RMA Land and Building Rental account 373100, and ticket sales will be recorded in Theater/Auditorium Receipts account 343660.

Historically, operating losses borne by the City have reached as high as \$1.6 million during the pandemic. However, for the first time in FY 2022/23, an operating gain of \$186,000 was realized. The proposed agreement will eliminate the financial burden of an operating subsidy from the General Fund and mitigate the risk of fluctuating operational performance, thereby providing stability in General Fund finances. If the City Council approves the proposed agreement with Live Nation, the General Fund subsidy is expected to be reduced by approximately \$700,000 annually in the proposed FY 2024-2026 Biennial Budget scheduled for Council adoption on June 25, 2024.

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Attachments

1. Lease Deal Points
2. Lease Agreement for the Fox Performing Arts Center and Riverside Municipal Auditorium
3. PowerPoint