



AGENDA MEMORANDUM

Future Item for the City Council Meeting of September 11, 2012
Action Item for the City Council Meeting of September 18, 2012

DATE: August 31, 2012
TO: Ronald L. Olson, City Manager
FROM: Wes Pierson, Assistant City Manager
wesp@cctexas.com
361.826.3082

Review of SMG Response to the City of Corpus Christi Request for Proposal for Management Services for the American Bank Center

CAPTION:

Motion directing the City Manager or designee to: i) prepare a document analyzing and summarizing the financial and strategic options available to the City for the operation and management of the ABC; (ii) provide recommendations to the City Council related to the operation and management of the American Bank Center; and (iii) conduct time-limited negotiations with SMG for the operation and management of the American Bank Center (ABC).

PURPOSE:

To present to Council the terms proposed by SMG for management of the American Bank Center and obtain Council's direction.

BACKGROUND AND FINDINGS:

Since 2003, the operations at the American Bank Center have been managed privately on a contract basis. The facility operations have been managed by SMG, while the food and beverage operations have been managed by Centerplate. In 2009, Council authorized the City Manager to negotiate a new five year agreement with SMG to operate and manage the American Bank Center and to manage the food and beverage agreement with Centerplate. The new agreement required the City to solicit and entertain proposals from private venue management firms to manage and operate the American Bank Center at the end of the third year of the agreement (July 31, 2012). The new agreement also provide the City the option of terminating the agreement, with or without cause, by providing no more than 90 days' notice to SMG without the payment of any penalty or fees. The new agreement was executed on July 21, 2009 with an effective date of August 1, 2009.

On May 4, 2012, as required by the management agreement, the City of Corpus Christi released a Request for Proposal (RFP). The initial due date for responses was June 15, 2012. There was only one participant (SMG) in the first pre-proposal conference on May 17, 2012. On May 18, 2012 City Staff was contacted by a second venue management company (Global Spectrum) requesting additional time to conduct the due diligence necessary to respond to the RFP. As a result, the initial RFP deadline was extended to June 29, 2012. The RFP deadline was extended a final time to July 6, 2012 to allow staff the time to finalize response to clarifying questions submitted by the RFP respondents.

On July 6, 2012, the City received one response (SMG) to its Request for Proposal for management services at the American Bank Center. Global Spectrum decided not to submit their proposal because of an existing management agreement with Nueces County for the Richard M. Borchard Regional Fairgrounds.

The following table compares the existing management agreement with SMG's recent proposal:

Deal Point Comparison: Existing Agreement vs. Proposal			
	Existing	Proposed	Difference
Term	5 years (Three years fixed, City option to terminate the agreement, with our without cause, by providing no more than 90 days' notice to SMG without the payment of any penalty or fees.	Five (5) years with an option to extend the contract for three additional one (1) year periods at the discretion of the City.	The SMG proposal extends the fixed term of the existing agreement from three to five years and offers three one-year extensions.
Base Fee	SMG: \$191,744.73 Centerplate: \$78,241.31 Total: *\$269,986.73 *FY 2013 only Base management fee is subject to annual increases based on changes in the consumer price index (CPI)	\$125,000 annually for consolidated management of facility and food & beverage operations; subject to annual increases based on changes in the consumer price index (CPI)	For Fiscal Year 2013 the SMG proposal decreases the base management fee approximately \$145,000. It is unclear at this time what impact a new agreement might have on the annual operating subsidy.
Incentive Fee	<u><i>Arena Incentive Fee:</i></u> SMG is entitled to an annual Incentive Fee in any year when the Fiscal Year Net Operating Income is equal to or an improvement over the Net Operating Incoming Benchmark that is approved in the Annual Budget. The Incentive Fee is equal to 25% of the amount by which Operating Revenues for the fiscal year exceed the approved Revenue Benchmark. <u><i>Convention Center Fee:</i></u> SMG is entitled to an annual Incentive Fee in any year when the Fiscal Year Net Operating Loss	In order to qualify for any incentive payments SMG must achieve both of the following: - Must exceed the approved annual operating budget - Must exceed the current 30% Operating Profit Margin for the Food & Beverage Operation based on current calculation with the existing food service provider If SMG achieves the above two criteria the company will be eligible for an incentive fee based on the following criteria: 1. Financial Incentive Fee (Revenue-Based) [up to 80% of the base	The SMG proposal changes the basis of the Arena and Convention Center Incentive Fees from being based solely on financial performance to being based on Financial and Non-Financial measures of performance. The SMG proposal adds a Food and Beverage Incentive Fee that anticipates assuming management of the food and beverage operations.

	is equal to or an improvement over the approved Net Operating Loss Benchmark. The Incentive Fee is equal to 25% of the amount by which the Operating Revenues for the fiscal year exceed the approved revenue benchmark.	fee]: SMG would earn 20% of Operating Revenues in excess to an agreed upon benchmark. 2. Non-Financial Incentive Fee [up to 20% of base fee]: Additionally, SMG would be eligible for an incentive based upon the City's evaluation of SMG's performance on mutually agreeable goals in the following suggested areas: i. Annual Client Satisfaction Goals (10% of base fee) ii. Annual Maintenance / Capital Goals (10% of base fee)	
Cash Commitment	SMG committed \$100,000 to be used for capital improvements amortized over a three-year period (approximately \$33,000 per year). The \$100,000 was spent on repairs to the ceiling in the Selena Auditorium and landscaping at the American Bank Center.	SMG is offering a \$250,000 grant to be used by the City to fund any needs at the Complex. These funds may be used to supplement the Convention Event Fund (CEF) to increase economic activity or offset any transition expenses related to the Food & Beverage operation (licensing, permits, etc.). If SMG is terminated without cause prior to the end of the five (5) year agreement, SMG would be entitled to the unamortized balance of the investment. If the agreement is terminated for cause, there would be no repayment.	The SMG proposal increases the annual grant amount provided by SMG from \$33,000 per year to \$50,000 a year and expands the permitted uses of the grant from strictly capital improvements to "any needs at the complex."

An evaluation team made up of Wes Pierson, Assistant City Manager; Mike Barrera, Assistant Director of Financial Services; Priscilla Garza, Accountant; Robert Tamez, Chairman of the Type A Board; and Keith Arnold, CEO of the Corpus Christi Conventions and Visitors Bureau was selected to review and score SMG's proposal (Mr. Arnold was ultimately unable to participate due to travel commitments). The proposal was found to be responsive to the RFP requirements with one discrepancy—the term of the contract in SMG's proposal did not reflect additional information that was provided to them in a later addendum.

Attached to this agenda item are two separate projections (one created by SMG and one created by

the City) of the potential savings that could be realized by SMG's proposal. The projections are different because they use separate assumptions. SMG assumes that the fees associated with the existing agreement continue to increase (adjusted for inflation) for a period of five years. The City assumes that the fees associated with the existing agreement continue to increase until the end of the existing agreement—or two years—at which point the existing fees would be replaced with a lower management fee structure. In order to provide an “apples to apples” comparison (over a period of five years) the final three years of the staff projection use the first three years of management fees proposed by SMG in their response to the City's RFP.

ALTERNATIVES:

1. Reject SMG's proposal and continue to operate under the terms of the existing management agreement with SMG (for facility management) and Centerplate (for food and beverage management) until the agreement expires on July 31, 2014. Benefits of this alternative include:
 - a. The existing contract provides the City the most flexibility to control its own destiny (we can end the agreement at any time without penalty).
 - b. Provides time for City Staff to better understand the realities of SMG's performance as the venue manager and consider new incentives to improve the performance of the venues.
2. Accept SMG's proposal for consolidated management of facility and food and beverage operations. This option would eliminate Centerplate as the manager of the food and beverage operations and replace them with Savor—SMG's food and beverage company. Benefits of this alternative include:
 - a. Immediate cost savings in terms of the base management fee.
 - b. Additional value in annual grant funds (\$50,000) to be used for needs at the American Bank Center.
3. Direct staff to negotiate a new contract that would maintain SMG as the facility operations manager and Centerplate as the food and beverage operations manager. Benefits of this alternative include:
 - a. Maintaining the existing management arrangement under potentially more favorable terms than the existing agreement.
4. Direct staff to negotiate terms of the SMG proposal to incorporate appropriate performance measures and incentives in order to achieve improved financial performance.
 - a. Immediate cost savings in terms of the base management fee.
 - b. Additional value in annual grant funds (\$50,000) to be used for needs at the American Bank Center.
 - c. Provides time for City Staff to better understand the realities of SMG's performance as the venue manager and negotiate new incentives to improve the center's performance.

OTHER CONSIDERATIONS:

The SMG proposal anticipates the consolidation of management of both facility and food and beverage operations under one provider (SMG). This proposal would effectively eliminate the agreement with Centerplate for food and beverage services at the American Bank Center upon execution of a new contract with SMG.

CONFORMITY TO CITY POLICY:

This agreement conforms to City Policy

EMERGENCY / NON-EMERGENCY:

Non-Emergency

DEPARTMENTAL CLEARANCES:

ACM, Business Support Services, Finance, Legal

FINANCIAL IMPACT:

Operating Revenue Capital Not applicable

Fiscal Year: 2011-2012	Project to Date Expenditures (CIP only)	Current Year	Future Years	TOTALS
Line Item Budget		\$269,986.04	\$525,505	\$795,491.04
Encumbered / Expended Amount		\$0.00	\$0.00	\$0.00
This item		\$125,000	\$525,505	\$650,505
BALANCE		\$144,986.04	\$0.00	\$144,986.04

Fund(s):

Comments: The financial impact information assumes the consolidation of facility and food & beverage operations under the SMG management umbrella.

The cost breakdown over the final two years of the existing management agreement compared to SMG's proposal is reflected in the table below:

	Existing Agreement	SMG Proposed	Difference
<i>Base Management Fee FY 2013</i>	\$269,986.04	\$125,000.00	\$144,986.04
<i>Base Management Fee FY 2014</i>	\$275,385.76	\$127,500.00	\$147,885.76
Total for FY 2013 & 2014	\$545,371.80	\$252,500.00	\$292,871.80

Note: As part of their proposal SMG is prepared to make available a grant of \$50,000 per year (up to \$250,000) to fund any needs at the American Bank Center. Staff would determine the best use of these grant funds.

RECOMMENDATION:

Approval of motion to direct staff to negotiate terms of the SMG proposal submitted on July 6, 2012. Further, direct staff to explore ways with SMG to improve performance of the American Bank Center and, if possible, incorporate ideas into a new contract.

LIST OF SUPPORTING DOCUMENTS:

- Certification of Funds
- Summary of SMG Proposal
- Breakdown of Potential Cost Savings of Existing Agreement vs. SMG Proposal (SMG Assumptions)
- Breakdown of Potential Cost Savings of Existing Agreement vs. SMG Proposal (City Assumptions)
- American Bank Center Performance Charts