



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MAY 10, 2016**

FROM: GENERAL SERVICES DEPARTMENT **WARDS: ALL**

SUBJECT: BUDGET PRESENTATION FROM THE RAINCROSS HOSPITALITY CORPORATION – RIVERSIDE CONVENTION CENTER, RIVERSIDE CONVENTION & VISITOR’S BUREAU AND RIVERSIDE SPORTS COMMISSION

ISSUE:

The issue for City Council consideration is to receive and provide input on a budget presentation from the Raincross Hospitality Corporation about 1) operations; 2) fiscal year 2016/17 recommended reductions; and 3) challenges for fiscal years 2016/17 and 2017/18.

RECOMMENDATIONS:

That the City Council receive this presentation and provide input on the Raincross Hospitality Corporation 1) operations; 2) fiscal year 2016/17 recommended reductions; and 3) challenges for fiscal years 2016/17 and 2017/18.

BACKGROUND AND CONTRACTUAL HISTORY:

Raincross Hospitality Corporation (RHC) currently manages the Riverside Convention & Visitors Bureau (RCVB), the Riverside Sports Commission (RSC) and the Riverside Convention Center (RCC) on behalf of the City of Riverside (City). Prior to RHC, RCVB and RCC were managed by Entrepreneurial Hospitality Corporation (EHC).

The relationship with EHC, and now RHC is a long-standing one. In June 1996, the City entered into an agreement with EHC to operate the Convention Center. That contract was amended four times to extend the terms and correct or modify terms within that Agreement. That Agreement expired on June 30, 2009.

On November 10, 2009, City Council approved a Convention Center Management and Operations Agreement between Entrepreneurial Hospitality Corporation and the City that expired on March 31, 2015, with an option of one five-year renewal. This Agreement provided two distinct functions: operation of RCC and management of RCVB.

On July 14, 2012, City Council directed staff to amend the Agreement with EHC to include RSC within the RCVB scope of services beginning in fiscal year (FY) 2012/13 with annual compensation of \$100,000.

On August 28, 2012, the City Council authorized the First Amendment to Riverside Convention Center Management and Operations Agreement and authorized the assumption of the management agreement by Raincross Hospitality Corporation, a local company formed by Ted

Weggeland, the principal executive at EHC with responsibility for the Convention Center and RCVB since 1996. The First Amendment followed the City's initiation of planned renovations of Riverside Convention Center and the Municipal Auditorium. Other significant changes in the First Amendment included:

- Authorized temporary management and operation by EHC/RHC of the Municipal Auditorium over the term of rehabilitation period to provide a temporary kitchen facility at the Municipal Auditorium.
- Extended the initial term of the Agreement by 27 months, to June 30, 2017, to account for the time the Convention Center was closed and moved the end date to coincide with the fiscal year, and formally exercised a one-time, five-year extension authorized in the Agreement, thus extending the termination date to June 30, 2022.
- Modified the annual business development activities fee related to RCVB from \$975,000 to \$1,100,000, which incorporated an additional \$100,000 in funding for the Riverside Sports Commission as approved by the City Council on July 24, 2012.

On August 27, 2013, City Council authorized a Qualified Convention Center Management Agreement for operations of the Riverside Convention Center and a Management and Operations Agreement for the Riverside Convention & Visitor's Bureau. This action separated the Convention Center Management Agreement from the combined RCVB and RSC agreement.

OPERATIONS:

Riverside Convention & Visitors Bureau

RCVB promotes and markets the City and its hotels and convention venues to book conferences, consumer and trade shows and social events in Riverside. RCVB operates with a team of five full-time employees: a director of sales, one senior sales manager, one sales manager and two administrative assistants. RHC's president and executive vice-president are actively involved in the day-to-day management of RCVB and RSC. RCVB works to balance local and regional events, while also booking quality, medium sized regional, state and national convention groups that drive multi-day stays, those that will yield greater economic impact and stretch convention calendar bookings into traditionally non-convention months.

Accomplishments:

- Nearly 30,000 hotel room nights booked (combined effort between RCVB and RSC)
- Renowned "Bring it Home" campaign
- Pivot to successfully competing against destination locations for higher rated business (Palm Springs, Anaheim, Long Beach); and
- Successfully co-producing high profile convention events.

Goals:

- Book 24,000 room nights per year;
- Increase average daily rate of booked rooms by 5% annually; and
- Limit hotel room night attrition <7%.

Riverside Sports Commission

RSC attracts, and occasionally co-produces, major athletic competitions, which positively impact Riverside's economy, and generates meaningful national media coverage to promote Riverside's reputation as "Sports Town USA". RSC has one full-time director/sales person and receives executive support from RHC's president and executive vice-president as well as an administrative

assistant shared with RCVB.

Accomplishments:

- Attracting major prestigious, international, national and state competitions;
- Expanding sports events beyond Riverside Aquatics Complex; and
- Maintaining Riverside as home to the US Synchronized Swimming Elite Development National Training Center.

RSC Goals:

- Book 6,000 hotel room nights each year;
- Maintain status as Inland Southern California's voice for major sports competitions; and
- Increase average daily rate at hotels by 5% annually.

Riverside Convention Center

The Riverside Convention Center was originally constructed in 1974. The nearly 140,000 square foot convention facility reopened in 2014, following a renovation and expansion that cost approximately \$45 million. RCC 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.

Accomplishments:

- Record breaking budget projections;
- Operational profitability;
- Superior, unique in house culinary arts;
- Industry-unique partnership with internationally renowned Loma Linda University Health;
- Average 96.6% score on client satisfaction questionnaires; and
- Press Enterprise #3 Top Workplace in Inland Southern California.

Convention Center Goals:

- Generate in excess of \$5.6 million in revenue;
- Continue profitability;
- Advance sustainable initiatives;
- Score > 90% in client satisfaction surveys; and
- Maintain physical facility in first class manner.

FINANCIAL OVERVIEW

RCVB and RSC:

The City of Riverside fully funds both the RCVB and RSC based on contractual obligations. Specifically, the Agreement called for a FY 2013/14 baseline amount of \$1,100,000 (RCVB) and \$150,000 (RSC), to be increased by CPI each year. Actual increases, based on requests from RHC have exceeded CPI. Specifically, the RCVB increased by \$55,000 (FY 2014/15), and \$100,000 (FY 2015/16). The RSC has increased by \$7,500 (FY 2014/15), and \$100,000 (FY 2015/16). Each year, RHC provides a budget to document what the requested funds will be spent on.

Base Fee	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
RCVB	\$1,100,000	\$1,155,000	\$1,255,000	\$1,234,559	\$1,265,053
RSC	\$150,000	\$157,500	\$257,500	\$253,306	\$259,562
TOTAL	\$1,250,000	\$1,312,500	\$1,512,500	\$1,487,864*	\$1,524,615**

*2016/17 includes CPI increase of 2.47% from FY 2015/16 and a 4% reduction of that new total in FY 2016/17

**2017/16 estimates CPI of 2.47 of FY 2016/17 total.

RCC:

RCC generates revenue from bookings and food and beverage sales at the Center and is responsible for initially paying for operational expenses and receiving operating revenues. In the event there is an operating profit, the City receives those funds; however, in the event of a loss, the City is responsible for the new operating loss. The City also pays RHC a management/contract fee. Per the agreement, the Manager's Base Fee was \$400,000 (Year 1 – FY 2013/14), and will increase each year by the CPI. In addition, the contract states that if at any time during the term of the Agreement, gross revenues exceed \$4.5 million, the Manager's Base Fee shall be increased to \$480,000. In FY 2014/15, revenues exceeded \$5 million and the Manager's Base Fee was increased to \$480,000 in the following Fiscal Year (FY 2015/16). Finally, the City pays RHC an incentive bonus based on actual revenues that exceed \$5 million; the incentive bonus is not to exceed 20% of compensation. The difference between net operating income/expense and the management fee/incentive determines the total net profit or loss to the City.

RCC	FY 2013/14 (Actuals)	FY 2014/15 (Actuals)	FY 2015/16 (Projected)	FY 2016/17 Proposed	FY 2017/18 Proposed
Operating Revenue	\$1,539,388	\$5,128,156	\$5,600,000	\$5,817,656	\$6,021,281
Operating Expense	\$1,509,886	\$4,654,180	\$5,185,600	\$5,392,313	\$5,608,714
<i>Net Operating (Revenue)/Expense</i>	<i>(\$29,502)</i>	<i>(\$473,976)</i>	<i>(\$414,400)</i>	<i>(\$425,343)</i>	<i>(\$412,567)</i>
Management Fee	\$166,666*	\$420,000	\$480,000	\$472,182	\$483,845
Incentive Bonus			\$84,000	\$86,000	\$96,800
Net (Revenue) / Expense	\$137,164	(\$53,976)	\$149,600	\$132,839	\$168,078

*partial year payment (February through June)

The amounts included in the above exhibit do not include debt service for the Convention Center, which is \$3,449,746 for Fiscal Year 2015-16.

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 RHC agreement is budgeted. To help address the issue, RHC was asked to reduce their contracts for RCVB and RSC by 4% and to reduce the management and incentive fees for RCC by 4%.

RCVB and RSC:

RHC proposes a 4% reduction as follows:

- Riverside Convention & Visitors Bureau (\$51,440)

- Riverside Sports Commission (\$10,554)

These reductions would impact the ability to provide incentives and/or attend events meant for attraction of convention and sporting groups business. RHC believes that this 4% reduction will materially and negatively impact its bookings of future business, transient occupancy tax revenue and sales tax revenue.

RCC:

While RHC is requesting a stay of the 4% reduction to its management fee and incentive payment for RCC, if the 4% reduction is applied, the estimated impact is:

- Convention Center Management Fee – (\$19,200)
- Incentive Bonus – (\$4,000)

RHC has not proposed a 4% reduction to RHC as a result of potential impacts from the newly enacted minimum wage law that will take effect over the next five years, beginning with a \$0.50/hour increase on January 1, 2017 (\$10.50/hour), and gradually increases to \$15/hour in 2022.

OTHER CHALLENGES:

- Limited Hotel Options and lack of airport shuttle service between Ontario International Airport and downtown Riverside;
- Competition with 'self-contained' properties (i.e. Renaissance Palm Springs Hotel and Convention Center);
- Riverside is not perceived as a destination location;
- Downtown Riverside's daytime orientation and limited number of restaurants open on weeknights and weekends is a barrier to booking some convention groups; and
- Budget constraints and newly enacted minimum wage law.

CRITICAL UNFUNDED NEEDS:

- FY 2016-2017:
 - Additional safety warnings located at entrance of parking lot 33 (undetermined cost)
 - Accidents occurring in the parking lot require enhanced safety measures
- FY 2017-2018:
 - Parking lot automation (\$500,000)
 - New system would be more effective and efficient.
 - New system would recoup a portion, if not all, of the initial investment over a multi-year period.

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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Attachment: Presentation