



*City of Arts & Innovation*

# City Council Memorandum

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**TO: HONORABLE MAYOR AND CITY COUNCIL**      **DATE: MAY 10, 2016**  
**FROM: MUSEUM & CULTURAL AFFAIRS**      **WARDS: ALL**  
**SUBJECT: BUDGET PRESENTATION FROM LIVE NATION WORLDWIDE, INC FOR THE  
FOX PERFORMING ARTS CENTER AND RIVERSIDE MUNICIPAL  
AUDITORIUM**

## **ISSUE:**

The issue for City Council consideration is to receive and provide input on budget presentation from Live Nation Worldwide, Inc. (Live Nation) for FY 2016/17 and 2017/18 for the Fox Performing Arts Center and Riverside Municipal Auditorium.

## **RECOMMENDATIONS:**

That the City Council receive this presentation and provide input for FY 2016/17 and 2017/18.

## **BACKGROUND:**

On October 8, 2013, City Council approved the Agreements for the operation and management of the Fox Performing Arts Center (Fox) and Riverside Municipal Auditorium (RMA). Live Nation provides the management and operation of the premises as a first-class live entertainment and special event venue consistent with the goals of the City. The venues are owned by the City and, therefore, all uses are designed to create a positive economic impact, to stimulate growth for the region and to provide for the cultural and intellectual enrichment of the community. Live Nation recognizes these goals and has worked diligently to schedule, promote and provide diverse entertainment, special events and sponsorships.

Notable achievements:

1. Sold Out Shows in FY 2015/16
  - a. Chris Tomlin
  - b. So You Think You Can Dance
  - c. Bill Maher (2 shows)
  - d. Celtic Thunder
  - e. Merle Haggard (although he did not perform due to illness and has since passed away)
  - f. Dancing with the Stars (2 shows)
  - g. Peppa Pig
2. Leads national average in food & beverage dollar spent \$14.59 vs. \$13.86 average per person
3. Growth in special events exceeds national trend
4. Social Media has grown by 75% over prior year

5. Working on completing Master Agreement with UC Riverside for RMA
6. Leads National Average in attendance to movie series (average 500 attendees)

## **CONTRACTUAL TERMS**

### *Scope of Services*

The Scope of Services (Attachment 1) is reflective of the City's desired programming, clarifies the roles and responsibilities of the operator, and has set the tone for the relationship with Live Nation as a partner in our community. Examples from the Scope of Services, include:

- Manage and operate the venues
- Responsible for financial accountability and provide reports on the fiscal operations
- Responsible for facility utilization and marketing plan addressing various production and events
- Maintain, keep and preserve the entertainment venues in good order and condition and perform all repairs necessary to keep venues, improvements, fixture, furniture, furnishing and equipment situated or used in connection of the venues

### *Term*

The term of the Agreement with Live Nation commenced on December 1, 2013 and continues for three years thereafter, subject to the termination provisions contained in their Agreement. Following the initial term, the Agreement shall automatically renew for two additional terms of three years each. The City or Live Nation may cancel the agreement with prior written notice of at least 12 months prior to the end of the initial term or applicable renewal term. Neither the City nor Live Nation has chosen to exercise the cancelation, and the Agreement is currently in the first renewal period with the termination date of November 30, 2019.

### *Financial*

#### Operations:

Live Nation and City staff work together to develop an events calendar. The City assumes responsibility if the events do not make money and receives the benefit of any net revenue realized from events held at the Fox and RMA. Live Nation funds the day-to-day operations and maintains a bank account that tracks all expenses and revenues. Monthly, Live Nation invoices the City if the revenues fall short of revenue and conversely writes the City a check if revenues exceed expenses. An item to be noted is that, per the type of financing that the Fox has, the City is limited on the structure of the management fee and incentive bonus.

#### Management Fee:

- Fox: \$500,000 per year, paid on a monthly basis. This amount will be the same for the initial term and all renewal periods.
- RMA: Paid on a monthly basis, the following amounts annual management fees are due for the RMA: \$25,000 (Year 1), \$50,000 (Year 2), \$75,000 (Year 3), and \$100,000 in each subsequent year.

#### Incentive Bonus:

- Fox: Owner agrees to pay a bonus to Manager based on the increased shows and paid attendance over and above what is provided (e.g. Performance/show counts, expenses, revenues, types of performances). The bonus shall be calculated in increments of ten percent (10%) up to fifty percent (50%). The bonus calculations will be determined

annually. For each increment of 10%, the Manager shall receive \$27,500; however, in no event shall the bonus exceed twenty percent (20%) of total annual compensation received by Manager in any given fiscal year.

- RMA: Manager shall be eligible for an incentive bonus in each fiscal year for every dollar the anticipated operating income (“AOI”) is increased, up to and including breaking even. Manager and Owner agree to split the additional income 70/30, with the City receiving 70% and Manager receiving 30%. For every dollar of AOI beyond breaking even, Manager and Owner agree to split 50/50.

#### Net Contractual Revenues and Expenses

The chart below shows the revenue and expense activity for the FOX and RMA for FY 2013/14 and FY 2014/15. It should be noted that Live Nation did not start operating the FOX until December 1, 2013 and the RMA until March 1, 2014. The RMA was previously managed by the Entrepreneurial Hospitality Corporation while the Convention Center was under construction and the FOX was managed by FX Arts Management, LLC.

<b>Fox</b>	<b>FY 2013/14 (Actuals)</b>	<b>FY 2014/15 (Actuals)</b>	<b>FY 2015/16 (Projected)</b>	<b>FY 2016/17 Proposed</b>	<b>FY 2017/18 Proposed</b>
Operating Revenue	\$2,852,016	\$3,678,067	\$3,648,133	\$3,500,000	\$3,500,000
Operating Expense	\$3,986,980	\$4,537,123	\$4,107,798	\$3,500,000	\$3,500,000
<i>Net Operating Expense/(Revenue)</i>	\$1,134,964	\$859,056	\$459,665	\$-	\$ -
Management Fee	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Incentive Bonus				\$33,000	\$50,000
<b>Total Fox Expense</b>	<b>\$1,634,964</b>	<b>\$1,359,056</b>	<b>\$959,665</b>	<b>\$533,000</b>	<b>\$550,000</b>
<b>RMA</b>	<b>FY 2013/14 (Actuals)</b>	<b>FY 2014/15 (Actuals)</b>	<b>FY 2015/16 (Projected)</b>	<b>FY 2016/17 Proposed</b>	<b>FY 2017/18 Proposed</b>
Operating Revenue	**	\$1,750,986	\$2,028,004	\$2,000,000	\$2,000,000
Operating Expense	**	\$1,992,961	\$2,278,023	\$2,000,000	\$2,000,000
<i>Net Operating Expense(Revenue)</i>	**	\$241,975	\$250,019	\$-	\$-
Management Fee	\$25,000	\$50,000	\$75,000	\$100,000	\$100,000
Incentive Bonus	\$ -	\$-	\$-	\$31,000	\$47,000
<b>Total RMA Expense</b>	<b>\$25,000</b>	<b>\$291,975</b>	<b>\$325,019</b>	<b>\$131,000</b>	<b>\$147,000</b>
<b>TOTAL CONTRACTUAL EXPENSE</b>	<b>\$1,659,964</b>	<b>\$1,651,031</b>	<b>\$1,284,684</b>	<b>\$664,000</b>	<b>\$697,000</b>

\*\*Note: FY13/14 Fox/RMA financials were together.

During the agreement with Live Nation, the City has seen a net expenditures decrease, while attendance and Downtown activity benefiting the business community has increased. Prior to Live Nation, the City had net expenditures on the Fox and RMA of \$1,124,589 (FY 2013/14).

The amounts included in the above exhibit are contractual for Live Nation and do not include debt service to those venues. For the Fox, the amount of debt service is \$2,269,437 per year.

## **4% REDUCTION MEASURES**

During the development of the FY 2016-2018 two-year budget, the Finance Department estimated the City would have a structural shortfall in the General Fund of approximately \$10 million to \$12 million, which equated to a 4% reduction in all General Fund departments, including Non-Departmental where the Live Nation agreement is budgeted.

The City Council approved agreement with Live Nation included a multi-year proforma financial analysis (Attachment 2) that documented the shortfall between expenditures and revenues would be reduced every year. At this time, the forecasts for FY 2015/16 (above) show better than the proforma. This continued closing of the gap between revenues and expenditures will meet the 4% reduction in net costs to the City – in fact Live Nation is estimated to reduce the net impact to expenditures by approximately 48%.

In order to continue the growth of business and decrease our net cost, the following steps will continue and/or be proposed:

1. Increase Performance/Show Count
2. Increase Special Events
3. Diversify the use and programming of the facilities (e.g. special events, specialty nights, filming)
4. Review and propose potential fee increases for the Fox, this would be subject to City Council consideration and approval at a later date. Fees at the Fox have not been increased since 2010. The fees would address commercial and business use.

## **UNFUNDED NEEDS**

Critical unfunded needs required for both of these historic facilities were submitted through the Capital Improvement Process as a request to address maintenance and larger repair/facility issues that the Fox and RMA may have after ten years of ongoing use and performances.

## **FISCAL IMPACT:**

There is no direct fiscal impact associated with this report; however, as stated above, the two-year budget process will include necessary deliberation on the proposed measures to meet 4% reductions. Finally, the unfunded needs discussed above represent fiscal challenges above and beyond these reduction targets.

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Certified as to  
availability of funds: Scott Miller, Interim Finance Director/Treasurer  
Approved by: Alexander T. Nguyen, Assistant City Manager  
Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. Scope of Services
2. Proforma
3. Presentation