



OFFICE OF THE CITY AUDITOR
Long Beach, California

R-34

LAURA L. DOUD, CPA
City Auditor

April 15, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Contract Performance Audit for the Long Beach Sea Festival Association and Request City Council to direct City Management and the Long Beach Sea Festival Association to review recommendations, develop comprehensive strategies consistent with these recommendations and advise the City Council and City Auditor as to progress and plans for implementation in six months and one year from the date of receipt and filing of this report.

DISCUSSION

Last summer the City Auditor's Office, along with the independent audit firm of Sjoberg Evashenk, began a contract performance audit of the Long Beach Sea Festival Association ("Association"). The Association had assumed responsibility for running Sea Festival in 2005 with the intent to revitalize the Sea Festival and promote the City by increasing the variety and quality of events. The purpose of this audit was to assess the performance of the Association in fulfilling the City's intent and goals under the existing agreement.

Our audit found that overall Sea Festival generally improved during the first two years of its contract with the City. During this time, the number of events increased, as did the visibility of Sea Festival as a whole. Additionally, a study commissioned by the Association was published after our audit was completed showing that the Sea Festival has had a significant positive economic impact on the City.

However, our audit also found that there are significant issues that the City should address in regards to Sea Festival. These issues include: the non-collection of the 2006 Agreement Fee due to the City; the proper calculation of the Agreement Fee under the contract generally; and the proper tracking of City staff time that is utilized to help coordinate and promote Sea Festival. Furthermore, there is confusion between the City and the Association about various requirements under the Agreement that should be resolved.

Responsibility for Sea Festival is currently being transferred from the Long Beach Sea Festival Association to International City Racing, the organizers of the Long Beach Marathon. While this report covered the time period in which the Long Beach Sea Festival Association was in charge of Sea Festival, the findings are equally relevant for the City as it begins its relationship with the new operator.

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The City Auditor's Office appreciates the cooperation of the Parks, Recreation, and Marine Department and the Sea Festival Association with this report. We welcome any questions that you may have regarding our findings.

TIMING CONSIDERATIONS

This item is not time sensitive.

FISCAL IMPACT

Implementation of the attached recommendations would result in the direct recovery of approximately \$37,000. Clarification of contractual responsibilities may result in additional revenues that would otherwise not be realized. Additionally, implementation of other recommendations in the report (such as better tracking City staff time dedicated to Sea Festival) may result in greater control of these costs, as well as increased cost recoveries.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in cursive script that reads "Laura L. Doud".

LAURA L. DOUD, CPA
CITY AUDITOR

Attachment

**City of Long Beach
Office of the City Auditor**

Contract Performance Audit
Long Beach Sea Festival Association

February 27, 2008

SJOBORG EVASIENK
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Executive Summary

For more than 50 years, the City of Long Beach has hosted a series of summer community events along its waterfront known as Sea Festival. The responsibility for the coordination and administration of these events has varied over the decades, with the City Department of Parks, Recreation, and Marine taking on the oversight in the late 1970s. Seeing the decline in community interest as well as number quality of events, in 2004, the City investigated the concept of outsourcing the Sea Festival to a not-for-profit entity to create a public-private partnership to rebuild the Sea Festival and assist the City in becoming a leading summer tourism destination. In 2006, the City executed a 5-year contract with the newly formed Sea Festival Association (Association), a non-profit entity with goals to revitalize the Sea Festival and promote the City's "brand" through increased visibility, generation of sponsorships, and enhancement of the quality and variety of festival events.

This contract performance audit of the Association to assess its performance and fulfillment of its agreements with the City included the calendar year 2006—essentially the first complete year of administering the Sea Festival—and the first nine months of calendar year 2007 reflecting partial results of that summer season. During this period, the Association demonstrated considerable progress, including:

- Increasing the number of discrete events from 29 in the summer of 2005 to 43 events in 2006, and 54 events in 2007. Many of these events ran full weekends and several, such as the municipal band concerts and Moonlight Movies on the Beach, occurred multiple times over the summers. The 2007 season brought the addition of several high profile events including 6 different Sinjin Beach Volleyball events, Pacific Open Water Challenge and Pacific 5K Run, AVP Pro Volleyball, the Long Beach Cajun Festival, and the Crawfish Festival.
- Successfully securing key private sponsors of the Sea Festival such as Charter Communications, CMA/TranSystems, Home Depot, Coca Cola, and St. Mary Medical Center, as well as in-kind contributors such as Powerboat Magazine and the Press Telegram.
- Increasing sponsorship dollars boosted Association revenues each year and decreased the Association's reliance on City department sponsorships. In 2006 public and private sponsorships comprised 96.6 percent of the total revenues with City departments contributing nearly 57.5 percent of these funds. While 2007 financial data are incomplete, figures through September 30, 2007 reflect a 3.1 percent increase in sponsorship dollars with City department contributions comprising approximately 48.7 percent of the total sponsorship contributions.
- Developing relationships with private event operators with the goal of all event operators "joining" the Sea Festival through formal sanction agreements. While only one operator executed an agreement with the Association in 2006, we identified 14 executed agreements and the Association asserted that 24 operators have signed for the 2007 season.

The general economic impact to the City of Long Beach of the Sea Festival in 2007 under the outsourced management model will not be known until the study currently underway by a contracted university professor is complete. However, the addition of the new high-profile events and the increase of event days by one-third suggest positive results as do anecdotal reports by event operators of increased attendance at many events. While data are not available to assess the results from the 2006 season, using unverified attendance figures provided by the Association for all the events and applying one of the many generally accepted industry multipliers for assessing economic impact to local governments, estimates suggest that the 2006 Sea Festival may have generated from \$513,000 to \$950,000 of benefit to the local business and City economy. The 2007 season attendance figures are not yet available, but if data provided by the Association for hotel nights booked—one of the typical indicators of economic impact is used, the 1,596 room nights that directly related to Sea Festival events suggest the direct economic impact to the City related to lodging alone could be as high as \$350,000.

As a confederation of public and private events, the financial successes or losses of individual Sea Festival events rest with the specific event operators and, as a result, the Association has no part in the profit or loss of such events. Under the current contractual agreement between the City and the Association, and reflected in the current business model, the Association generates revenues from event operators only in sanction fees (typically \$250 per event with a few exceptions that would generate \$2,000 per event) and official supplier or merchandising commissions, if the event operators choose to use those vendors. While these revenues represent less than 10 percent of total revenues in 2006 as well as in 2007, data reflects growth—in 2006, sanction fees generated about \$1,730; however, financial information through three-quarters of the 2007 year shows a marked increase for these fees of over \$6,250.

Through its permit process, the City is the entity that contracts directly with the private event operators allowing the use of public facilities and land and holds the responsibility to ensure public health and safety. Typically, when an event constitutes the need for a permit, the City assesses a permit fee ranging from \$175 to \$350. However, under provisions of the City's contract with the Association, the City has waived the permit administration fees for Sea Festival event sponsors. We estimate a loss of City revenues from the waiver of these fees to be as high as \$17,000 for 2006, and approximately \$19,500 for 2007. Further, through the permit process, the City can recover from event operators the incremental costs of providing the needed City services for the event; yet, of the 24 events with permits for 2006, only 5 included incremental costs. It is unclear whether additional costs were incurred and not captured or whether the City deems it in the best interest of the public to provide these services at no additional charge to the operators.

It is early in the term of the City's 5-year contract with the Association to make a credible assessment of the actual cost/benefit to the City. The contract requires that the Association pay the City annually a portion of its gross revenues. City and Association officials indicate that this annual payment is intended to offset the loss of permit fees, recover costs of additional City resources used to support Sea Festival events not

otherwise recovered, and to generally support the City. Although the Association's financial reporting year is on the calendar basis intended to include all operations related to an entire Sea Festival cycle, the City established the reporting on a fiscal year basis—thus, straddling the Sea Festival seasons. Under contract provisions, the first year of operations would end June 30, 2007; thus, the first reporting period is December 2007. However, the Association contends that the intent of the agreement with the City was for the first year of operations to end in December 2006. The former City Manager and Officials of the Department of Parks, Recreation and Marine informed us that the City Council waived the Association's revenue sharing payment for the first operating year, although we did not find any records of City Council's resolution to support this decision. Depending upon the calculation method employed, the amount of revenue sharing fee waived by the City for the 2006 calendar year could total up to \$37,000. The Association asserts that the second year of its Sea Festival operations ended in December 2007 and believes it fulfilled the intent of the agreement by submitting the Year 2 payment of \$32,177 to the City on December 1, 2007.

Moreover, in relation as related to the annual liability to the City, we noted that the contract includes several other provisions that warrant review and clarification. For example:

- Insufficient guidance exists for the accurate determination of “gross revenues” used as the basis for the annual payment to the City. Specifically, the contract lacks the specificity of the treatment of revenues related to Association-operated events, particularly the allocation of sponsorships provided for multiple purposes and events and the implications of event costs exceeding related revenues; and
- Priority of liability payments particularly in the event that the Association lacks the resources to pay the City's annual liability. In calendar years 2005 and 2006, the Association ended the years in a deficit position without having to consider a City payment.

Further, the contract provision related to the Association's monitoring and oversight of private event operators could be problematic without the Association having authority over these private event operators via an executed sanction agreement. Only those event operators who choose to sign stipulation agreements appear to be subject to such oversight by the Association.

During the course of our audit we observed some matters that not only may apply to Sea Festival events, but also to other events held over the course of a year by private event operators on City property. We understand that the private-public relationship between the City and the Association is essential to meeting the mutual goals of marketing the City and attracting visitors, bringing quality events to City residents, and boosting economic benefits. Yet, we observed certain matters in the City's relationship with private parties, including the Association, that warrant City deliberation. Specifically, we found that the City may not be identifying and recovering all incremental costs attributable to privately held events. Through the permitting process, City departments such as Police and Fire, for example, in conjunction with event operators, identify any

incremental costs and forward the billing information to the Office of Special Events and Filming (OSEF) at the Department of Parks, Recreation and Marine. The OSEF prepares an invoice and sends it to the event operator for reimbursement. While a few permit files we reviewed included incremental cost estimates, many did not—we are told that there may be instances where the City departments incurred additional costs attributable to special events, but did not invoice operators for these costs. The scope of our audit did not include auditing the City’s operations or activities related to cost recovery. Nonetheless, we believe the City should determine at what point City services provided to support privately-held events should be captured and billed back to the operators versus conditions where these City activities are considered an integral part of general operations in fulfilling the departmental missions and, thus, in the best interest of the public not to attempt to recover such costs. Further, we found that the City lacks specific policy, procedure, and guidance for City employee activities related to soliciting sponsorships and contributions for events held under the Sea Festival umbrella as well as those conducted by the City and other private event operators during the entire year.

Introduction

For more than 50 years, the City of Long Beach has hosted Sea Festival—a series of free and fee-based community events that take place along the waterfront every summer season. For decades, these events were organized by various City of Long Beach departments—specifically, the Department of Parks, Recreation and Marine and the Long Beach Convention and Visitor’s Bureau. While many events included within the Sea Festival were part of the Department of Parks, Recreation, and Marine program, many others were conducted by various non-City entities, including private and non-profit organizations. In the early years, the Sea Festival featured numerous community events such as swimming, sailing, and sandcastle building activities, and later became known for its Dragon Boat and Cracker Box boat races. In the early 1970’s, while operating under the purview of the City Convention and Visitors Bureau Center, the Sea Festival expanded to include high profile aeronautical demonstrations over the ocean and within the breakwater.

During the 1980’s, then known as “Sea Fest,” more events were added including Department of Parks, Recreation, and Marine summer activities such as community swimming events, sailing, diving, and model boat building plus additions of a sand castle competition and offshore Power Boat Race. In the 1990’s, the oversight of the Sea Festival was again transferred back to the Department of Parks, Recreation and Marine and, by the year 2000, the Sea Festival included over 25 different events including those held on the beach, Marine Stadium, Belmont Plaza Pool, and various Marinas. However, according to Long Beach City officials, the City’s organizational and financial support for the Sea Festival events waned over the years, and in 2004, the City began looking for ways to revitalize the summer-long event season.

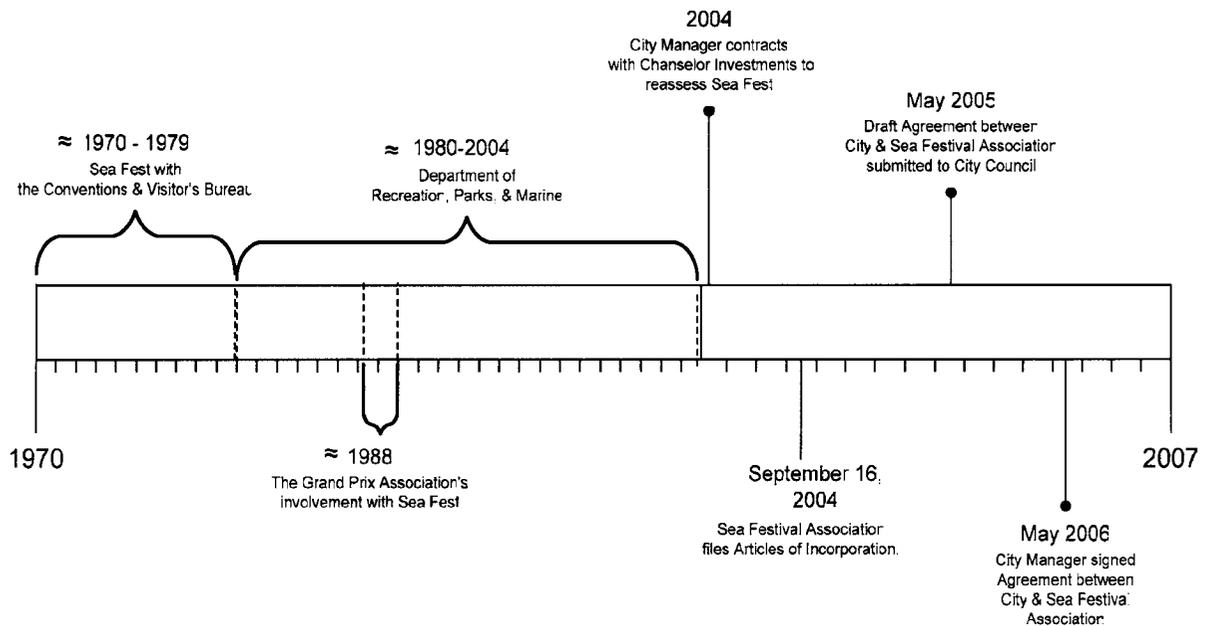
The International Sea Festival Association

In 2004, the City Manager entered into an agreement with an independent contractor, Chanselor Investments/MDI Inc., for a study to evaluate the Sea Festival activities and to evaluate a business model whereby the City partners with local businesses to leverage interests and resources as well as deliver greater value to the community through corporate sponsorships and increased event involvement and participation. As part of the consulting engagement, in May 2005, the City Manager was presented a plan outlining the impetus for the Sea Festival Association—a non-profit corporation—as a vehicle to facilitate the public-private partnership between the City and the business community with a goal to revitalize the Sea Festival program, increase community involvement and participation, and “brand” Long Beach as a leading summer tourism destination.

The Association was formed in 2004 with a vision to promote individual community events under one umbrella and brand name—the Sea Festival. Charged with “creating” a spectacular water-oriented Festival for the benefit of Event Operators, Sponsors, and the Community, both residential and business,” additionally, one of the main goals of the Association is to develop an effective marketing campaign for the Sea Festival in such a

way as to stimulate the City economy by generating revenues for the local retail and hospitality industry.

Figure 1. Sea Festival History Timeline



Under the consulting services contract with the City, Chanselor Investments, MDI, Inc.'s Chris Pook assumed responsibilities for marketing and developing the Sea Festival program for the 2005 season. The Association, headed by Chris Pook as the Executive Director, filed Articles of Incorporation with the California Secretary of State on September 16, 2004, and began its' operation in 2005; however, due to unexpected delays, the sole-source five-year contract with the City was not executed until May 2006. According to the City Manager, the sole-source agreement was justified based on the presentation Chris Pook made to the City Council under the previous consulting engagement, his reputation as the successful founder of the Grand Prix Association in Long Beach, and his long-term vision to "reenergize the program" and develop a stronger Long Beach business community.

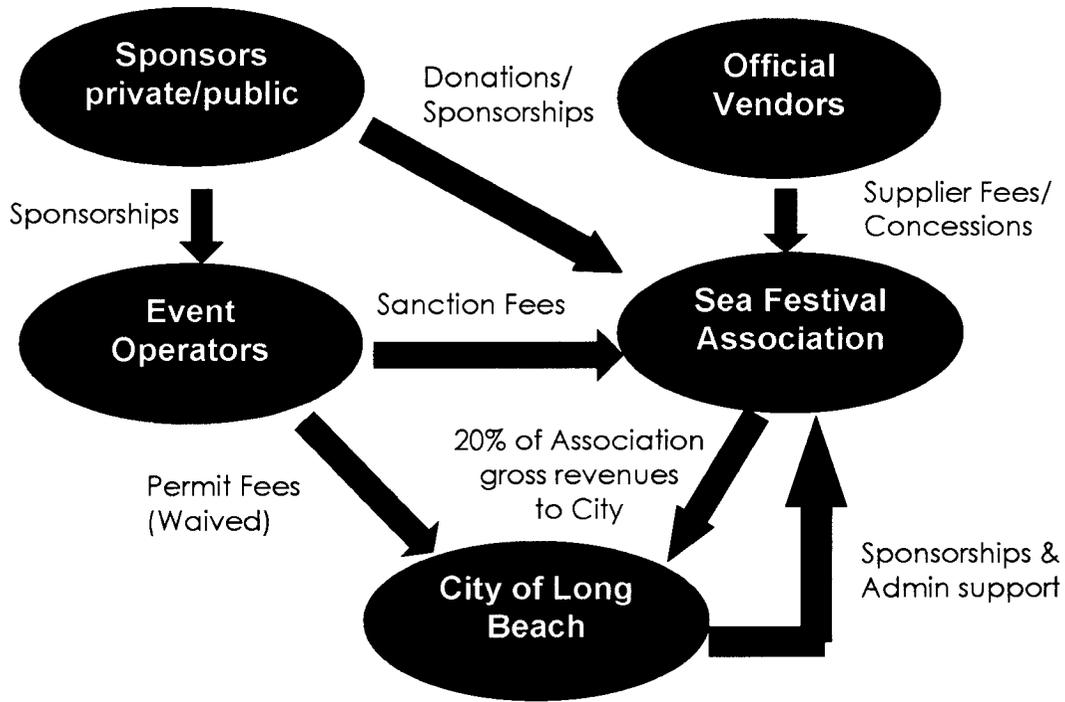
The Association's corporate by-laws allow for a Board of Directors with at least 7 and no more than 13 members. As of the Board meeting on June 14, 2007, the Board is comprised of 13 members—9 with voting rights and 4 others with non-voting, ex-officio status. Board members include 4 community members, 4 City commissioners, 4 City employees, and the Association executive director. Board members do not receive compensation for serving as directors; however, they may receive reimbursement of expenses relating to the Association's activities. Table 1 provides a listing of the members of the Association Board of Directors as of June 2007.

**Table 1. Listing of Board of Directors – Sea Festival Association
 as of June 2007**

#	Name	Position	Affiliations
1	Valerie deMartino	Director	Law Offices of V. DeMartino
2	Matt Kinley	Director	Tredway, Lumsdaine & Doyle, LLP
3	Chris Kozaites	Director	President of Partners for Parks
4	Dennis Lord	Director/Vice President	Los Angeles County Airport Commission; Manager of Public Affairs for Smptra
5	Richard Miller	Director	Marine Advisory Commission; former Manager of the Long Beach Marine Bureau
6	David Murray	Director/Chief Financial Officer	Murray and Marek, LLP, CPA
7	Chris Pook	Executive Director	Chanslor Investments/MDI Inc.
8	Drew Satariano	Director/President	Parks & Recreation Commission; Wachovia Securities; Long Beach Yacht Club
9	Tom Shadden	Director	Smith Barney; Long Beach Yacht Club
10	Gregg Whelan	Director	Long Beach Strategic Marketing, Inc.; Senior VP of Wachovia Securities
11	David Ashman	Ex Officio member	Department of Parks, Recreation and Marine, Special Events and Filming
12	Reggie Harrison	Ex Officio member	City of Long Beach (Deputy City Manager)
13	Phil Hester	Ex Officio member	Department of Parks, Recreation and Marine

The Sea Festival environment is a complex relationship of public and private entities. Understanding the relationships among the various parties is key to comprehending the operations and role of the Association. Figure 2 illustrates the relationship between the Association and the various parties associated with the Sea Festival.

Figure 2. Sea Festival Association Related Parties



The key concept behind the Sea Festival Association is to attract the help and support of business sponsors and private donors to play a vital role in improving the economy of the City as a whole. According to the Association’s Board of Directors, the Sea Festival is a public and private partnership based on similar program models existing in other coastal cities throughout the United States. For example, in Seattle, Washington, the SeaFair Festival includes community events that are managed and promoted by both private and public sectors.

Scope and Methodology

The main objective of this audit was to assess the performance of the Association in terms of fulfilling the City's intent and anticipated deliverables under the existing agreement between the City and the Association. To meet the audit objective, we performed the following procedures, including:

- Reviewed the existing contract between the City and the Association;
- Obtained an understanding of the Association's structure and operations to deliver the services and achieve the objectives of its agreement with the City through the review of documents and conduct of interviews;
- Conducted interviews and analyzed documents to gain an understanding of responsibilities, relationships, purposes, structure, activities, or contacts that the Association has in place with various parties, committees, and entities;
- Obtained a history of the Association and its involvement with the City or any other entities;
- Used verbal and documentary evidence to obtain an understanding of the Association's strategic approach to achieving the intent of the contract and the City's goals;
- Reviewed the Association's financial records and the applicable filings with the Internal Revenue Service (IRS), and traced the records, where appropriate, to the source documents;
- Identified Sea Festival funding sources, collections, and expenditures;
- Assessed the Association's approach and results related to obtaining sponsorships, contributions and donations from City entities, private parties (including corporate), and other sources;
- Interviewed stakeholders including event operators, event vendors, event sponsors, and other parties;
- Identified the City's involvement in the Sea Festival events, including but not limited to the City's efforts to organize, coordinate, and manage event activities;
- Reviewed the contract between the City and the Association to identify the costs and revenues of Sea Festival program, as they relate to the respective parties of the agreement;
- Assessed the Association's compliance with provisions of the contract;

- Reviewed the required permits, licenses, and contracts related to Sea Festival events for 2006 and 2007;
- Ascertained whether the Association has made progress in achieving the City's expectations and fulfilling the intent of the contract; and
- Reviewed the City contract with the Association to identify the key operational as well as strategic issues relating to the Association, and whether the provisions reflect the City's interests.

The scope of this audit included reviewing financial data of the Association relating to its operations since inception through September 30, 2007. However, we did not perform audit tests or methodologies of the Association's books or financial statements sufficient for a financial audit, review, or compilation for any period within the scope of our performance audit. Financial information related to the Association's payment to the City was received after the completion of fieldwork and was included for context, but was not audited to determine accuracy or compliance with the City contract provision.

We conducted this performance audit in accordance with generally accepted government auditing standards. We limited our review and analyses to those areas described in the Scope and Methodology section of the report. The audit issues resulting from these analyses were presented and discussed with Association management prior to completion of the audit fieldwork.

Audit Results

Early Indicators Reflect Some Positive Results

The non-profit Sea Festival Association (Association) commenced operations in 2005 and focused its attention on revitalizing the Sea Festival. Due to unexpected delays, the contract between the Association and the City was not executed until May 2006. In the months since commencing its responsibilities for Sea Festival, the Association has made considerable progress including:

- Increasing the number of discrete events from 29 in the summer of 2005 to 43 individual events in 2006, and 54 events in 2007. 43 separate title events held in 2006 translate into over 100 calendar day events and events that have multiple activity components. 54 separate title events held in 2007 translate into over 150 calendar day events and events that have multiple activity components such as a Crawfish festival, including a food fair and dinner event. Many events ran full weekends and several, such as *Municipal Band Concerts* and *Moonlight Movies on the Beach*, occurring multiple times over the summer. The 2007 season saw the addition of a number of high profile events such as AVP Volleyball, 6 different Sinjin Beach Volleyball events, Pacific Open Water Challenge and 5K run, and Long Beach Bayou Festival.
- Increasing sponsorships boosted Association revenues in 2006 with public and private sponsors providing 96.6 percent of the \$224,400 in total revenues. City departments provided over 57.5 percent of these sponsorship dollars. While financial information for 2007 is incomplete, figures through September 30, 2007 reflect sponsorship revenues of over \$228,050 with total revenues of over \$243,000. With a 3.1 percent increase in sponsorship dollars for 2007, the support from City departments lessens to approximately 48.7 percent of total sponsorship funds.
- Securing key private sponsors for the Sea Festival including Charter Communications, CMA/TranSystems, Home Depot, Coca Cola, and St. Mary Medical Center. These sponsors and other donors reflect early success in the Association's goal to steadily increase sponsorship support while decreasing reliance on City department contributions.
- Developing relationships with the private event operators with the goal that each "join" the Sea Festival through formal sanction agreements. These agreements include provisions addressing event quality, advertising, vendor selection, marketing, and compliance with City rules as well as a small sanction fee. In 2006, only one operator signed a sanction agreement; but in 2007, at least 14 of the 32 private event operators signed on with the Association.
- Eight of the nine event operators responding to our surveys and phone calls view the Association's efforts as vastly improving the overall coordination, marketing, visibility, quality, and attendance of Sea Festival events.

Moreover, according to the Association, events held during 2006 generated significant media attention including print media and local and nationwide television. While the Association's objective for the 2006 season was to increase awareness of the Sea Festival through more media and publications, the goal for the 2007 season was to expand the marketing and advertising coverage for the Sea Fest. For 2007, the Association believes this exposure has increased, with print advertising in eight publications promoting over 92 individual events and the Volleyball Tournament receiving three hours of national event coverage.

Number of Events Have Steadily Increased and Festival Visibility Improved

Over the years, a number of events historically associated with the Sea Festival have come and gone. With the change in events, the Festival has also experienced fluctuations in interest and publicity. Both of these factors can be used to assess the Association's progress in building Sea Festival and promoting the City. Under provisions of the contract with the City, Sea Festival events are classified into three categories:

- "Level One" described as basic community events and activities that are free to the public. The vast majority of these events have been organized by Long Beach City departments for many years prior to the inception of the Association.
- "Level Two" considered community events and activities that are intended to attract visitors and tourists to Long Beach. The participation in these events typically involves a small fee—the Mayor's Cup, Dragon Boat Festival, and Long Beach Sprint Nationals Circle Boats are examples of Level Two events.
- "Level Three" events are larger and designed to attract out-of-town and out-of-the-area visitors. Often, Level Three events include admission fees and are expected to generate revenue to the operators, the Association, and the City. Examples of Level Three events are the AVP Pro Beach Volleyball, the Corporate Beach Volleyball and 4th of July Festival.

To assess the Association's impact on the number of offerings under the Sea Festival umbrella, we used the 2005 summer season as a base year for comparative purposes. In 2005, Sea Festival included 29 discrete events covering approximately 78 event days with the number of events rising to 43 with over 100 event days in 2006. The 2007 season included 54 events comprising over 150 days.

Specifically, during the 2005 summer season, approximately 22 events were categorized as community events while 7 others were considered high profile, operated by private entities. The next season in 2006 season included 43 discrete events, however, not all the events initiated that year were continued in 2007. For example, two Level Two and Three events—The Beach Triathlon Continental Cup and I-14 U.S National Sailing Championship—were held in 2006, but not repeated in 2007:

However, some previously eliminated Level One community events were reinstated in 2006, including:

- *The Great Long Beach Treasure Hunt*
- *The 75th Anniversary Power Boat Race*
- *Wooden Boat Regatta*

For the 2007 season, the Association added a number of events classified as Level Two and Level Three, including:

- *Long Beach Bayou Festival*
- *AVP Volleyball*—a week long beach tournament showcasing the nation’s top beach volleyball players
- *Six Sinjin Beach Volleyball Challenges* including corporate and collegiate players
- *9th Annual Shakespeare Festival*
- *Pacific Open Water Challenge and 5K run*—including various length open water swims, a 5K run, Aquathon and Kayak/Paddleboard races and the Canine Splash and Dash (a 100 yard swim and a 1 ½ mile run with your dog)
- *Crawfish Festival*—featuring Louisiana musicians, dance band, and cooked crawfish

Since its inception, the Association envisioned that its operations would leverage the essential partnership opportunity between the public and private sector and develop the Sea Festival program as a driving force for increasing economic and branding opportunities for the City of Long Beach as a whole. Thus, it was envisioned that through strategic marketing and generation of publicity, the Sea Festival events would contribute to the City by gathering crowds of spectators and participants to a variety of events that would evolve to make Long Beach a national destination summer destination. Generally, the Association appears to have influenced publicity and advertising of the Sea Festival, specifically, for 2006:

- Events were advertised in four local publications, including the Press-Telegram, Grunion Gazette, Long Beach Business Journal, and Destinations Magazine.
- Television coverage was provided for eight of the Sea Festival events on Long Beach Channel 8, four Los Angeles network television stations including CBS, NBC, ABC, and FOX.

The Association believes these advertising efforts provided exposure not only for the Sea Festival events, but for the City of Long Beach as well. At the end of the 2006 Sea Festival season, the Association’s Executive Director stated that one of the Association’s goals for the following year would be to increase publicity and advertising for the Sea Festival. In the 2007 season, the Association facilitated print advertising for 92 separate calendar day events and television advertising for 24 events. Further, one of the Sea Festival’s major sponsors, Charter Communications, promoted Sea Festival events on a Southern California television news station on 23 different occasions.

Economic Impact Not Yet Determined, but Likely to Show Positive Returns to the City

In its report to the City for the 2006 Sea Festival season, the Association estimated attendance for the summer-long festival to be approximately 190,000 people. The Association obtained these figures from its event operators and vendors. Attendance at individual events generally also impacts the City in a broader sense. Depending upon the particular event, attendees may eat at local restaurants, shop at retail establishments, stay in nearby hotels, or engage in other activities outside the event venue that not only generate revenue for local businesses, but also sales and occupancy taxes for the City. Although the Association did not collect the requisite data for the 2006 season to accurately assess the economic impact to the community, applying one of the many types of industry economic impact factors, it can be projected that Festival attendees may have spent from approximately \$513,000 to \$950,000 in 2006 as a result of the various events.

The 2006 economic impact calculation is an imprecise estimate generated based on reports of approximately 190,000 attendees (a figure provided to the Association through its event operators) and applying a general economic impact factor of \$5 per person. This figure—provided by the Department of Parks, Recreation, and Marine as conveyed by the Southern California Agency of Governments—is just one multiplier that can be used in general socio-economic studies. We found other general factors for outdoor and sporting events for various out-of-state locales ranging from \$2.75 to \$3.50 per attendee. These various multipliers anticipate that, when averaged, each attendee will spend from \$2.75 to \$5.00 to buy drinks, snacks, meals, or souvenirs.

Specific attendance numbers were not yet available to us for the 2007 Sea Festival season and, thus, we did not estimate an attendance-based economic projection for the year. However, another indicator of economic impact is a count of hotel room nights sold. Although our fieldwork ended before the completion of the 2007 season, we have anecdotal information relative to room nights that can be used to estimate one aspect of the Sea Festival's benefit to the City. Specifically, Global Events Solutions Inc. entered into an agreement with the Association to be the "official" agent for booking hotel accommodations associated with Sea Festival. Information provided by the Association for the 2007 season-to-date states that approximately 779 room nights were booked through Global Events Solutions. In addition to these room nights, the Association reports that the Transpac *Morning Light* event bought another 697 room nights and the *Mayor's Cup* generated an additional 120 room nights. Using an average cost of hotel room night of \$102 per person in the Long Beach Area¹, the gross hotel sales generated from these 1,596 Sea Festival-related nights is about \$162,800—this revenue in turn generates transient occupancy tax² revenue to the City of \$19,535. Further, to determine

¹ Room rates per night are based on average room rate reported for 2000 in "the Economic Impact of Overnight Visitors in the Long Beach Economy" prepared for the Long Beach Area Convention and Visitors Bureau in April 2003

² Transient Occupancy Tax of 12% is imposed on all hotel rooms in accordance with the Long Beach Municipal Codes 3.64.030 and 3.64.035

the hotel stay impact on the general City economy, we used the IMPLAN³ model that applies industry multipliers to estimate the total economic impact in a region relative to business sales, labor income, and jobs in the region based on hotel nights. Specifically, applying the hotel/motel industry factor⁴, Sea Festival hotel nights generated approximately \$345,000 in economic value to the City of Long Beach. As our field work concluded before the end of the 2007 season, we could not assess the overall implications to the economy of the Sea Festival. However, we are told that the Association engaged an outside consultant to perform an economic impact study for the 2007 season.

The Association's Structure and Relationship with Stakeholders Needs to Be Clarified

Historically, Sea Festival events were operated by various public and private organizations and, over the years, the Sea Festival had become a loose confederation of summer events. Under its current contract, the Association was tasked to coordinate and promote all of these events as one brand, under one name—the Sea Festival. Further, the plan is to apply a business approach and create partnerships among the Association, City departments, event operators, and private sponsors with a goal to raise the City's profile and increase the economic benefit for the City of Long Beach, business, and community at large.

The concept was for the Association to administer the Sea Festival overall providing not only marketing, advertising, and scheduling, but also working on enhancing individual event quality as well as attract new events to the Long Beach waterfront. Under this model, actual events continue to be organized and operated by private event operations and City departments (in many cases, the Department of Parks, Recreation and Marine) and the Association provides coordination and facilitation for these events. Specifically, of the 54 separate events occurring during the 2007 season, 43 were operated by private event operators (businesses, as well as non-profit entities) including the events that were operated by the Association, including Mayor's Cup and Classic Boat and Yacht Festival and 11 were operated by the Department of Parks, Recreation and Marine and other city departments.

Therefore, it is important to note that the vast majority of events are controlled and operated by event operators separate from the Association and, as such, revenues and profits from those events are also outside the Association's purview and control. Accordingly, fiscal data related to privately-operated events are not included in the Association's financial operations or records. Moreover, sponsorships or contributions obtained directly by event operators are also separate from the Association. For instance, the *Bayou Festival* is organized by Comprehensive Child Development—a non-profit organization whose goal is to raise funds for childcare services for low-income families

³ IMPLAN (IMPact analysis for PLANning techniques) is a national corporation that provides economic impact analysis using input-output models in attempt to measure influence on regional and local economies for a particular industry sector

⁴ Hotel/motel room night factor is 2.12 based on the IMPLAN multiplier for hotels

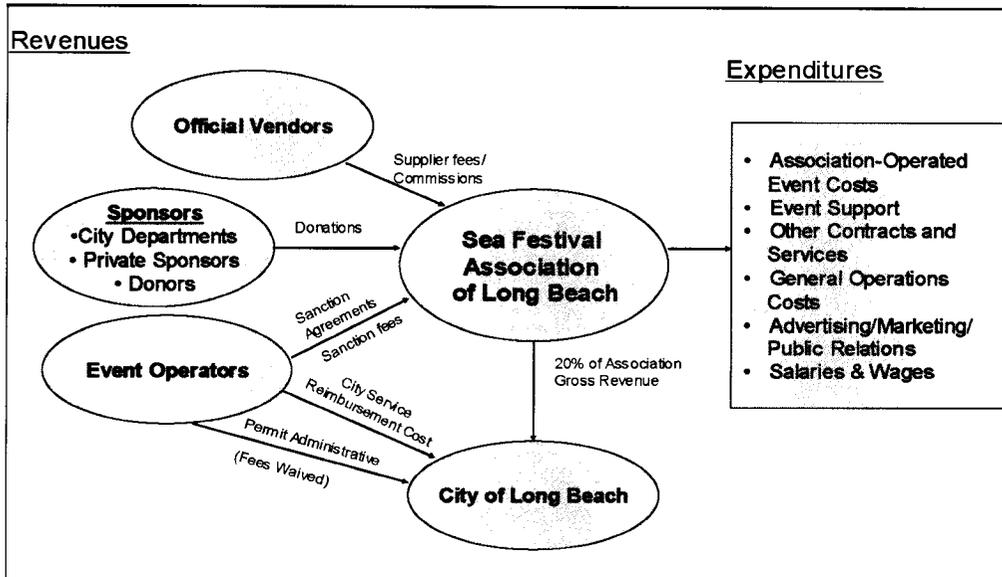
by hosting the *Bayou Festival*. Although it is a part of the Sea Festival program, Comprehensive Child Development solicits and receives sponsorships, including monetary and in-kind donations, which go directly to the event operator and have no effect on the Sea Festival Association's financial position.

To fully understand the Association's operational environment, we identified the following key stakeholders in the Sea Festival event program:

- **Event Operators** – private or public entities that plan and carry out events on City property. Event operators are responsible for obtaining permits from the Office of Special Events and Filming (OSEF) at the Department of Parks, Recreation and Marine. However, the Association is seeking to execute “sanction agreements” with each private event operator that will require an annual payment in the form of a sanction fee to the Association.
- **Official Suppliers or Vendors** – pre-selected vendors who contract with the Association for the privilege of being a preferred vendor. Event operators are encouraged to use the official suppliers for their events. If event operators use the official suppliers, the suppliers are required to pay a commission/supplier fee to the Association based upon total sales; in some cases, the supplier must also pay a fee back to the event operator. In return for signing the official supplier agreement, the Association places “official supplier” banners at events and advertises the vendor in Sea Festival communications.
- **Event Sponsors** – private or public entities contributing funds or other forms of support, such as non-cash donations of products or services, to event operators for specific events or directly to the Association.
- **City Departments** – City departments that act as an event operator as part of Sea Festival program; however, they are not required to obtain a City permit or requested to sign a sanction agreement.
- **City Sponsors** – City departments that act as event sponsors and provide monetary or other support and contributions directly to the Association.

Figure 3 illustrates the relationship between the parties involved in the Association's operations.

Figure 3. Key Parties Involved in the Sea Festival Association’s Operations



Of the 54 Sea Festival events held in the 2007 season, 11 events were coordinated, organized and financed through the City Department of Parks, Recreation, and Marine, or from other City funding and grants. Historically, these events have been presented by the City as part of the community-wide array of activities such as the *Citywide Beach Days*, *Novice Swim Meet*, *Novice Dive Meet*, *Model Sail Boat Regatta*, and multiple *Long Beach Municipal Band Concerts*, among other events. Generally, when the City is the operator of these Sea Festival events, the City incurs all the costs associated with the events, including the coordination, advertising, public outreach, event management, and close out.

The intent of the Association’s contract with the City is that all event operators including City departments, benefit from the Association’s involvement in the Sea Festival from its marketing, advertising, and coordination efforts. It appears, however, that the Association is not obligated to carry the burden of costs associated with specific events—unless it acts as an event operator—in which case it has a defined responsibility over the event management as prescribed through the City permit process.

Revenues from Sponsorships Appear to be Growing

The vast majority of the Association’s revenues are generated from sponsorships obtained from business, City departments, and private donors. In addition, the Association generates a small portion of its total revenues from sanction fees and official vendor fees and commissions. These fees are imposed by the Association on those event operators and vendors choosing to formally become part of the Sea Festival program—or, in essence obtaining a Sea Festival Association licensee. The Association’s operational

business plan is premised on attracting corporate and business sponsors as long-term supporters of the Sea Festival overall and to reduce the reliance on resources from City departments.

The Association indicated to us that its early goals were to attract sponsors in four levels, with the higher level sponsors signing on for 3 to 5 years. To achieve this goal, it developed a sponsorship commitment plan that offers presenting sponsor, associate sponsor, and general sponsor titles. Target group sponsors would be tiered and range in dollar contribution level for a set number of years ranging from \$25,000 to \$150,000. The Association also set out plans to sign a corporate sponsor and event operator for the *Mayor's Cup*, an event for which the Association currently acts as event operator.

As reflected in Table 2, the Association has made some progress in the sponsorship area. In 2007, the Association signed Charter Communications as its "Title Sponsor" for a 3-year period and attracted other key sponsors as well. St. Mary Medical Center has provided significant support for the past two seasons as the presenting sponsor of the *Mayor's Cup*; Transystems and ShoreMaster are presenting sponsors of the *Classic Boat and Yacht Festival*; and Home Depot supports the *Great Sand Sculpture Contest*. Many sponsors target key events, but also provide financial and other support for the Festival overall. For example, beginning with the 2007 season, Powerboat Magazine is a presenting sponsor for the *Catalina Offshore Powerfest* and will provide a variety of advertising and print coverage of the event and Sea Festival over a 3-year period.

Table 2. Private Sponsors 2005-2007

Private Sponsor Name	2005	2006	2007
Beach Business Bank		✓	
Charter Communication			✓
CMA/Transystems		✓	✓
Coca-Cola		✓	✓
Colonial Yacht Anchorage		✓	
DLBA			✓
Home Depot		✓	✓
Long Beach Light and Power	✓		
Powerboat Magazines			✓
ShoreMaster, Inc.		✓	✓
St. Mary Medical Center		✓	✓
St. Mary's Foundation	✓	✓	
Tetra Tech, Inc.		✓	
Total Private Sponsors/Donors	\$28,000	\$94,000	\$117,000

*Note: Due to confidentiality agreements, details of amounts are omitted.

City departments continue to provide considerable financial support to the Sea Festival. Over the years, several City departments have provided financial support to specific Sea Festival events—typically those whose theme directly relates to the department’s mission. For example, the Long Beach Airport is a presenting sponsor of the *Capture the Wind Festival* and is also an associate sponsor of the Sea Festival overall; the Long Beach Environmental Services Bureau is a presenting sponsor of the *Independence from Litter Day* and *Dog Days of August Beach Clean-up*, as well as participates in other festival occasions as opportunities to educate the public about environmental matter. Similarly, the Long Beach Department of Parks, Recreation, and Marine not only is a key partner with the Association on numerous City-operated events, but is also a financial sponsor. Further, the Port of Long Beach sponsors the *4th of July Festival* and *Mayor’s Cup* as well as provides general support of the Sea Festival. The Port of Long Beach also is the “Host Departure City” for the *Transpac Yacht Race* viewing the festival as an opportunity to promote its “Green Port” program and to demonstrate its commitment as a responsible neighbor.

Table 3. City Department Sponsorships by Year

Sponsor Name	2005	2006	2007 thru 9/30/07
City Departments:			
City of Long Beach	\$25,000	\$12,500	\$1,300
Long Beach Airport	\$0	\$19,750	\$19,750
Long Beach Dept. of Energy	\$10,000	\$0	\$0
Long Beach Dept. of Water	\$0	\$10,000	\$0
Long Beach Environmental Services	\$0	\$12,500	\$15,000
Long Beach Gas and Oil	\$0	\$10,000	\$0
Long Beach Parks & Recreation	\$0	\$27,500	\$25,000
Port of Long Beach	\$0	\$35,000	\$50,000
Total City Departments	\$35,000	\$127,250	\$111,050

Source: Unaudited financial records of the Association for 2005, 2006 and calendar year 2007 through September 30.

Other City departments have provided support over the years, but as Table 3 conveys, several no longer provide financial assistance, including the City’s Department of Energy, Department of Water, and Gas and Oil. We are told by the on-going City department sponsors that funds provided to the Association are special funds earmarked for community outreach projects, such as Sea Festival, and are not City operating funds. For example, Tidelands Trust Funds are used by The Port of Long Beach for its sponsorship of Sea Festival, but these funds have restricted use under California Law, and may be used only for the promotion and accommodation of maritime commerce, navigation, and fishery of tidelands. Similarly, the Department of Environmental Services reportedly uses State recycling monies for its community outreach and education programs that include sponsoring and contributing to events related to Sea Festival.

In 2005, about 56 percent of the \$63,000 in total sponsorship dollars were generated from the City departments. This remained fairly constant in 2006 at 57.5 percent of the \$221,250 total sponsorship amount that came from the City. Private sponsorship increased during 2007, and through September 30, 2007, City department sponsorships decreased to about 48.7 percent of all sponsorships. Our review of the Association financial records show that sponsorships generated from private sources grew significantly between the 2005 and 2007 event seasons as shown below:

**Sources of Sponsorships
2005, 2006, and 2007**

Season (Calendar Year)	Private Sponsors/ Donations	City Sponsors	Total Sponsorships
2005	\$ 28,000	\$ 35,000	\$ 63,000
2006	\$ 94,000	\$ 127,250	\$221,250
2007 (9/30/07)	\$117,000	\$ 111,050	\$228,050

In return for sponsorships, the Association provides print and online advertising, banners display at all Sea Festival events, and other special promotional opportunities for presenting, associate, and title sponsors of the Sea Festival. Some sponsors, such as Powerboat Magazine, provide in-kind donations to Sea Festival, thus, increasing publicity and affording free advertising as part of the sponsorship agreement.

Sanction Fees Will Generate Some Revenue and Less Than Half of the Sanction Agreements Are Executed

As previously discussed, many of the events within Sea Festival are operated by private event operators. To accomplish many of the Association’s goals, it developed a standard “Sanction Agreement” that forms a contract between the event operator and the Association and entails a “sanction fee” payable to the Association. Currently, sanction fees are minimal—\$250 per event for most, but the largest events, that are expected to pay between \$1,000 and \$2,000. In total, if all private event operators executed Sanction Agreements with the Association approximately \$10,000 to \$12,000 in revenue would be generated. While only one operator executed a sanction agreement during 2006, 14 of the 32 private event operators paid sanction fees through September 30, 2007.

Historically, non-City department event operators independently managed the various community activities that were considered part of Sea Festival. However, to achieve its goals for Sea Festival, the Association intends to license or sanction each non-City run event through a master agreement, or “Sanction Agreement.” The Association believes that to make the events more cohesive, afford scheduling continuity, bring more event uniformity in terms of quality and presentation, and leverage the marketing and promotion such that the City and all the events attain maximum exposure, a contract is

needed. Specifically, the sanction agreement establishes the event operator's responsibilities and obligations with respect to the Sea Festival and gives the Association a role in overseeing and monitoring the delivery of events. With the execution of the sanction agreements between the Association and the event operators, the Association hopes to solidify the relationship with the event operator to help create uniformity and a standardized approach to event management for the Sea Festival events.

To date, entering into sanction agreements is voluntary. During our review, we found that only one operator signed an agreement that generated related fees of about \$1,750 in 2006. However, through September 30, 2007, 14 private operators paid fees, with the majority of sanction fees set at \$250, but ranging up to \$2,000—generating revenues of \$6,250. Although the Association claims that 24 operators executed sanction agreements during 2007, we viewed signed agreements for only 14 of these 24 contracts.

According to the Executive Director, the Association's goal is to have sanction agreements signed with all event operators for the 2008 season. It is our understanding, that in 2005 and 2006, the Association's priority focused on building long-term successful relationships with the event operators. The Association believed this effort would be jeopardized by bringing up sensitive issues of signing written agreements that included some control criteria and fee payment clauses. In 2007, however, the Association asserted that "the Master Sanction Agreement needs to be signed and the rules, regulations and disciplines need to be implemented." Thus far, the Association reports it has taken a soft approach in attracting event operators to formally join the Association. The main benefit of joining the Association is the marketing and advertising of the various events that can also include media coverage—thus, affording individual events and the operators public exposure to garner greater attendance and maximize business visibility. The Association expects that at some juncture, events without Association sanction agreements will not be allowed to be affiliated with the Sea Festival or its sponsors or advertisers.

We view that the task of bringing all the event operators formally under the Association's umbrella is difficult given that dozens of these events were operated for years independently by private event operators who, having worked without much interference from any party, may see little or no value from "joining" the Association and being subject to some level of control. As such, the future success with the implementation of the sanction agreements remains uncertain.

Official Supplier Commissions Will Also Generate Revenue but They Cannot be Guaranteed Exclusivity

In addition to sanction fees, the Association may generate revenues from its "Official Supplier" agreements. Under its contract with the City, the Association may designate vendors to provide goods, services, and merchandising at Sea Festival events. As such, the Association has identified and signed agreements with a number of vendors to become "Official Suppliers" for a variety of goods and services that are typically procured by event operators. In return for the "Official Supplier" status with the Sea

Festival, suppliers pay a commission to the Association whenever contracted to participate in a Sea Festival event. In the instance of food and beverage concessions, vendors also pay fees to the event operator. Thus far, these official supplier commissions represent only a small portion of Association revenues current information suggests growth in this revenue source. In 2006, the Association collected approximately \$1,500 in commissions; however, for the 2007 calendar year (through September 30, 2007) these revenues have grown to over \$6,650.

Official Suppliers for goods and services generally must pay the Association from 10 to 15 percent of the gross sales made to the event operator. Food and concession official supplier agreements require that the vendor pay commissions to the event operator based upon its gross revenues—generally 20 to 25 percent of gross revenues—and must also pay the Association a 5 percent commission. Our review found that in 2006, the Association established contractual agreements with 5 vendors to serve as Official Suppliers for Sea Festival events, and by 2007, a total of 15 vendors had signed Official Supplier agreements.

However, Official Supplier agreements may not work as intended because under contract provisions the Association cannot promise exclusivity to these vendors. During 2006, the Association's Board of Directors approved a pre-selected list of Official Suppliers and executed agreements with those vendors that imply an exclusive relationship for Sea Festival events. Agreements generally state that "In return for Official Supplier being SeaFest's **exclusive** (emphasis added) provider of products and services Official Supplier will pay SeaFest a commission of 20 percent to be calculated on gross value... of the products and services supplied to SeaFest Event Operators." The agreement further states that "SeaFest will ensure that all Event Operators... respect the Contractual relationship between SeaFest and the Official Supplier." Official Supplier agreements for food and beverages are more specific, stating "SeaFest hereby grants to Official Supplier the sole and exclusive right to manage, operate, and oversee the food and beverage services at the 2007 Sea Festival...". Both types of agreements provide accommodation for event operators who provide an "in kind product or service." Sanction agreements address this matter, as follows: "Event Operator acknowledges that in the intent of providing competitive pricing to all Sea Festival Event Operators, SeaFest has entered into certain exclusive supplier agreements with various companies to supply various products and services. Event Operator acknowledges those agreements and agrees to use those suppliers who can supply the required services and materials and are detailed in the agreement."

However, the Association's provisions citing or implying exclusivity contradict its contract with the City that states: "the Association may not promise exclusivity to these vendors." For example, while the Official Supplier agreement defines an exclusive agreement between the Sea Festival and its official vendors, the contract between the City and Association contains a clause that may directly negate exclusivity as follows:

"The Association shall have the right to designate vendors to provide goods, services, and merchandising at a sea festival provided, however, that the

Association may not promise exclusivity to these vendors where the City has an existing agreement, lease or permit for the same goods, services or merchandising at or near the sites where the Association’s vendors will be selling goods, providing services or engaged in merchandising. The Association acknowledges that the City has authorized vendors to engage in sales and services at waterfront areas and these vendors to engage in sales and service during any event or activity that is part of a sea festival.”

Further, our interviews suggest that an official relationship with the Association may not always be in vendors’ best interest. In particular, we are told that vendors not designated as “Official Suppliers” may already have relationships with event operators and would not require compliance with the “Official Supplier” provisions—specifically, paying the Association a commission, and in the case of food and beverage, paying both the Association and the event operator concession fees. Further, if the Association cannot promise exclusivity, vendors may not see the advantage to agreeing to the terms of the Association’s contract. Revenues from Official Supplier agreements could generate additional funds to the Association if event operators used Official Suppliers and if vendors with existing relationships with event operators agreed to become Official Suppliers. However, the Association’s inability to provide exclusivity may limit such revenues.

Association’s Financial Results Are Mixed

The Association operated during 2005, but was not under contract with the City during that year. The contract was ultimately executed in May 2006 with the five-year term beginning July 1, 2006. To provide full context, the Association provided us the financial information for 2005, 2006, and the first nine months of 2007. However, the Association’s financial records reflect a calendar year reporting period and do not fully segregate financial activities between particular seasons or by the City’s stated contract fiscal year. As a result, revenues and expenses reported for each calendar year may include receipts and expenses that relate to a prior or future season and will likely have somewhat different results if the Association reports in accordance with the period stipulated in the City’s contract. Nonetheless, to provide indications of the Association’s financial activities, we reviewed calendar years 2005 and 2006 and the first nine months of 2007 for comparative purposes.

As 2006 was the first complete year of operations, we use 2006 as a baseline. In that year, the Association reported gross revenues of \$224,442 with an overall loss of nearly \$5,500. Total expenditures for the year equaled \$229,930 of which about \$78,600 related to the *Mayor’s Cup*, the major event that the Association operates. Another \$1,180 of expenses relate to the *Classic Boat and Yacht Festival* that the Association also operates. Thus, for the 2006 year, 35 percent of the Association’s expenditures related to events it operated.

Table 4. Unaudited Association Financial Data

Revenues	2005	2006	2007 thru 9/30/07
Sponsorships—City Departments	\$35,000	\$127,250	\$111,050
Sponsorships—Private	\$27,500	\$89,500	\$112,000
Private Donations	\$500	\$4,500	\$5,000
Supplier/Concession Fees	\$0	\$1,461	\$6,652
Sanction Fees	\$0	\$1,731	\$6,250
Other Income	\$0	\$0	\$2,105
Total Revenues	\$63,000	\$224,442	\$243,057
Expenditures			
Salaries and contracted wages	\$18,000	\$102,167	\$77,250
Association operated event costs	\$39,813	\$79,779	\$80,142
Marketing, Advertising, PR	\$5,665	\$18,047	\$15,402
Legal, contract, and other professional fees	\$1,000	\$4,486	\$4,910
Other event costs	\$967	\$24,276	\$4,976
General operating expense	\$345	\$1,175	\$15,105
Total Expenses	\$65,790	\$229,930	\$197,785
Revenues Over/ <Under> Expenditures	\$<2,790>	\$<5,488>	\$45,272

Source: unaudited financial information provided by the Association and analyzed by Sjoberg Evashenk Consulting.

As reflected in financial data posted to its records through September 30, 2007, the Association generated total revenues nearly 8.3 percent higher than the previous year—with the exception of City sponsorships, all other categories of revenue showing marked increases. While data at September 30, 2007 may suggest a positive balance at year end, the reported revenues and expenses are likely incomplete. In fact, salaries and wages alone for the remaining three months of the year should add another \$25,750 to its 2007 costs. Moreover, as further discussed later in this report, on December 1, 2007 the Association paid the City \$32,177 to fulfill the Agreement Fee provisions of the contract—this liability, as it was paid after the period of our review is not included in the above figures.

The City Contract with Sea Festival Association Requires Clarification

As part of our audit, we reviewed the 2006 contract between the City and the Association as well as interviewed the former City Manager, Sea Festival key stakeholders, including Association directors and associates, and current and former City employees to understand the circumstances surrounding the contract and its intent from the point of view of the City as well as the Association. Our review identified contract provisions that require further clarification and coordination of efforts between the City and the Association. For example:

- Association’s payments to the City are not clearly defined, the contract period and Association’s fiscal year are not aligned, and the contract does not provide for a

priority of payments in the event of a net operating loss or the Association’s inability to pay.

- Contract provisions include limits on the number of revenue-generating “Level Three” events to only one event during the Sea Festival season, whereas the contract includes a listing of seven “Level Three” events.
- Other areas in the contract require further clarification, such as insurance requirements, and document distribution and retention.

Payments to the City Should Be Further Defined

The contract with the City requires the Association to pay a portion of its gross revenue to the City each year as part of the “Agreement Fee.” We are told the purpose of these payments is, in part, to offset the lost revenue from waiving certain permit fees and to cover incremental costs of City services provided either directly to the Association or generally related to Sea Festival events. It is premature to assess the financial results of the Association as it relates to its performance according to the 5-year contract with the City. Financial data show that the Association ended both 2005 and 2006 calendar years

Schedule for Agreement Fees	
Year 1 (2006): > 20% of gross revenues or	\$0
Year 2 (2007): > 20% of gross revenues or	\$20,000
Year 3 (2008): > 20% of gross revenues or	\$40,000
Year 4 (2009): > 20% of gross revenues or	\$80,000
Year 5 (2010): > 20% of gross revenues or	\$150,000

in a loss position. The contract requires the Association to pay the greater of twenty percent (20 percent) of gross revenues or a set amount (based on a sliding scale, increasing each year of the contract). Gross revenues are defined in the contract as receipts for licensing, sponsorships, franchising, vending, food and beverage concessions,

merchandising sales, and all other revenue producing means. However, provisions stipulate that proceeds received for events operated by the Association are not included, but any profits from these events shall be added to gross revenues.

Further, the contract does not address instances where the Association runs at a loss. For instance, provisions are silent as to the treatment or the implication to establish priority for expense payments when not all liabilities can be paid timely. Moreover, the contract does not establish the City’s position if the Association cannot make the annual payment due to lack of funds by December 1 of each year.

The terms of the contract with the City requires financial reporting based on “fiscal years,” with “Year 1” of the contract commencing July 1, 2006. Therefore, under the contract provisions, the first year of operation ended June 30, 2007. However, the Association as a not-for-profit corporation operates on a calendar year basis, reporting its revenues and expenses for a period beginning January 1 and ending December 31. In

contrast with contract provisions, the Association’s Executive Director believes that calendar year reporting is most appropriate as it allows for capturing all the fiscal activity for an entire Sea Festival season, which runs June through September. If the Association follows the fiscal year reporting provision, the fiscal activity for each season would bifurcated and not reflect the true results of any one season.

In addition, the Association’s position is that the intent was that “Year 1” of operations for purposes of the Agreement Fee was calendar year 2006—making the payment for Year 1 due December 1, 2006. Contract language stipulates that in Year 1 the Association is obligated to pay the City the greater of 20 percent of gross revenues or zero; however, executives of the Department of Parks, Recreation, and Marine and the former City Manager told us that the City Council waived this first year payment, although we could not verify a Council action on this matter. Nonetheless, the Association states it fulfilled the intent of the Agreement with the City, and made its Agreement Fee payment of \$32,177 for the 2007 Sea Festival season on December 1, 2007.

As the Association is required to pay the City the greater of 20 percent of gross revenues or \$20,000 for Year 2; regardless of the reporting period, an important issue in question relates to the revenues to be included in the gross revenue calculation—especially as they relate to events operated directly by the Association. Specifically, during 2006 and 2007, the Association acted as event operator for the *Mayor’s Cup* and the *Classic Boat and Yacht Festival*. The Association attracted sponsorships for these events—some that were specifically earmarked for those events and some that covered those specific events and Sea Festival events overall. What is not clear is the portion of those sponsorship revenues that specifically relate to those events (and thus, should be included in the gross revenue calculation only to the extent that the event made a profit) and what portion should be considered when determining the gross revenue pool.

The contract specifies that “gross revenues” do not include “the proceeds received by the Association for the events and activities for which the Association is the operator provided; however, that any profit made by the Association from those events and activities which it operates may be included in gross revenue.” The Association’s expenses relating to running the *Mayor’s Cup* significantly exceeded the sponsorship dollars specifically received for that event in both 2006 and 2007. However, other sponsorship revenues could be allocated to the event because the *Mayor’s Cup* is specifically named within the sponsorship agreement along with support of general Association operations. In question is whether sponsorships that refer to Association-operated, privately-operated, and/or Sea Festival activities in general should be allocated all or in part when determining gross revenues for Agreement Fee payment purposes. Further at question from the Association’s perspective is when the Association-operated events run at a loss, should the full costs of these events be deducted from the gross-revenue calculation. Thus, if a portion of sponsorship revenues related to Association-operated event such as the *Mayor’s Cup* were allocated to such an event, under the contract provisions, the base amount of gross revenues for Agreement Fee calculation purposes would be reduced by all the revenues related to that event. Yet, if the event

generated a profit, the net profit would be added back into the gross revenue base. While, contract provisions require the inclusion of profits from Association-operated events in gross revenue calculations, the calculation method does not specify the treatment of losses on such events.

According to Association officials, revenues received by the Association are used to cover the costs of Sea Festival events as well as covering the costs of those operated directly by the Association. As such, in calculating gross revenues for Agreement Fee purposes, total revenues could be reduced by the amount of sponsorships directly related to Association-operated events as well as allocating certain revenues received for general Sea Festival operations. However, the method for allocating general revenues to Association-operated events is unclear.

The Association contends that the costs of Association-operated events should off-set the total of gross revenues. Specifically, the Association believes that all revenues should be included in the basis for the gross revenue calculation without reduction by receipts for Association-operated events—but these gross revenues should also be reduced by the full costs of Association-operated events. Under this approach, by virtue of offsetting gross revenues with Association-operated event costs, the Agreement Fee incorporates the impact of a profit or loss of such events which the Association believes was the intent of the agreement. The contract provisions, as noted above, only include adding back profits generated from Association-operated events and does not consider costs or losses in the Agreement Fee calculation.

An additional question regarding the calculation of revenues arises when the Association receives sponsorship or donation payments for multiple years in one reporting period or sponsorship for a single year paid in installments. For example, if the Association received a \$40,000 payment in one year that was intended for a three-year period, it is unclear whether the entire amount should be included in a single year's revenue calculation or allocated over the period the funds are intended to cover. Over the long-term, the item may be a moot point. However, in the short-term, if the entire amount is counted in one year, the liability to the City for Agreement Fee would be significantly higher if than if the receipt was allocated evenly across three years. Yet, the contract seems to imply that the calculation of revenues should be based on all "receipts" thus, be on a cash basis of accounting. Using an accrual basis would match funds received for the future periods with the plan to use the funds.

Ultimately, these questions related to revenues and costs attributable to Association-operated events will need to be negotiated and defined by the City to ensure compliance and full understanding. Another issue of note is that the Agreement Fee must be paid regardless of the Association's overall net profit or loss. The contract lacks provisions to address a situation whereby the Association is unable to meet its liabilities—in particular, the Agreement Fee. In both calendar years 2005 and 2006, the Association posted operating losses. If the Association lacks the cash resources to make the Agreement Fee payment on time, there is no guidance as to the priority of creditor payments or stipulations relative to late or no payment of these fees.

Using the Association's rough financial information for the first nine months of 2007, we can illustrate the potential effects of the various revenue calculation questions.

- One interpretation of the calculation is to use full gross revenue with no offsets or reductions. Gross revenues for 2007 (for the nine months ended September 30) were approximately \$243,000. Applying the broadest possible reading of the contract and using \$243,000 as a basis, the Association's liability to the City would be approximately \$48,600, or 20 percent of \$243,000.
- If gross revenues are reduced by direct and allocated revenues related to two Association-operated events, as well as profits from these events are added back, the calculation changes. For example, suppose direct and allocated revenues related to Association-operated events total \$69,500—using the same figures as above, adjusted gross revenues would be \$173,500. If the *Mayor's Cup* costs exceed the related revenues—thus, generating a loss—and the *Classic Boat and Yacht Festival* generates “profit” of approximately \$13,000, then gross revenues would be increased by the amount of the profit. In this scenario, the adjusted gross revenues of \$173,500 would be increased by \$13,000, generating a liability to the City of approximately \$37,300, or 20 percent of \$186,500.
- Using the Association's perspective that receipts and expenses of Association-related events should be included in the gross revenue calculation, the results again change. If gross revenues are \$243,000 and costs related to Association-related events are \$87,000, then adjusted gross revenues are \$156,000 and the liability to the City would be \$31,200.

As the above examples illustrate, there are significant fiscal implications related to the interpretation of the contract. Thus, the City and Association should revisit the intent of the contract language and come to agreement relative to the financial reporting period, clearly define the treatment of revenues and expenses related to Association-operated events, and determine the treatment of multi-period receipts. Further, contract provisions should be amended to specifically address the priority of payments and measures to be taken in the event the Association lacks the resources to pay the City's fee.

Level Three Events Require Further Clarification

According to the contract, the responsibility of the Association includes holding or sanctioning other organizations to hold a series of events that are known as Sea Festival, with a purpose of “raising” the profile of the City as a waterfront destination and to promote community involvement in beach-related activities.” As previously described, Sea Festival events are delineated by three categories: Level One, Level Two, and Level Three. Many of the Level One and Level Two events are community events that have been operated and supported by City departments and private entities for many years. While some Level One and Level Two events are funded and operated by the Department of Parks, Recreation, and Marine, others are funded through state or local grants, such as the *Novice Dive Meet* and the *Swim Meet*, according to the City officials. These types of community events typically generate few if any revenues to offset the City or private

operator costs. The Association’s contract with the City lists typical events within these two categories and does not include any limitations in terms of number of these events in one Sea Festival season.

However, the contract does include limiting language related to Level Three events. As noted earlier in this report, Level Three events tend to be larger, are not City-run, and often include an admission or gate fee. The contract states that the number of Level Three events to be held “between June 1 and Labor Day each year” is limited to *only one event*. Yet, another contract provision, specifically “Exhibit C,” includes a listing of seven Level Three events, and other contract provisions state that “the 2006 shall be the base year establishing the minimum number of events and activities held at each Level in each subsequent year.” We could not determine the City’s intent of appearing to limit Level Three events. Nonetheless, the contract is internally inconsistent and could place the Association in a position of being out of compliance with the provisions. Thus, the City needs to review the contract in conjunction with Exhibit C, clarify its overall intent, and revise the contract to accurately reflect its position.

Other Contract Provisions Requiring Further Clarification

The contract requires event operators and vendors to procure and maintain specified types and amounts of insurance, as well as provide copies of executed sponsorship agreements for all Sea Festival events to the City. The Association management stated that the Association has been relying on the Special Events Office to maintain the insurance information for all Sea Festival events. However, we found the contract is unclear on whether the Association or the City is responsible for ensuring, monitoring, and retaining such documentation. Similarly, although contract provisions specifically require the submission of all Association contracts, including sponsorship agreements to the City, management at the Department of Parks, Recreation and Marine stated that the Department has been relying on the Association to maintain sponsorship agreements for the Sea Festival events. To ensure compliance with the contract, the City and the Association should review these contract provisions and clearly delineate roles and responsibilities as well as define appropriate policies and procedures to ensure contract compliance and to protect the City’s best interests.

The Partnership Agreement Between the City and the Association Should be Clarified

All events held by private or public entities on City property, whether as a part of the Sea Festival or not, are subject to the City permitting process. The City Office of Special Events and Filming (OSEF) reviews proposals of planned events and grants a City permit to ensure compliance with the Long Beach Municipal Code Sections 5.6, and 2.54.005. Sea Festival events operated by City departments and the events that do not exceed certain size limits do not require a separate permit for the use of City property. Occasionally, the Association provides assistance to event operators in the permitting process and, under terms of the contract with the City, the Association also has some

level of responsibility to ensure that City provisions are followed. Nonetheless, the permit issued by the OSEF establishes agreement terms between the City and the event operator.

Although our audit did not include reviewing the operations of City departments, we did note areas of City operations that warrant policy review and potential operational changes. Because of the partnership between the City and the Association, City staff may provide services directly related to the Association and its Sea Festival operations. Consequently, clear lines need to be established for directing City staff and determinations made for whether and to what extent these costs are captured by City departments and related back to the Agreement Fee payments made by the Association to cover such costs.

City Departments May Not be Recovering All Private Event Related Costs

Most of the events hosted by private events operators within the Sea Festival are required to obtain permits from the OSEF. Generally, the City imposes administrative and other costs on operators of events that utilize City property or resources. Administrative permit charges vary from \$175 to \$350 depending on whether the entity is a not-for-profit or for-profit organization. However, according to the contract between the Association and the City, permit application fees are waived to the event operators who file permits as part of the Sea Festival program. Specifically, the Agreement states that:

“City agrees to waive the application fees usually imposed to obtain special event permit and the fees for use of City Property. However, other City fees such as inspection fees, business license fees, and fees imposed by the Police Department, Fire Department, Department of Public Works, Department of Planning and Building, Department of Health and Human Services, Department of Financial Management, and Water Department are not waived.”

During the permitting process, event operators must provide the City information and specifications relative to the events operations for areas such as traffic, waste, health and safety. The OSEF is responsible for overseeing compliance with the permitting provisions and for working with the event operators to determine the need for additional City services that may be required at the event. The OSEF coordinates with other City departments to ensure the needed services are available and provided, and obtains estimates of the incremental costs associated with City resources needed for the event. The permit includes a description of the additional services to be provided and a related cost estimate for such City services. For instance, during the permit application process, the City may determine that additional police patrols will be necessary, a special ramp built, or an additional maintenance crew needed to clear the beach after the event. These incremental City costs are estimated prior to the event. Each City department providing incremental services is responsible for capturing those costs and providing an invoice to OSEF that in turn bills the event operator on the department’s behalf. Each event operator is obligated to pay part of these charges in advance of the event, with payment in full plus any additional charges due at the events’ conclusion.

Administrative Regulation AR 8-15 stipulates “a permittee shall pay the City for all City departmental services charges incurred in connection with or due to the permittees activities under the permit unless said departmental services charges are funded, partially funded or waived by action of the City council.” We reviewed permit files for events related to the 2006 Sea Festival and observed that the event files maintained by the OSEF included documentation relative to incremental costs in only a few instances. OSEF staff explained that files contain only such information when these particular incremental services are identified. However, events can also take place without a special events permit under master permits such as those issued by the Department of Parks, Recreation and Marine to yacht clubs. Additionally, events designated as community events that are initiated and organized by City departments do not require permits.

Although some of the Sea Festival-related files indicated City department involvement, only 5 event permits included miscellaneous charges assessed by the City departments. Our discussions with City department employees suggest that in some instances, no additional City services were required at an event; in other instances, some additional services were provided, but the respective operating department did not identify, capture, or provide OSEF with an invoice to bill-back these costs to the event operator. Payments from event operators are to be submitted back to the operating department and, thus, the OSEF does not monitor the collection of these reimbursements. In 2006, based on the records provided for our review, it appears that the City billed approximately \$31,500 in incremental services rendered at the Sea Festival events. We could not determine whether additional incremental costs were incurred by the City for any of the other 45 events.

In addition, we were told that there is unclear guidance relative to event closeout—specifically, questions remain as to who holds the responsibility to ensure that event operators fulfill all the provisions of the permit such as leaving the event site in the condition it was found or to make sure that any incremental City costs were identified. For instance, one event permit included a clause related to Police Department involvement for parking; however, no amount was billed. In this case, according to the OSEF manager, the event turnout was much less than anticipated and no additional police effort was required. However, there was no documentary evidence of a post-event review to establish such determination. Further, since the OSEF relies on the operating departments to gather cost data—either anticipated or not—and provide an invoice for billing the event operator, there is no assurance that such costs are uniformly captured and recovered.

We are told by the various City departments that the vast majority of the Sea Festival and other privately run events do not require additional services from City departments. Further, additional services required may not always be directly attributable to a specific event. City managers stated that often event locations overlap and one may be a permitted event and another not. Moreover, certain aspects of City employee duties, such as post event cleanup happen uniformly yearlong—for example, we are told that parks are cleaned every Monday regardless of a special event and those clean-ups are considered part of regular operations. Nonetheless, with the projected growth of the Sea

Festival and other privately operated activities, the City should review its cost recovery policies to determine when costs should be recovered and whether it is documenting and capturing all such incremental City services provided for special events and whether its practices ensure the billing and collection of such costs.

City staff indicated that, over the past year, many departments have increased efforts to identify and recover more of the incremental costs for privately held events such as those falling within the Sea Festival umbrella. Our survey of the event operators revealed that over time they have noticed a tendency for the City to include and bill these service fees.

Yet, the Association's Executive Director voiced reservations that a more concerted effort by City departments to recover City costs related to Sea Festival events may cause event operators to rethink holding these events at all—which may have a chilling effect on the Sea Festival. Given the City's apparent practices related to the provision of services for private events, the City should assess its policy toward the recovery of such costs. These policies should consider not only events related to Sea Festival, but the provision of incremental services related to all privately-operated community events throughout the year that are held on public land and determine whether City's service costs should be recovered or at what point these efforts are in the best interest of the public and should be provided without added charges.

Roles of City and Association Staff in Sea Festival Events Need Defining

As part of our audit, we interviewed event operators and the City staff that participate in the organizing, coordinating, and managing of events within the citywide recreation and parks program that are included in the Sea Festival event schedule. Our interviews revealed that, due to the growing popularity of the Sea Festival activities, City staff believe they are faced with increased volume of work. With the apparent growth in the number of events and with the popularity of the Sea Festival increasing, the City needs to ensure a clear delineation of roles and responsibilities relative to the management and coordination of the City-run as well as privately-operated Festival events.

One City manager we interviewed stated that staff were uncertain whether Association or City staff who work at many of these events should be responsible for ensuring that all event activities are in accordance with the City permit provisions. For instance, we found that City employees coordinating the Sea Festival events were unclear of their roles in such matters as ensuring that the vendors at events were procured through the appropriate sources and held the appropriate City vendor permit. As noted previously in this report, the contract with the City suggests that the Association has some obligation that events are properly managed, but is vague in terms of where compliance responsibility resides. It appears that such roles and responsibilities have not been formally delineated and may be particularly blurred in the instances where the City is the event operator. For example, the Department of Parks, Recreation, and Marine is the event operator for the *Boat Regatta* that is part of the Sea Festival. It is unclear, however, whether the City is solely responsible for the event or if the Association has some role. City managers believe that the City has sole responsibility—not only in terms of sponsorship and operation—but

also in overseeing the management and compliance of the event and Association may provide some supplemental assistance. Alternatively, in privately held events, the City staff believe they retain responsibilities for oversight of City property and resources, such as surveying the beach area before and after the event, but it appears that the Association may also hold similar responsibilities.

Additionally, the Association's contract with the City contains a number of provisions that are specific to the Association's role in operating the Sea Fest events. Generally, the Sea Fest event operators are required to comply with all City provisions through the City permitting process, as described earlier in our report. However, according to the contract between the Association and the City, the Association is required to attach its contract with the City to its contracts with others (sanction agreements and others) which may imply that the Association is requiring the permit provisions and is responsible for compliance with such requirements. Clearly, the Association, when it is an event operator, must obtain permits from the OSEF and comply with the same City provisions. Further, the City staff assert that the OSEF is responsible for event operator compliance. Thus, it appears that there may be some confusion in the contract intent in terms of oversight and compliance responsibilities shared between the Association and the City; nonetheless, the Association views its role as ensuring event operators comply with City provisions. Therefore, the City and the Association need to work together to define roles and responsibilities and to communicate to City staff their respective duties related to Sea Festival events.

City Costs Incurred Relative to Sea Festival Are Not Available

As part of this audit, we were asked to review the cost and revenues associated with the Sea Festival events as they relate to the City's contract with the Association. The contract stipulates annual Agreement Fee payments to the City from Association that, according to Association and City officials, are in part intended to cover City costs associated with Sea Festival events. Our review found that City staff do not record work time by event or specific activity. Thus, specific data are not available to ascertain the City-related costs for Sea Festival activities or other special events. Even so, we attempted to identify and quantify City services and costs that are attributable to Sea Festival.

As previously discussed, the City of Long Beach supports the Sea Festival through various means. As part of its program responsibilities, the Department of Parks, Recreation and Marine hold community events that are currently fully funded by the City. We find that these events would take place without regard to the Association and, under provisions of the contract with the Association, the City is responsible to continue to fund and organize those community events that have been traditionally part of the Sea Festival. City staff involved in City-run Sea Festival events do not track their time spent on these events and as these events are part of City operations, we did not attempt to capture any of these associated costs.

As a result of the City waiving administrative permit fees for Sea Festival events, we estimate that the lost revenues relative to 50 permit fees could range from about \$9,000 to approximately \$17,500 per year. Although certain permit fees are waived, other City fees such as inspection fees, business license fees, and fees imposed by the Police Department, Fire Department, Department of Public Works, Department of Planning and Building, Department of Health and Human Services, Department of Fiscal Management, and Water Department are not waived and are required to be paid by private event operators. In addition, there are no provisions in the contract for the City to fund or sponsor privately-run Sea Festival activities, but, certain City departments elected to spend certain funds in support of a number of mission-related Sea Festival events.

Part of the Association's stated goals is to alleviate the burden of the Sea Festival coordination and oversight from the City and we did not identify any contractual provisions that contradict that goal or stipulate the City's role in support of non-City operated Sea Festival events. Thus, any services and related fixed or incremental costs incurred by departments in providing planning, coordinating, and managing of these events are provided at the City's discretion with the costs borne by the City. During our review we identified certain services that appear to relate to Sea Festival activities and are provided by various City departments and currently absorbed within their operating budgets. The position conveyed to us from various City department staff is that coordinating public events throughout the year is considered part of general program operation and departmental activities and that only incremental costs associated with providing additional services are subject to recovery from event operators. However, we found that departments do not discretely budget or capture personnel time in terms of a certain event or commitment of resources; rather, incremental costs are estimated and tracked when identified through the event planning process.

The Department of Parks, Recreation and Marine identified the following Sea Festival costs that relate to City-run events. These costs do not include all of the related City-run events but incorporate the *Novice Swim Meet*, *Novice Dive Meet*, *Model Boat Regatta*, and *City Beach Day*.

- Fiscal Year 2005: \$4,139
- Fiscal Year 2006: \$11,024
- Fiscal Year 2007: \$38,220

We attempted to identify City staff working are involved in the overall Sea Festival coordination and administration efforts. These employees work for the Department of Parks, Recreation, and Marine in areas including: Business Operations Bureau; Maintenance Division, Marine Bureau, and OSEF. While several individuals stated that they spent periods of time working on Sea Festival-related events as well as other non-City operated activities, the following individuals were providing significant support:

- One Marine Bureau staff states she spends the vast majority of her time coordinating privately-operated events that occur throughout the year on the waterfront. In total, this staff member estimated that approximately 10 percent of

her time annually was spent on Sea Festival events with the majority of effort occurring during the summer months.

- Within the Maintenance Division, according to the Maintenance Bureau Manager, a crew of approximately six to ten staff may spend approximately 10 percent of their time serving the Sea Festival events in a given year, with summer being the busiest season. Further, we were told that the services provided by the Maintenance Bureau to the Sea Festival event operators were rarely charged to the event; rather, the costs incurred by the maintenance crew were typically planned and budgeted as part of the Department's general operations.

In total, we estimate the salaries and benefit costs for the proportion of time these employees spend on Sea Festival can be an estimated \$70,000 per year.

City's Role and Protocols for Soliciting Sponsorships Should be Established

One of the anticipated benefits of outsourcing the Sea Festival to a not-for-profit organization is its ability to attract and generate sponsorships and donations from business and private parties. A goal of the Association is to raise funds from non-City sources and work to reduce the Sea Festival's reliance on City department financial support. The Association's philosophy includes partnering with the Long Beach business community to promote Sea Festival as well as encourage the sponsorship of the Festival overall and individual events.

The Sea Festival Association's business vision is to work in concert with the various stakeholders to position the Sea Festival not only as a series of events for the Long Beach community, but also as a marketing program of the City to all of Southern California. Moreover, the Association envisions creating positive economic impact to the entire Long Beach area. One aspect of the Association's business plan involves leveraging the City's contacts with businesses and vendors providing it goods and services. The Association's Executive Director believes that it makes good business sense to capitalize on the existing relationships between the City and the business community and sees a direct economic value of these relationships for all involved. Further, he finds that because City management work directly with City contractors and vendors that those individuals are in the best position to introduce the Association to such vendors. This view is further confirmed within the Association's Board of Director's meeting minutes regarding a discussion of sponsorship solicitation efforts by the Association's ex officio directors including the City officials from the City Manager's office, and the executive and management level staff at the Director of Department of Parks, Recreation and Marine.

During our review process, City management conveyed that finding sponsors for Sea Festival and other City events is a means to supplement funding for such events and enhance the public experience is not an unusual practice. The City's involvement with soliciting sponsorships appears not to be new. We understand at some point in the past decade, it had established a sponsorship committee. We were unable to determine its exact mission or activities or identify guidance or rules related to such outreach activities.

Our review focused on Sea Festival activities—we found no evidence that any City employees improperly approached vendors or identified any inappropriate relationships between City employees, City contractors, or the Association. Further, we found that the City has not established regulatory or statutory provisions that would prohibit City staff from being involved with soliciting sponsorships on behalf of Sea Festival.

Nevertheless, sound public policy would dictate that formal rules be established and followed if City employees at any level were allowed to solicit financial support or other assistance from City vendors or contractors. Allowing these activities without protocols, rules, oversight, and reporting could create a perception of a conflict of interest. We see no problem with the Association directly approaching or soliciting from City vendors or contractors cash sponsorships, product donations, or other endorsements for Sea Festival. Since the Association is an independent contractor and non-profit entity, it is likely the appropriate entity for such marketing activities.

The City should review its position relative to solicitation of sponsorships and formally establish guidelines and protocols for its employees in interacting with City vendors or contractors, including those employees involved directly or indirectly with Sea Festival. These policies and protocols should directly address and define acceptable practices related to sponsorships or solicitations and disseminate such information to all City employees involved in permitting, facilitating, or operating events on City property.

Recommendations

To ensure that the contract between the Association and the City of Long Beach is in the best interest of the City, we made the following recommendations:

To the Association:

- Ensure that its contracts with private operators and suppliers align with its contract with the City;
- Work with the City to define the roles and relationships of each party in the oversight of events to ensure consistency, monitoring, and clear lines of responsibility;
- Coordinate with the City to revisit several aspects of the contract to clearly define provisions that are vague or subject to broad interpretation, including:
 - Term of contract and reporting periods including financial reporting and Agreement Fee calculation period.
 - Gross revenue calculations and the treatment of revenues related to Association-operated events as well as the implications of related expenditure or loss on such events.
 - Provisions to address the priority of payments or possible contract breach in the event that the Association lacks the resources to pay the annual City fee.
 - Clarify responsibilities and requirements in terms of City permit and Association contract provisions in regards to sanction agreements, supplier agreements, and other contracts.
 - Clarify the City's intent in relation to Level Three events.
- Develop uniform processes and procedures to track all documentation pertaining to Sea Festival events including insurance, sanction agreements, supplier agreements, and all other pertaining information;
- Implement a process whereby the Association ensures that the Vendor, Supplier, and Sponsor activities are operating as intended in the existing agreements.

To the City:

- Review and reassess its contract agreement with the Association and remedy any vague, unclear, or unaddressed issues;
- Evaluate its position relative to the waiving permit fees in the context of Agreement Fees and overall City revenues;
- Assess and define the responsibilities of its staff related to the Association, the Sea Festival, and other privately held events to ensure that roles and

responsibilities are clear and that City staff is given direction only from other City employees;

- Examine its policies in terms of providing services that relate to privately operated events and set protocols for when City costs are assessed and recovered from the event operators. Based upon the policy, the City should establish procedures to ensure that all appropriate costs are captured and billed to the operator; and
- Study its policies related to City employee's involvement with sponsorship solicitation and convey a clear set policy to all City staff.

	Event Name	Event Level	City Event?	2005	2006	2007
1	Seafood Festival and Pier Daze	I	No	7/2	7/1 - 7/2	6/30 - 7/1
2	Roller Hockey Expo Champions	I	Yes	7/4	No	No
3	Moonlight Movie on the Beach	I	No	6/23 - 6/26, 7/6, 7/10, 7/15, 8/17, 8/31	7/11, 7/18, 7/25; 8/1, 8/8, 8/15, 8/22, 8/29	7/10, 7/17, 7/24, 7/31, 8/7, 8/14, 8/21, 8/28
4	Noah Kalama Sprijing and Lokahi Outrigger Races & Regatta	I & II	No	7/9 - 7/10	7/8	7/7
5	57th Annual Long Beach Catalina Island Ski Race	I & III	No	57th Annual 7/13	58th Annual 7/8	59th Annual 7/21
6	Kahakai Spirits Outrigger Regatta	I & II	No	7/15	7/15	7/14
7	Trans Pac	I	No	7/14 - 7/16	No	7/9 - 7/15
8	Mayor's Cup	II	No	7/13 - 7/16	7/12 - 7/15	7/18 - 7/21
9	Naples Island Swim	I	Yes	7/28 - 7/31	No	No
10	Dragon Boat Festival	I & II	No	6/26 - 7/05	7/29 - 7/30	7/27 - 7/29
11	Volleyball Tournament	I	No	7/07 - 7/08	No	No
12	Over the Line Softball	I	Yes	7/01 - 7/2	No	No
13	Kids Fishing Rodeo	I	No	7/11 - 7/22	8/4	8/3

	Event Name	Event Level	City Event?	2005	2006	2007
14	X Games	I	No	7/07 - 7/08	No	No
15	Long Beach Kiteboarding Challenge	I	No	8/10 - 8/14	8/5 - 8/6	Cancelled
16	Land Meets Sea Sports Camp	II	No	7/07 - 7/09	8/7 - 8/11	8/7,8,9,10
17	The Great Beach Sand Castle Contest	I	No	8/13	8/12	8/11
18	Novice Swim Meet; The Richard Miller Novice Swim Meet	I	Yes	8/13	8/12	8/11
19	Oar and Paddle Regatta	I	No	8/13	8/19	8/25
20	Go Fly a Kite Championship; Capture in the Wind	I	No	8/14	8/26	8/18
21	LB Sprint Nationals (Circle Boats)	II	No	8/13 - 8/14	8/11 & 8/13	8/10 & 8/12
22	Novice Dive Meet	I	Yes	8/14	8/13	8/12
23	Sea Festival Regatta	I	No	8/17 - 8/18	8/17	8/16
24	Model Boat Regatta	I	Yes	8/19	8/18	8/17
25	Tiki Festival (Polynesian Spectacular)	II	No	8/20 - 8/21	8/18 - 8/20	8/25 - 8/26
26	The Great Beach Treasure Hunt	I	No	No	6/25 - 7/4	6/24 - 7/4

	Event Name	Event Level	City Event?	2005	2006	2007
27	Summer Concerts in the Park	I	Yes	No	6/21 - 8/30	No
28	Summer Movies in a Park	I	Yes	No	6/19 - 9/1	No
29	Long Beach Municipal Band Concert	I	Yes	No	6/29, 7/6, 7/13, 7/20, 7/27	6/26 - 6/29, 7/3 - 7/6, 7/11 - 7/13, 7/17 - 7/20, 7/24 - 7/27, 7/31
30	Independence from Litter Day/Beach Day	I & III	Yes	No	7/5,	7/5
31	Catalina Ski Club "Special Children's day"	I	No	7/7	7/7	7/20
32	Classic Boat & Yacht Festival	I	No	No	7/14 - 7/16	7/7 - 7/8
33	Sailing - Jessica Uniak Memorial Beach - Bay Regatta	I	No	7/27	7/27	7/26
34	Long Beach Municipal Band Concerts	I	Yes	No	8/3, 8/10, 8/17	8/1 - 8/3, 8/7 - 8/10, 8/14, 8/16, 8/17
35	Model Sail Boat Regatta	I	Yes	8/18	8/18	8/17
36	Sailing - Junior Olympic festival	II	No	No	7/13 - 7/16	No
37	Corporate Beach Volleyball Championship	II	No	No	8/5	No
38	Sailing Ficker Cup Regatta	II	No	8/18	8/18 - 8/20	8/17 - 8/19
39	Boys & Girls 14th USTA National Open	II	Yes	No	6/29-7/4	6/30-7/4

	Event Name	Event Level	City Event?	2005	2006	2007
40	Long Beach Jr. Open Tennis Tournament	II	No	No	8/21 - 8/24	8/20 - 8/23
41	The Beach Triathlon Continental Cup 2006	III	No	No	6/25	No
42	July 4th Festival	III	No	No	7/4	7/22
43	Inaugral Long Beach/Catalina/Long Beach Jet Ski Race	III	No	No	7/9	7/22
44	95th Anniversary Off-Shore Power Boat Race - Long Beach/Catalina Isyhmus/ Avalon/Long	III	No	No	95th Annual 7/9	96th Annual 7/23
45	I-14 US National Sailing Championship	III	No	No	8/12 - 8/14	No
46	Thursday Night Twilight Concerts in the Park	I	Yes	No	No	6/21, 6/28, 7/5, 7/12, 7/19, 7/26, 8/2, 8/9, 8/16, 8/23, 8/30
47	Long Beach Bayou Festival	II	No	No	No	6/22 - 6/24
48	Sinjin Beach Volleyball Collegiate Open	II	No	No	No	6/23, 6/30, 8/25
49	9th Annual Shakespeare Festival	III	No	No	No	6/23 - 7/15, 7/21 - 8/12
50	Pacific Open Water Challenge & Pacific 5k	I	No	No	No	7/1
51	Youth Sailing on American Pride	I	No	No	No	7/2 - 7/3, 7/5 - 7/6, 8/20 - 8/24
52	Sinjin Beach Volleyball Corporate Challenge (Prelims and Final)	III	No	No	No	7/7, 7/28

	Event Name	Event Level	City Event?	2005	2006	2007
53	Sea Festival Tennis Clinic	I	Yes	No	7/8, 7/14, 7/22	7/9, 7/15, 7/23
54	Sinjin Beach Volleyball City Beach day	I	No	No	No	7/13
55	Sea Festival Citywide Beach days	I	Yes	No	7/12, 8/9	7/13, 8/10
56	Sinjin Beach Volleyball Collegiate Championship	II	No	No	No	7/14
57	Sinjin Beach Volleyball Special Olympic Kids Play	I	No	No	No	7/14
58	AVP Pro Beach Volleyball	III	No	No	No	7/16 - 7/22
59	Bixby Bluff Municipal Band Concerts	I	Yes	No	7/16, 7/23, 7/30, 8/6, 8/13	7/17, 7/24, 7/31, 8/7, 8/14
60	Sinjin Beach Volleyball Youth Tournament	II	No	No	No	7/21, 8/11
61	USA Volleyball High Performance Camp	II	No	No	No	8/2 - 8/4
62	Crawfish Festival	II	No	No	No	8/4 - 8/5
63	USA Beach Junior Open Tournament	II	No	No	No	8/5
64	Sand Castle Cleanup	I	No	No	8/10	8/11
65	The Club 420 North American Championship	II	No	No	No	8/18 - 8/21

	Event Name	Event Level	City Event?	2005	2006	2007
66	And 1 Mix Tape Tour 2007	I	No	No	No	8/25

Response from the Sea Festival Association



SEA FESTIVAL ASSOCIATION OF LONG BEACH, INC.

LONG BEACH PARKS, RECREATION & MARINE
PARTNERS of PARKS

Board of Governors

Drew Satariano
President

February 25, 2008

Dennis Lord
Vice President

The Honorable Laura Doud, CPA
City Auditor

Christopher R. Pook
Executive Director

City of Long Beach
333 West Ocean Blvd.
Long Beach, CA 90802

Gemma Bannon
Secretary

Valerie deMartino
Chief Legal Officer

Dear Ms. Doud:

David G. Murray
Chief Financial Officer

Pursuant to your request, we would respond below to the Audit Report issued as a result of the audit conducted by Sjoberg Evashenk Consulting, Inc.

Matthew Kinley

The Sea Festival Association of Long Beach, Inc. in principle agrees with the comments and recommendations made in the report, however would comment as follows:-

Chris Kozaites

Dick Miller

Tom Shadden

- 1) On page 2 of the Executive Summary, we would respectfully suggest that the loss of revenue to the City as a result of the waiver of Special Event Permits is overstated, particularly since the Association has paid a fee to the City this year which more than covers the "lost" permit fees.

Gregg Whelan

*Reggie Harrison

*Phil Hester

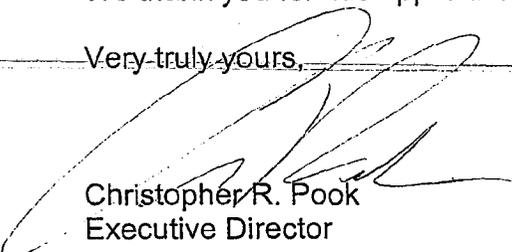
*David Ashman

- 2) The Association completely agrees with the recommendation of the need to revisit the wording of the formal contract inasmuch as we believe that the current Agreement as written does not reflect the true intent of the proposal presented to the City Council in May of 2005, nor is it clear in several areas particularly as it related to the method of calculation of fees.

*Ex Officio Members

We thank you for this opportunity to provide this brief response.

Very truly yours,


Christopher R. Pook
Executive Director

City of Long Beach Response



Date: February 20, 2008
To: Laura L. Doud, City Auditor
From: Phil T. Hester, Director of Parks, Recreation and Marine
Subject: Contract Performance Audit - Long Beach Sea Festival Association

Per your request, please find our written responses to the recommendations included in the Contract Performance Audit performed by Sjoberg Evashenk Consulting, Inc. As you know, the Sea Festival Association of Long Beach and staff from our department has met with this contractor on numerous occasions over the last six to eight months to discuss the audit. I assume that any comments from the Sea Festival Association related to the recommendations in the report that deal with the Association have been discussed with them. As to the recommendations that are related to the city, we offer you the responses below.

Before responding to the recommendations, I would offer you the following comments:

- 1) In the introduction section, I notice that many of the Board of Directors affiliations are incorrect.
 - Chris Kozaites is not a member of the Long Beach Parks and Recreation Commission, but is President of Partners of Parks.
 - Richard Miller is not a member of the Marine Advisory Commission, but is a former member and retired Manager of the Marine Bureau, within the Parks, Recreation and Marine Department.
 - Christopher Pook is no longer affiliated with the Grand Prix Association of Long Beach.
 - Tom Shadden is not a member of the Maintenance Operations Bureau within our Department.

- 2) Executive Summary Comments – several times in the Executive Summary, Sjoberg and Evashenk (Contractor), suggests that the City of Long Beach may not be identifying or recovering all the incremental costs related to the oversights of special events. In the main body of the full report, the Contractor explains their observations and the many factors that come into play, as it relates to this issue of cost recovery. It would be clearer if some of their general observations could be included in the Executive Summary. These could include items such as:
 - Developing guidelines for operating departments to decide when the public good is a better investment, than a complete cost recovery model.

- Special event and filming protocols for billing promoters, and closing out events. Since many individuals may only read the Executive Summary, could not the recommendations be incorporated as part of the Executive Summary?

3) Cost Recovery Discussion –

Obviously, the issue of cost recovery is a major item that is spread throughout the total report. The Contractor stated very clearly that the scope of this report did not include auditing the City's operations or activities; however, the Contractor has offered some opinions that may lead to misunderstandings by those who may read this report. We feel it necessary to provide more information that may help prevent any misunderstandings.

A few years ago, we completed a Business Plan for the Office of Special Events and Filming. Several significant changes were made to the operation at that time. A citywide "special events" team was created, the permit process was revamped to ensure compliance with the ordinance, new financial billing and tracking systems were implemented, and we made the decision to move toward becoming an "enterprise operation." Since implementing this plan, revenues and recovered operating expenses have significantly increased. We revamped the budget structure and financial controls. Since implementing this plan, revenues and recovered operating expenses have significantly increased. In FY 2002, the permit revenue for Special Events and Filming was approximately \$250,000. City expenses billed and collected for our Public Safety Departments, in FY 2002, were approximately \$700,000. In FY 2007, the permit revenues for Special Events and Filming were approximately \$1.1 Million. City expenses billed and collected for our Public Safety Departments, in FY 2007, were approximately \$2.1 Million.

The cost recovery program currently in place in the Office of Special Events and Filming has seen significant improvement over the last couple years. Communication between the Special Event and Filming staff and the public safety departments has improved our process. We estimate event costs, we manage the event, we adjust the plans as needed, and we bill what is presented to us by other departments. If there is no invoice from a department, we do not bill for that department. Using this system, revenues have increased over 400%, and the amount of City expenses captured have increased over 300%. The number of permits processed has only increased 75% in the same period of time. This means the program currently in place has made the collection of expenses more effective, and we are capturing more dollars for the City. Again, we want the people reading this report to understand that Special Events and Filming is recovering what is being presented.

Finally, we feel this "snapshot" in time of this cost recovery process, as it relates to the Sea Festival events, is not fair to the major strides that are taking place in this area.

4) Recommendations to the City Presented by the Contractor –

- **Review and reassess its contract agreement with the Association and remedy any vague, unclear, or unaddressed issues.**

We agree and will work closely with the City Attorney and the Association to correct any agreement ambiguities.

- **Evaluate its position relative to the waiving of permit fees in the context of agreement fees and overall City revenues.**

We will examine this area, but it should be clear that most of the neighborhood events are provided by, or co-sponsored by, our Department, as part of our overall mission. In addition, the small amount of lost permit revenue needs to be evaluated in terms of the original mission and goals of the Sea Festival Association.

- **Assess and define the responsibilities of its staff related to the Association, the Sea Festival, and other privately held events to ensure that roles and responsibilities are clear, and that City staff is only given direction directly from other City employees.**

We totally agree and will work with the Association and City staff to make sure roles and responsibilities are clear.

- **Examine its policies in terms of providing services that relate to privately operated events and set protocols for when City costs are assessed and recovered from the event operators. Based upon the policy, the City should establish procedures to ensure that all appropriate costs are captured and billed to the operator.**

While we feel that such protocols are in place, as noted in the cost recovery section, we will participate in a review and discussion of the policy governing assessment and recovery of the cost of City services.

- **Study its policies related to City employee's involvement with sponsorship solicitation and convey a clear set policy to all City staff.**

There is an existing City policy dealing with sponsorships, and we will review this policy with staff.

As a side note, while the report clearly states, "We found no evidence that any City employees improperly approached vendors or identified any inappropriate relationships between City employees, City vendors, or the Association," we are unclear why this item was even included in this contract

performance audit of the Long Beach Sea Festival Association. Having it included would lead a reader of this report to speculate that there is a problem.

5) Economic Impact of Sea Festival – 2007 –

There is reference in the report of an "Economic Impact of Sea Festival – 2007 Report." This report by Dr. Joseph Magaddino and Dr. Lisa Grobar is attached. As can be seen, the report included the total 43 events that were identified as having the highest economic impact among all the Sea Festival events. The direct economic impact of these events is calculated at \$5,584,916. In addition, the authors analyzed the total economic impacts for these events, including multiplier effects. The total impact for the Sea Festival events is calculated at \$9,388,827.

In closing, we did not spend time to respond to every detail in this report, but concentrated on the recommendations provided in the report. We feel these are fair and we look forward to working with your office on the implementation of these recommendations. Thank you for giving us the opportunity to respond to this report, and please do not hesitate to contact me if you need additional information.

PTH:rb
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Attachment

cc: Patrick H. West, City Manager
Suzanne Frick, Assistant City Manager
Drew Satariano, President of the Sea Festival Association of Long Beach
Christopher Pook, Executive Director, Sea Festival Association of Long Beach
David Ashman, Manager of Special Events and Filming
Mark Sandoval, Manager of Marinas and Beaches