



Legislation Text

File #: 20-0628, **Version:** 1

Recommendation to authorize an advance of payment expected to be owed under Management Agreement No. 21667 to ASM Global for operational expenses at the Long Beach Convention and Entertainment Center due to COVID-19 impacts. (District 2)

Due to COVID-19 related economic impacts and state and local operating restrictions, the Long Beach Convention and Entertainment Center (Convention Center) has experienced a major reduction in events and operations. The resulting loss of operating revenue at the Convention Center has severely impacted cashflow available for even minimal maintenance and operation at the center. Due to these unique and expected temporary service disruptions, it is anticipated that the Convention Center will not have enough cash on hand to maintain operations by the end of July 2020.

ASM Global (formally SMG) (ASM) operates the Convention Center under contract with the City. ASM has taken measures to minimize operating costs at the center. Staffing has been reduced to 15 positions, and major systems at the Convention Center are run at minimal capacity. The central plant at the Convention Center must remain operational as it supports utilities at the center and at the Hyatt Long Beach. Additionally, staff must provide maintenance and security at the center during the COVID-19 pandemic shutdown.

Under the Management Agreement (Agreement), which governs the ASM operation of the Convention Center, ASM must remit a portion of the profits to the City of Long Beach (City). The Tidelands Fund normally receives approximately \$500,000 annually from Convention Center profits. However, per the Agreement, when operating expenses exceed operating revenue for the fiscal year, the City must reimburse ASM for this operational deficiency. This fiscal year (FY 20), the amount that will be owed to ASM is estimated at \$4.7 million. Per the Agreement, this payment will be due to ASM in December after the audited financial statements are completed for the fiscal year ending September 30.

As described above, the Agreement normally results in a payment to the City after operating expenses are deducted from revenues generated by activities and events. However, the Agreement with ASM did not anticipate such a severe disruption such as COVID-19 that would close the Convention Center for a sustained period of time and limit the activities and events that generate adequate revenue that offset or exceed costs for operating the facilities. For the calendar year 2020, 126 events were planned at the Convention Center. Due to concerns regarding COVID-19, the Convention Center received 45 cancellations to date; and, several more conventions scheduled for the months of March through June have been rescheduled to later 2020 or early 2021. More cancellations or postponements are anticipated pending future health orders.

To cover the minimum costs to maintain the Convention Center, which includes the minimum operating costs for maintenance and security during the closure period, it is estimated that the Convention Center will need up to \$3 million in cash between August 1, 2020 and December 31, 2020, after taking into account the many cash saving mechanisms that ASM is using. ASM is requesting a cash advance of \$3 million against the estimated \$4.7 million the City will need to pay ASM in December 2020, as a result of this unprecedented situation. The advance payment will better allow ASM to continue to maintain and secure the facility at the minimum required levels and to continue to operate as it slowly starts operations, estimated to begin in September 2020. Staff recommends the cash advance as an appropriate action to help maintain and secure the Convention Center.

For FY 21, based on residual pandemic impacts, it is anticipated that the Convention Center will still operate at a loss. At present, based on an early ASM estimate of bookings, there is a projected loss of about \$2.5 million for FY 21, but it is too early to determine whether a cash advance will be needed after December 2020.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and by Finance Director John Gross on June 11, 2020.

EQUITY LENS

The City has incorporated the Equity Toolkit into this recommendation as requested by the City Council on April 21, 2020. This recommendation is not anticipated to have any adverse equity impacts.

City Council action is requested on July 7, 2020, to address the ongoing cashflow deficiency for the minimal maintenance and operation of the Convention Center.

The cash advance is an advance of funds the City will owe to ASM in December due to revenue losses under the Agreement. The cash advance will have no fiscal impact other than an estimated loss in interest earnings of approximately \$15,000 (based on monthly payments as cash is needed) and is considered a necessary cost associated with COVID-19. There is a substantial impact to the Tidelands Fund Group due to the operating revenue loss due to a closed Convention Center, but this item is about an advance of the loss payment and it has little financial impact as described above. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

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JOHN KEISLER

DIRECTOR OF ECONOMIC DEVELOPMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER