

CITY OF LONG BEACH, CALIFORNIA

Review of the License and Operating Agreement between
Spectacor Management Group (SMG) and
Sporting Life, Inc., Doing Business as the
Long Beach Ice Dogs

June 21, 2005

Audit Team

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GARY L. BURROUGHS, CPA
City Auditor

June 21, 2005

Craig Beck, Acting Director
Community Development Department

We have performed a review of the license and operating agreement (Agreement) between Spectacor Management Group (SMG) operators of the Long Beach Convention and Entertainment Center and Sporting Life, Inc., doing business as Long Beach Ice Dogs, owners of the Ice Dogs professional hockey team (Ice Dogs). This agreement grants the Ice Dogs the exclusive use of the Arena for the presentation of ice hockey in the City of Long Beach. The purpose of our review was to determine whether all terms and other contractual obligations were fulfilled in compliance with the agreement.

Our review procedures included:

- Obtaining an understanding of the agreement and its provisions, including a letter of understanding regarding SMG's incentive fee calculation.
- Discussions with Community Development and other City personnel, SMG employees and Ice Dogs management.
- Review of Ice Dogs' Income Statements and Ticket Master attendance reports.
- Review of SMG's prepared Income Statements of the Ice Dogs' operations from 1999 through 2004 seasons and the distribution of available income to the City and SMG.
- Review of Ice Dogs' season and group ticket sales and distribution of rebates to the Ice Dogs for the 1999-2004 seasons.

Based on the results of the audit procedures performed, we found no exceptions to the terms and conditions of the agreement between SMG and the Ice Dogs and the letter of understanding between SMG and the City. However, during the past five years that the Ice Dogs have played in the Arena, the City has incurred a net loss of about \$1.5 million. Additionally, the Community Development Department estimates that the City could receive up to \$1.5 million per year in net revenue if the Arena were used as an indoor concert or event venue, instead of hosting Ice Dogs' games.

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The attached report presents historical background on the contract along with operational data. We would like to thank the Community Development Department, SMG, and the Ice Dogs for their cooperation during this review.

Sincerely,

Gary Burroughs, CPA
City Auditor

By:



Sam A. Joublat, CIA
Deputy City Auditor

cc: Reggie Harrison, Deputy City Manager
Michael Killebrew, Director of Financial Management
Michael Conway, Property Services Manager

Background

The City and SMG entered into a written management agreement dated February 12, 1991 for the management and operation of the Long Beach Convention and Entertainment Center (Contract No. 21667). In 1996, the City, SMG and the Ice Dogs entered into a supplemental agreement (Contract No. 24555) for the purpose of bringing the Ice Dogs professional ice hockey team to the Long Beach Arena for a five-year period, with options for two additional five-year periods that the Ice Dogs can exercise.

This season marks the 9th year that the Ice Dogs have called the City of Long Beach their home. The team was originally founded as the San Diego Gulls in 1989 and was a member of the "AAA" International Hockey League (IHL). The team played as the San Diego Gulls (in San Diego) for five seasons and sat out the 1994 – 1995 season. In 1995, the team moved north and played for one season as the Los Angeles Ice Dogs and in 1996 moved to Long Beach and changed their name to the Long Beach Ice Dogs. The team switched their league affiliation to the West Coast Hockey League (WCHL) for the 2000-2002 seasons and then to the East Coast Hockey League (ECHL) for the 2003-2004 season where they continue to play today. The team is considered an "AA" professional team with an affiliation to the Montreal Canadiens NHL team.

During our review of the Ice Dogs financial statements, we noted that the team has not made a profit since moving to Long Beach. Annual ticket sales and attendance have declined considerably over the past eight seasons as illustrated in the table below:

<u>Season</u>	<u>Win Percentage</u>	<u>Attendance</u>	<u>Ticket Sales</u>
1996-1997	.659	162,044	\$2,103,924
1997-1998	.646	153,869	\$1,991,061
1998-1999	.600	136,289	\$1,418,910
1999-2000	.537	149,631	\$1,665,024
2000-2001	.569	110,273	\$1,290,121
2001-2002	.569	100,398	\$1,058,583
2002-2003	.306	87,416	\$ 862,649
2003-2004	.354	65,368	\$ 751,175

The National Hockey League is currently on strike, and as a result, the 2004 – 2005 Ice Dogs average game attendance has increased over recent seasons. However, the Community Development Department (CD) believes the increased attendance is not significant and may not continue once the NHL settles their strike.

The agreement gives the Ice Dogs part of the game revenues as follows:

- 50% share of the revenue payable from the sale of concessions and food catering.
- 50% of the parking revenue, but not less than \$2 per car, based on game attendance, not actual parked cars.
- 100% of the promotional.¹

However, during the term of the agreement, if annual season ticket sales do not total at least 3,000² and group sales per game do not average 200, the Ice Dogs will be rebated the following additional game revenue:

- The remaining shares of revenue payable to the City for parking, concession and catering.
- \$1,000 of the \$5,000 rent paid, per game.

The following table summarizes the revenue rebates received by the Ice Dogs during the past 5 seasons:

Shared Revenue Rebated to the Ice Dogs³

<u>Total Season</u>	<u>Concessions</u>	<u>Catering</u>	<u>Parking</u>	<u>Promotional Fund⁴</u>	<u>Rent⁵</u>	<u>Total</u>
1999-00	\$ 335,978	\$2,405	\$239,822	\$ 0	\$ 44,000	\$ 622,205
2000-01	\$ 240,710	\$ 641	\$179,648	\$ 0	\$ 39,000	\$ 459,999
2001-02	\$ 214,820	\$1,612	\$146,036	\$14,603	\$ 39,000	\$ 416,071
2002-03	\$ 185,568	\$1,172	\$177,944	\$15,266	\$ 36,000	\$ 415,950
2003-04	<u>\$ 137,302</u>	<u>\$1,405</u>	<u>\$114,086</u>	<u>\$11,406</u>	<u>\$ 38,000</u>	<u>\$ 302,199</u>
Totals	\$1,114,378	\$7,235	\$857,536	\$41,275	\$196,000	\$2,216,424

The above rebates reduce convention center profits, which then have a negative impact on SMG's incentive fee. Therefore, SMG was made whole on the above-shared revenue based on a letter of agreement the City of Long Beach and SMG signed on January 7, 2000, which stated in part,

"In the past, the City has acknowledged in writing each year that the Ice Dogs Rebates are to be added back to the net operation income of the Center when calculating the amount, if any, of SMG's incentive fee. Conclusion: The City and SMG agree that for fiscal year ending September 30, 1999 and all subsequent years that the

¹ Section 23, (a) of the operating agreement defines the promotional fund as "... The method of determining the amount of revenues attributable to Licensee's patrons at Licensee's events shall be to calculate the attendance at Licensee's events and assume 2.75 person per car. The estimated difference between 2.5 persons per car and 2.75 persons per car shall be used by the parties to fund a special City/SMG promotion for the benefit of the Ice Dogs."

² Since moving to Long Beach, the Ice Dogs have never exceeded 3,000 season ticket sales.

³ Ice Dogs received 100% of all shared event revenue.

⁴ Ice Dogs receive 100% of the Promotion Fund per the contract.

⁵ \$1,000 rebate of rent paid, per game.

amount of the Ice Dogs' Rebates will be recorded as an operation expense of the Center and then added back to net operation income in order to calculate SMG's incentive fee..."

What this means is that the City adds the Ice Dogs' game revenue rebates back to available income for the purpose of calculating SMG's 25% incentive fee. This resulted in SMG being paid about \$554,000 (25% of \$2,216,424) in incentive fees based on the Ice Dogs' game revenue rebates paid.

The Long Beach Convention and Entertainment Center has lost about \$1.2 million as a direct result of hosting Ice Dog games in the Arena as summarized in the following consolidated Income Statement:

**Long Beach Convention & Entertainment Center
 Long Beach Ice Dogs Income Statement for Past 5 Seasons**

	1999-00	2000-01	2001-02	2002-03	2003-04	Total
Income:						
Arena Rental Income ⁶	\$132,000	\$117,000	\$156,000	\$144,000	\$152,000	\$701,000
Miscellaneous Income	\$4,920	\$5,992	\$9,097	\$9,852	\$11,184	\$41,045
Gross Income	\$136,920	\$122,992	\$165,097	\$153,852	\$163,184	\$742,045
Expense:						
Maintenance Labor	\$42,722	\$2,669	\$6,560	\$10,524	\$10,794	\$73,269
Changeover Labor	\$117,726	\$96,267	\$111,055	\$105,445	\$57,012	\$487,505
Stagehand Labor	\$30,543	\$12,946	\$11,078	\$11,773	\$13,207	\$79,547
Crowd Mgmt. Labor	\$115,226	\$88,921	\$94,804	\$95,653	\$92,832	\$487,436
Box Office Labor	\$1,316	\$585				\$1,901
EMT/Med Services	\$4,222	\$3,632	\$3,565	\$4,113	\$4,122	\$19,654
Supplies	\$2,242	\$3,209	\$3,467	\$3,404	\$1,883	\$14,205
Cleaning Labor	\$152,108	\$124,577	\$115,924	\$110,445	\$88,380	\$591,434
Parking ⁷	\$76,830	\$51,937	\$189	\$2,341	\$29,768	\$161,065
Telecommunication	\$4,708	\$4,303	\$3,245	\$2,819	\$2,012	\$17,087
	\$547,643	\$389,046	\$349,887	\$346,517	\$300,010	\$1,933,103
Net Loss	(\$410,723)	(\$266,054)	(\$184,790)	(\$192,665)	(\$136,826)	(\$1,191,058)

Because of the revenue sharing incentive fee between the City and SMG (distributed 75% and 25% respectively), the City's share of the losses for the past five seasons is about \$893,000 (75% of \$1,191,058). From SMG's perspective, they share in these losses because the Convention and Entertainment Center had a profit in every year during this five-year period. SMG's share of these losses, by way of a reduction in their incentive fee, is about \$298,000 (25% of \$1,191,000).

⁶ Net of the \$1,000 per game rebate paid to the Ice Dogs.

⁷ Excess rebates paid to Ice Dogs over actual parking revenue collected. Rebate is calculated based upon attendance, not actual vehicles parked.

Thus, the Ice Dogs use of the Arena resulted in a net loss to the City over the past five years of:

Incentive fees paid to SMG on rebates to Ice Dogs:	\$ 554,000
City's share of net losses from Ice Dogs' games:	<u>893,000</u>
City's Net Loss on Ice Dog Games:	<u>\$1,447,000</u>

CD recently completed a review of the Ice Dogs' request to the City to consider additional cost concessions totaling about \$254,000 over a two-year period. Part of CD's review included an analysis of opportunity revenue to the City if the Arena was available for use during the 36 to 44 weekends it is used by the Ice Dogs. CD believes that the Arena could function as an attractive concert or event venue, particularly during the hockey season, as indoor concerts are preferred during that time period. CD estimates that, over time, an average of 30 concerts or events could be booked on an annual basis. These concerts or events would likely average net income of \$50,000 on a weekday night and \$100,000 on a weekend night. These potential concerts or events could provide annual net opportunity revenue to the City of about \$1.5 million per year.

We are in agreement with the Community Development Department's recommendation that no additional cost concessions or revenue rebates should be given to the Ice Dogs.