

STAFF REPORT

TO: Mayor Bellamy and City Council
DATE: June 12, 2012

Via: Gary Jackson, City Manager

FROM: Sam Powers
Economic Development Director

SUBJECT: Moog Fest Partnership Agreement

Summary Statement: The consideration of a resolution authorizing the city manager to enter into a partnership agreement between AC Entertainment and the U.S. Cellular Center for 2012 Moog Fest.

Background: AC Entertainment, in cooperation with the Moog Foundation and Moog Music, annually produces Moog Fest, a multiple-day festival featuring multi-faceted cultural experiences. Moog Fest has been hailed in national and international publications as a world-class destination event. A portion of the proceeds of Moog Fest benefit the Moog Foundation, which is developing a Bob Moog Museum dedicated to the work of the legendary visionary. The main venue for Moog Fest is the U.S. Cellular Center.

AC Entertainment has proposed that the U.S. Cellular Center, which has had a co-promotional agreement in place for the previous Moog Festivals, consider entering into a partnership agreement for the event. The terms of the agreement include:

- Net revenues (revenues less expenses) earned by the promoter, including ticket sales and sponsorship revenue, be split evenly with the U.S. Cellular Center, and;
- Net concessions revenue and all other gross revenues earned by the U.S. Cellular Center be split evenly with AC Entertainment.

The 2012 proposal is different from previous agreements in two ways. First, it proposes that the U.S. Cellular Center share all categories of revenue, including its facility fee and concessions recovery fee, which have not been shared before. Second, it proposes that the U.S. Cellular Center receive half of any net profit earned by AC Entertainment.

Ashley Capps, the President of AC Entertainment noted, "The principle behind the deal structure that we have proposed is important. By sharing 50/50 in all revenue streams, we align everyone's interests in the spirit of working together for a common goal and mutual success. This is the heart of our proposal." According to the promoter, the proposal is structured so that both parties have a financial incentive to manage the event as efficiently and profitably as possible.

Financial Analysis:

Moog Fest 2010

The U.S. Cellular Center had a net profit (revenues less direct expenditures) of \$105,719 for Moog Fest 2010. Under the terms of the 2010 agreement, the U.S. Cellular Center split half of its net concessions revenue with AC Entertainment. No other revenue streams were shared. AC

Entertainment was responsible for reimbursing the U.S. Cellular Center for all direct expenses, which include building costs, labor, and other fees.

Moog Fest 2011

In 2011, the U.S. Cellular Center did not split concessions revenue with AC Entertainment, and AC Entertainment was not responsible for reimbursing the U.S. Cellular Center for direct expenses. The U.S. Cellular Center's financial performance for Moog Fest 2011 is summarized below:

U.S. Cellular Center Revenue	\$137,013
U.S. Cellular Center Direct Expenses	<u>(\$71,945)</u>
U.S. Cellular Center Net Profit (Loss)	\$65,069

Moog Fest 2012

AC Entertainment has proposed that net concessions revenue and all other sources of gross revenue collected by the U.S. Cellular Center be split in half with AC Entertainment. In return, AC Entertainment would split any net profit earned by the promoter on the event with the U.S. Cellular Center. AC Entertainment developed a revenue projection for the U.S. Cellular Center based on the terms of its partnership proposal, which is included below in the summary below:

U.S. Cellular Center Revenue (50%)	\$68,401
Promoter's Net Revenue (50%)	\$99,987
U.S. Cellular Center Direct Expenses	<u>(\$71,945)</u>
U.S. Cellular Center Projected Net Profit (Loss)	\$96,443

Using AC Entertainment's financial assumptions, and assuming the U.S. Cellular Center's expenditures are roughly the same as 2011, the Center would have a net profit of \$96,443 for the 2012 event. If the promoter does not experience positive net revenue, the U.S. Cellular Center will likely break even or experience a net loss on the event. This scenario is illustrated below.

U.S. Cellular Center Gross Revenue (50%)	\$68,401
Promoter's Net Revenue (50%)	\$0
U.S. Cellular Center Direct Expenses	<u>(\$71,945)</u>
U.S. Cellular Center Net Profit (Loss)	<u>(\$3,544)</u>

In conclusion, by agreeing to split all sources of revenue, the U.S. Cellular Center has the opportunity to participate in the promoter's potential positive financial performance; at the same time, should the promoter fail to generate a net profit, the U.S. Cellular Center could experience a loss. By entering into the partnership agreement, the Center is agreeing to assume a greater financial risk in the event with the potential to realize a financial reward. However, if the promoter fails to achieve a net profit on the event, the U.S. Cellular Center will also experience a net loss. As a result, the Civic Center Fund would either have to exceed revenue projections for other events during the year or anticipate a greater financial subsidy from the General Fund at year end.

Pros:

- Structure of the agreement incentivizes both parties to maximize profitability of the event.
- Performance driven agreement that provides an opportunity to participate in the promoter's net profit for the event, if one is achieved.

- Potential to return the event to profitability experienced in 2010.
- The event supports economic impact in the form of hotel sales and occupancy taxes, retail and sales tax generation.

Cons:

- Requires the City to split all categories of revenue with the promoter; promoter is not required to pay for any of the U.S. Cellular Center's direct expenses.
- City staff does not have access to Moog Fest's financial information (budget to actuals) from past events to validate the projections included AC Entertainment's pro forma. In addition, other variables, like changes in the event structure year-over-year, make it difficult to project how likely the promoter will be in achieving forecast financial performance.
- The U.S. Cellular Center has limited influence on the promoter's revenue and expenses related to the event.
- If the promoter is unable to achieve a net profit on the event, the U.S. Cellular Center will likely experience a loss on the event.

The City Council's Strategic Operating Plan, Fiscal Responsibility Category, has a goal to review analysis of revenue streams to identify opportunities for revenue diversification.

Fiscal Impact: The financial performance of this event impacts the U.S. Cellular Center's ability to meet budgeted revenue projections for the year. The facility's financial performance for the year directly impacts the level to which the General Fund must support the U.S. Cellular Center's operations. Using AC Entertainment's revenue projections, the U.S. Cellular Center could experience a net profit as much as \$96,443 for Moog Fest 2012. Under the worst case scenario, if the promoter fails to achieve a net profit on the event, the U.S. Cellular Center would lose approximately \$3,544 on the event.

Recommendation: If City Council approves entering into this partnership agreement, staff would recommend that the 2012 financial results be presented to the City Council Finance Committee after the event to evaluate if this type of structure is a viable partnership model for future Moog Fest events. Staff also recommends that the U.S. Cellular Center be listed as an event partner in all promotional material and advertising for the event.

Attachment:
(1) Resolution

RESOLUTION NUMBER _____

RESOLUTION AUTHORIZING THE CITY MANAGER TO ENTER INTO A PARTNERSHIP AGREEMENT BETWEEN AC ENTERTAINMENT AND THE US CELLULAR CENTER FOR MOOG FEST 2012

WHEREAS, AC Entertainment, in cooperation with the Moog Foundation and Moog Music, annually produces Moog Fest, a multiple-day festival featuring multi-faceted cultural experiences; and

WHEREAS, Moog Fest has been hailed in national and international publications as a world-class destination even; and

WHEREAS, a portion of the proceeds of Moog Fest benefit the Moog Foundation, which is developing a Bob Moog Museum dedicated to the work of the legendary visionary; and

WHEREAS, Moog Fest generates a positive economic activity in the form of sales tax receipts and hotel room nights; and

WHEREAS, AC Entertainment has presented a partnership agreement whereby the US Cellular Center and AC Entertainment would evenly split all event revenues, including the promoter's net profit on the event; and

WHEREAS, this proposal presents an opportunity to potentially enhance the overall financial performance of the event at the U.S. Cellular Center; and

WHEREAS, the City Council's Strategic Operating Plan for the City includes a goal to explore partnership opportunities to diversify revenue sources; and

WHEREAS, the City will evaluate the financial results after the event to determine if this type of partnership is a viable model for the future;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF ASHEVILLE THAT:

The City Manager is authorized to enter into a partnership agreement with AC Entertainment where identified sources of revenue are split evenly between AC Entertainment and the U.S. Cellular Center for Moog Fest 2012.

Read, approved and adopted this 12th day of June, 2012.