City of Culver City, California

Agenda Item Report

Meeting Date: 06/27/11	Item Number: JC-2
JOINT CITY COUNCIL AND REDEVELOPMENT AGENCY BOARD AGENDA ITEM: Approval of a Request from Oliver McMillan to Purchase Digital Projection Systems and Related Equipment for the Pacific Theatres.	
Contact Person/Dept.: Elaine Warner	Phone Number: 310.253.5777
Fiscal Impact: Yes [] No [X]	General Fund: Yes [] No [X]
Public Hearing: [] Action Item: []	Attachments: [X]
Commission Action Required: Yes [] No [X]	Date: ________________
Public Notification: (E-Mail) Agenda and Meetings – Redevelopment Agency (06/23/11)	
Department Approval: Sol Blumenfeld (06/23/11)	City Attorney Approval: Carol Schwab (by H. Baker) (06/23/11) Agency General Counsel Approval: Murray Kane (06/23/11)
Chief Financial Officer Approval: Jeff Muir (by M. Noller) (06/23/11)	City Manager/Executive Director Approval: John M. Nachbar (06/23/11)

RECOMMENDATION

Staff recommends that the City Council and Redevelopment Agency Board (Agency Board) approve a request from Oliver McMillan to purchase a digital projection system for Pacific Theatres at a cost of $428,000 from the Theater's capital reserve fund.

BACKGROUND

The Culver City Redevelopment Agency (Agency) developed the Pacific Theatres in an effort to revitalize the downtown area. Although the construction of Pacific Theaters was largely financed by the Agency (through a contribution of approximately $13 million dollars), the building (including the fixtures and equipment) and land are owned by the City of Culver City (City) and leased to Oliver McMillan (OM) for use as a first-run movie theatre.

Recently, the movie industry medium has changed format from 35 mm films to digital films. To that end, staff and OM have discussed the eventual need to convert the current Pacific Theaters projection system to a digital platform in order to remain competitive in the market and continue to receive first-run films.

Further, Section 2.2 of the lease agreement between OM and Pacific Theatres states: Owner shall utilize "commercially reasonable efforts to cause the Theatres to be operated (a) at a level of service and quality generally considered to be “first class” and generally equal to or better than the level of service and quality prevailing from time to time at the theatres in the Competitive Set.”

On June 4th, OM requested approval to utilize funds from the Culver City Theatre Capital Expenditure Reserve to convert 11 film projectors at the Pacific Theatres to Sony digital projectors (Attachment 2). This opportunity is structured as a capital lease so that 11 of the projectors can be converted in the near future (one projector is already digital). The term of the lease would be for 11 years with the option for OM to purchase the projectors at a fair-market price at the conclusion of the lease. The lease agreement requires Sony, at their expense, to supply new technology should the studios require a different or updated technology. Since these projectors are now the fourth generation of digital projectors, OM and Pacific Theatres feel that this is the very latest, best performing technology available at the most favorable pricing.

Repayment of the Agency’s expenditure for this project is allocated from theater revenues once operational expenses (including monthly contributions to a capital reserve fund) and the “threshold amount” have been deducted (Attachment 1). Staff tracks monthly repayments and revenue trends and presents the theatres’ performance levels (revenues vs. annual projection) twice a year. In addition, staff monitors the fixed asset policy that was developed between Pacific Theatres and OM in 2008. The policy was created to promote consistent accounting treatment of fixed assets and ensure that the City and Agency maintain oversight on large capital expenditures for the Pacific Theatres relative to resources and property value. Thus, the policy requires that any fixed-asset expenditure in excess of what may be approved administratively by the Agency’s Executive Director (an amount not to exceed $30,000) be brought forth to the City Council and Agency Board for consideration.

DISCUSSION:

The cost to purchase the projectors outright would be prohibitive, exhaust the entire reserve fund, and would require additional funds. Further, as technology continues to improve, a lease structure will enable the Pacific Theatres to remain competitive without huge expenditure costs. Sony projectors are considered the best in the industry, and service and maintenance on these projectors will be comparable to existing projectors. In addition, the RealD system is also part of the proposed lease and is compatible with the requested Sony digital projectors. This system would enable Pacific Theatres to present 3-D movies on 3 screens. In addition, the cost includes the purchase of the existing NEC digital projector in the 12th theater. The Lease Agreement for that projector has expired and both Sony and Pacific Theatres agree that the existing NEC projector is the best projector for this very large screen. This cost is approximately $48,000.

With the summer “blockbuster” months ahead, Pacific Theatres and OM are eager to convert the projectors as soon as possible. Conversion will be staggered over one week and will not affect operation or current show times. Additional marketing efforts would be conducted by Pacific Theaters to showcase the theatres' new digital and 3-D projection systems.

FISCAL ANALYSIS:

The cost to convert the projection system at Pacific Theatres does not impact either the General Fund or Redevelopment Agency funds. The funds for the conversion will be allocated from the Culver City Theatres Capital Reserve Fund, a reserve account funded solely by net operating income from the Culver City Pacific Theatres Stadium 12 operation. Every month, $10,000 is allocated to this fund before other repayment obligations to OM or the Agency are funded. This reserve fund is administered by OM and is designated only for capital improvements at the Culver City Pacific Theatre Stadium 12 facility. The balance of the theatres reserve fund is $792,259.79. The request to expend $428,000 represents approximately 55% of the current reserve. With a digital projection system, however, Pacific Theatres Stadium 12 will maintain its ability to showcase first-run movies and continue to be a popular destination and economic driver in downtown Culver City.

ATTACHMENTS:

1. Pacific Theatres Repayment Hierarchy
2. Letter from Oliver McMillan

MOTIONS:

That the City Council and Agency Board:

Approve a request from Oliver McMillan to purchase a digital projection system for Pacific Theatres at a cost of $428,000 from the Theater's capital reserve fund.