



Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS **DATE: DECEMBER 8, 2022**

FROM: GENERAL SERVICES DEPARTMENT **WARD: 1**

SUBJECT: UPDATE ON GENERAL FUND IMPACT FOR THE RIVERSIDE CONVENTION CENTER, RIVERSIDE CONVENTION AND VISITORS BUREAU AND RIVERSIDE SPORTS COMMISSION

ISSUE:

Receive an update on the General Fund impact for the Riverside Convention Center, Riverside Convention and Visitors Bureau and Riverside Sports Commission.

RECOMMENDATIONS

That the Budget Engagement Commission receive an update on the General Fund impact for the Riverside Convention Center, Riverside Convention and Visitors Bureau and Riverside Sports Commission.

BACKGROUND:

The Riverside Convention Center (Convention Center) was originally constructed in 1974 and renovated and expanded in 2014. It is the only convention center in western Riverside County and books a wide range of events from national and international conventions to local conferences and private parties. In 1996, the City began contracting with Entrepreneurial Hospitality Corporation (EHC) to operate both the Convention Center and the Riverside Convention and Visitors Bureau (Visitors Bureau). The Visitors Bureau focuses on attracting convention and visitor business to Riverside, not only at the Convention Center but also at other venues including hotel meeting rooms, sports venues and the Riverside Municipal Auditorium.

In 2009, the City issued a Request for Proposals for management and operation of the Riverside Convention Center and RCVB. EHC was the sole proposer and on November 25, 2009, the City Council approved a Management and Operations Agreement that encompassed both the Convention Center and the Visitors Bureau. This agreement was for five years with one five-year option to renew.

In August 2012, the City Council approved the assignment of the EHC contract to Raincross Hospitality Corporation (RHC), a local company formed by Ted Weggeland, the principal executive at EHC with responsibility for the Convention Center and Visitors Bureau since 1996. The City Council also approved the First Amendment to the Management and Operations

Agreement engaging RHC to temporarily operate convention center services from the Municipal Auditorium while the Convention Center was undergoing renovation. The First Amendment also created and provided funding for the Riverside Sports Commission (Sports Commission) as a function of the Visitors Bureau. Lastly, the First Amendment extended the term of the RHC agreement through June 2022 and required that a new, Internal Revenue Service (IRS)-compliant management agreement be negotiated for operation of the Convention Center upon reopening.

The project to expand the Convention Center was funded with tax exempt debt. Internal Revenue Service Rules (Revenue Procedure 97-13) require that privately operated public facilities constructed with tax exempt debt be operated pursuant to a Qualified Management Agreement (QMA). In essence, the Revenue Procedure requires that the private company operate the public facility as an agent of the public entity, that the private company be paid a flat fee and not benefit from any profits from the facility, and that the public entity receive any profits but also be responsible for any losses. In August 2013, the City Council approved a QMA with RHC for operation of the Convention Center. At the same meeting, a Management and Operations Agreement was approved with RHC for management of the Visitors Bureau and the Sports Commission.

On October 22, 2013, the City Council approved the First Amendment to the QMA to eliminate a reference to the City's previous Purchasing Resolution and to clarify the procurement process for any repair, maintenance and construction related to the Convention Center.

In September 2019, the City Council approved the Second Amendment to the QMA extending the term by five years to June 30, 2028. In addition, language was added regarding RHC's exclusive use of the plaza area adjacent to the Convention Center, target annual revenue budget procedures, funding for capital projects, updating the new Riverside-San Bernardino-Ontario consumer price index statistical area, and use of Parking Lot 33 and potential future expansion of the Convention Center. Finally, language was added stating that on or before December 2026, the City shall issue a Request for Proposals for management of the Convention Center.

On April 16, 2021, the City approved the assignment of the QMA from RHC to Raincross Hospitality Management Corporation (RHMC or "Manager").

DISCUSSION:

Following is a summary of contractual fees paid to RHMC for management of the Convention Center, Visitors Bureau and Sports Commission.

Convention Center Management Fees, Incentive Bonus and Operation Funds

The QMA provides for RHMC to manage and operate the Convention Center in exchange for an annual base management fee of \$400,000, with annual increases based on the March Consumer Price Index (CPI) – All Urban Consumers for Riverside-San Bernardino-Ontario, CA. The QMA also includes a one-time increase in the Manager's Base Fee to \$480,000 if gross revenue exceeds \$4,500,000 for any fiscal year, which occurred during the 2016 fiscal year. For the year ending June 30, 2022, the Manager's Base Fee was \$595,016, which includes the annual increase based on CPI.

Additionally, the QMA provides for an annual incentive bonus of up to \$120,000 if the Manager achieves gross revenue greater than \$5,000,000. The annual incentive bonus may not exceed 20% of total annual compensation received by the Manager in any given year.

Finally, the QMA requires that the City deposit and thereafter continually maintain a balance of \$300,000 in operating funds for the Convention Center, disbursing funds as needed.

Visitors Bureau Management Fee

The Management and Operations Agreement between the City of Riverside and RHC provides annual compensation in the amount of \$1,100,000 for management of the Visitors Bureau, subject to annual CPI increases, to market and promote Riverside as a premier destination for conventions and meetings. Activities include development of an annual sales and marketing plan, hiring and management of sales, marketing and administrative staff, development of promotional materials and interactive Visitors Bureau website and social media, and attendance at appropriate tradeshows. For the fiscal year ending June 30, 2022, the management fee was \$1,613,613.

Sports Commission Management Fee

The Management and Operations Agreement between the City of Riverside and RHC provides annual compensation in the amount of \$150,000 for management of the Sports Commission, subject to annual CPI increases, to promote Riverside as a destination for athletic events. Activities include development of an annual sales and marketing plan, hiring and management of sales, marketing and administrative staff, development of promotional materials and interactive Sports Commission website and social media and attendance at appropriate tradeshows. For the fiscal year ending June 30, 2022, the management fee was \$187,560.

General Fund Impact Summary

In addition to the contractual management fees outlined above, the City pays debt service for the Convention Center remodel and expansion. As of June 30, 2022, the ending debt balance totals approximately \$29.6 million, with an annual debt requirement of approximately \$3 million. The debt requirement matures (ends) in Fiscal Year 2037.

The following chart provides a five-year summary of the General Fund impact, including contractual management fees, incentive bonus, operating funds replenishment and debt service. The figures shown reflect the City's actual costs, after factoring in all operating expenses and offsetting revenues generated by the Convention Center.

Fiscal Year	Convention Center	Visitors Bureau and Sports Commission*	Total
21-22	\$5,176,105.22	\$1,801,173.00	\$6,977,278.22
20-21	\$5,384,164.84	\$1,739,255.52	\$7,123,420.36
19-20	\$4,501,414.34	\$1,698,276.00	\$6,199,690.34
18-19	\$3,420,342.40	\$1,651,184.28	\$5,071,526.68
17-18	\$3,289,504.64	\$1,591,840.44	\$4,881,345.08
Totals:	\$21,771,531.44	\$8,481,729.24	\$30,253,260.68

* For the Visitor's Bureau and Sports Commission, the management fee is the only General Fund contribution.

Estimated Economic Impact

The Convention Center, Visitors Bureau and Sports Commission provide a tangible economic benefit to the City by attracting people to Riverside to patronize the hotels, restaurants and retail businesses. This business in turn generates transient occupancy tax and sales tax, which helps the City fund key services.

The estimated economic impact includes Convention Center revenue, the City's share of parking

profit from Lot 33, hotel revenue, transient occupancy tax revenue, sales tax revenue that ultimately flows to the City, Convention Center spending on local vendors and Convention Center spending on Riverside resident employee wages. The estimated economic impact does not include the unknown and unknowable amount of revenue that flows to the City from Convention Center guest spending on food and beverage outside of the Convention Center (e.g. breakfast, lunch and dinner at hotels and restaurants) or other retail sales (e.g. retail shops, gas stations, travel, etc.).

Following is a 5-year summary of economic impact actuals as well as estimated forecast for FY 2022-23, as provided by RHMC. A detailed breakdown is attached to this report (Attachment 2)

Fiscal Year	Economic Impact
22-23 (Forecast)	\$ 11,319,461
21-22 (Actual)	\$ 6,688,209
20-21 (Actual)	\$ 0
19-20 (Actual)	\$ 9,421,009
18-19 (Actual)	\$ 14,179,536
17-18 (Actual)	\$ 12,558,006

A detailed breakdown is attached to this report (Attachment 2)

Pandemic Relief and Recovery Forecast

During the pandemic, RHMC laid off nearly all of its employees, retaining only senior managers vital to maintaining the building's operation including providing 24 hour building security, building and lawn maintenance, installing COVID safety protocols for reopening, moving business to future years, managing deposits, selling, and marketing and communicating with existing and prospective clients for future business, obtaining Global Biorisk Advisory Council (GBAC) accreditation, planning for reopening, and hiring and training team members.

As a result of its financial management, the Visitors Bureau was able to return a total of \$520,000 to the City in 2020 and 2021. In addition, RHMC applied for and received federal Coronavirus Aid, Relief and Economic Security (CARES) Act relief (through the County of Riverside), receiving \$553,272 for the Convention Center, Visitors Bureau and for local and regional hospitality financial relief. Over \$125,000 of the CARES funds were used to purchase Convention Center supplies and paid for expenses that would otherwise have been borne by the City, and \$65,000 was used by the Visitors Bureau to market the Convention Center during the pandemic.

In 2022, RHMC applied for and received \$1.6 million in federal ARPA funds (again through the County of Riverside). \$500,000 of the \$1.6 million is supporting a special Riverside Convention Center sales & marketing initiative to help boost convention business; \$300,000 is being used by the Sports Commission to help boost marketing of Riverside as a youth sports center; \$196,000 is being used for interior and exterior enhancements of the Convention Center; \$110,000 will be used to conduct sports feasibility studies; and \$575,000 will be used to fund the creation of a Western Riverside County Tourism campaign.

As the pandemic recedes, Convention Center business is gradually ramping up. RHMC is projecting a return to previous event demand and venue stabilization in late 2024 or early 2025, meaning reaching near pre-pandemic events, attendees, employee numbers, and returning to gradual event price increases. More detail is provided in Attachment 3 to this report.

STRATEGIC PLAN ALIGNMENT:

This report aligns with **Strategic Priority No. 5: High Performing Government and Goal No. 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.

This report aligns with *EACH of the five Cross-Cutting Threads* as follows:

1. **Community Trust** – RHMC, the City’s partner in managing the Convention Center, Visitors Bureau and Sports Commission, was selected through a Request for Proposals process and approved by the City Council, ensuring public transparency.
2. **Equity** – Conventions, meetings and sporting events draw visitors to Riverside and generate City Transient Occupancy and sales tax revenues to help fund equitable public services for Riverside residents.
3. **Fiscal Responsibility** – The Convention Center, Visitors Bureau and Sports Commission provides a tangible economic benefit to the City by attracting business for local hotels, restaurants, and retail establishments.
4. **Innovation** – The Convention Center provides a local venue for meetings, which builds and sustains social capital within the City.
5. **Sustainability & Resiliency** – RHMC has extensive experience and proven success in the management of the Convention Center, Visitors Bureau and Sports Commission. Over the next several years, Convention Center bookings are anticipated to gradually return to pre-pandemic levels, lessening the General Fund contribution required to make this portion of the Civic Entertainment fund whole.

FISCAL IMPACT:

The total General Fund impact for fiscal year 2021/22 is \$6,977,278.22, including all contractual management fees for management of the Convention Center, Visitors Bureau and Sports Commission, and annual debt service requirements for the renovation and expansion of the Convention Center.

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Attachments:

1. RHMC Estimated Economic Impact Detail
2. RHMC Letter
3. Presentation