seattlecenter

M E M O R A N D U M

To: Councilmember Jean Godden, Chair, Parks, Seattle Center, Libraries and Gender Pay Equity Committee
Councilmember Bruce A. Harrell
Councilmember Tom Rasmussen

From: Robert Nellams, Director, Seattle Center

Date: August 15, 2014

Subject: Statement of Legislative Intent 56-1A-1

Statement of Legislative Intent 56-1A-1, adopted with the 2014 Adopted Budget, required Seattle Center to explore and recommend steps Seattle Center could take to increase the net revenues generated by the Armory food court.

This report is intended to provide Council and staff information about Center's plans to increase revenues and net revenues beginning in 2015.

Center will reduce management expenses by not renewing the contract with Levy Restaurants and instead managing this function with current staff. The department also will seek increased sponsorship revenues. Center also continues to explore ways to gain revenue by using the redeveloped Armory to host new events.

We look forward to working with Council to ensure the financial success of the Armory food court in years to come.

cc: Tom Israel, Seattle Center
Mike Katz, Seattle Center
Catherine Cornwall, CBO
Ann Gorman, CBO

Summary

The following report is in response to the City Council's Statement of Legislative Intent (SLI) 56-1A-1 approved as part of the 2014 Budget. In it, Council requested that Seattle Center work with the Seattle Center Advisory Council, City Budget Office and Council staff "to explore and recommend steps Seattle Center could take to increase the net revenues generated by the Armory food court." Specifically, the SLI states that the report should include the following components:

1. Identification and analysis of options for decreasing food court operating expenses
2. Identification and analysis of options for increasing food court revenues
3. Recommended actions that would increase the net revenues generated by the food court and could be implemented by early 2015

This report identifies steps that can be taken to decrease operating expenses and increase revenues beginning in 2015. Specifically, Seattle Center proposes reducing management expenses by not renewing the contract with Levy Restaurants and instead managing this function with current staff. The department also proposes continuing its pursuit of increased sponsorship revenues. The department signed an agreement with Coca-Cola in August 2012 and intends to continue that agreement while pursuing others, a process in which it is currently engaged. Finally, Seattle Center continues to explore ways to gain revenue by using the redeveloped Armory to host new events, such as meetings and parties in both the Atrium and in The Loft.

Background

The Armory originated as the Seattle Field Artillery Armory in 1939. It was designed as a training facility for Seattle-based units of the National Guard. The building was leased from the National Guard and used as the "Food Circus" for the 1962 World's Fair. Following the Fair, the building continued to house retail and food merchants on all of its levels, connected by the iconic Bubbleator. In the 1970s, the building was renamed Center House following some minor renovations. Through the 70s and 80s, a combination of food, retail and entertainment uses prevailed, and offices in the building became the permanent headquarters of Seattle Center.

In the late 2000s, an appointed committee of citizens undertook a broad public process to finalize a 20-year redevelopment plan for Seattle Center. The Seattle Center Century 21 Master Plan identified almost $600 million in capital investment on the Center grounds and called for major redevelopment of Center House so that it truly would fulfill its purpose as the "Center of the Center." Following the design principles of the master plan, in 2011 Center began work to open the thick building walls to the rest of the campus, creating new interior spaces in the atrium area, larger storefront windows and doors, exposed black beams and a new 60-foot long exterior deck facing onto the campus. Colors in the space were muted and neon signs and artwork removed, all in an effort to "strip back to the building's essence, search for its authenticity, and celebrate its historic roots," according to atrium designer Jim Graham of Graham Baba Architects. In 2012, the department renamed the building the Seattle Center Armory.

As part of the renovation, Center chose not to renew the leases of many of the food vendors. This was an intentional decision not only to refresh the aesthetics of the building, but to breathe new life into what the building offered to visitors. Center brought in new vendors with a wide variety of offerings. In June 2014, Center activated the final vacant vendor space as Blue Water Taco Grill opened up for business.

In addition to the changes in food offerings, Center undertook a significant remodel to the third-floor rental spaces. Center renovated the rooms then known as the Seattle Center Conference Center and rebranded them as The Loft. These spaces were previously dark and dated. The Loft now has brighter colors, much needed technological updates and flexible spaces to meet clients' various needs.

Armory Business Plan

To complement the physical remodel, Seattle Center re-examined the facility's management organizational structure. The structure then in place was fragmented and inefficient, with units lacking focused coordination and operating in silos. Following the model that has proven successful at McCaw Hall and KeyArena, we established a new Armory Operating Board. This Board includes representatives of all major Seattle Center work groups whose responsibilities intersect at the Armory. Additionally, it allows discussion of any policy issues that may arise that impact the Armory.

An initial task for the Armory Operating Board was to develop a business plan for the refreshed facility. In 2014, Seattle Center will publish the "Seattle Center Armory 5-Year Business Plan." A draft copy of the Plan is attached to this response; Center is awaiting the input of the Seattle Center Advisory Committee and expects that the final version will be available in mid-October. This document is the culmination of a great deal of planning and thought in laying out a roadmap for the facility's successful and sustainable future. It addresses four business objectives:

- Programs
- Place
- Capacity Building
- Financial Performance

At a high level, the Business Plan is intended to assess the facility's current lines of business, review operating procedures and establish strategic priorities. The Business Plan addresses a number of specific topics, including free programming, commercial programming, tenant mix, food service issues, sponsorship opportunities and maintenance needs.

The Business Plan identifies a list of strategies to guide the department's work over the next five years. These include:

- Retain and expand existing programs that are successful
- Prioritize commercial revenue-generating events that use the entire Atrium
- Identify and prioritize capital improvements to Atrium and Loft that will attract clients and enhance revenue
- Manage use of public benefits in our tenant lease agreements
- Establish maintenance priorities and cleanliness standards
- Establish a comprehensive asset preservation plan for the Armory
- Maximize sponsorship revenue where possible
- Focus on excellent food service management
- Increase rental income from event spaces such as the Atrium and Loft

Food Service

In 2011 and 2012, Seattle Center undertook a major remodel of Center House that ultimately resulted in that facility's rebranding as the Armory. Prior to the renovation, the revenue generated by the food court had been flat. Since a high point in 2007, annual sales figures had declined, although revenue remained fairly stable.

Year	2007	2008	2009	2010	2011[1]
Sales	7,483,373	7,185,936	7,057,171	6,627,391	5,659,693
Revenue	875,001	843,388	841,950	841,119	678,497

[1] In 2011, the number of merchants was lower because the remodeling project had begun.

During the remodel, Seattle Center contracted with Levy Restaurants Inc. to help attract more appealing vendors for the food court and improve the quality of the guest experience at the Armory. Levy aggressively marketed the opportunity and recruited some key vendors, such as MOD Pizza, Skillet and Pie. These vendors' willingness to invest helped Levy recruit others, such as Big Food, Plum and Eltana. To recruit a vendor for the former Bistro space (the space with the largest footprint in the Armory), Levy contacted 22 potential clients and experts in search of a restaurant that would complement the new Armory's existing tenants. In mid-2013, Levy began discussions with Blue Water Taco Grill as the recommended leaseholder, and Blue Water Taco Grill opened in June 2014.

Seattle Center has begun to explore new ways to activate and monetize the remodeled Armory space. In 2012, for the first time, a corporate client rented out the entire main floor of the Armory for a private event, with one-night net revenue to Center of over $35,000. The department has also increased free programming in the facility, for instance, the "Pre-Funks" that it hosts prior to some concerts at KeyArena. These events, which target each artist's audience and are tailored for a younger, local demographic, have kept some pre-concert dining on Seattle Center's grounds. In 2013, Seattle Center debuted Seattle's Best Damn Happy Hour (BDHH). The initial BDHH brought in over 1,000 guests on a Thursday evening. The Armory has continued to host BDHH on a monthly basis and has kept it fresh by offering a variety of food, drinks, games, activities and music. Both of these series of events give the Armory an opportunity to make a new impression on people who may not have otherwise patronized the facility.

The successful reception of the new Armory, food vendors and programming has had other benefits as well. In 2012, the Coca-Cola Corporation reached a multi-year sponsorship with Seattle Center to be the Armory's first official beverage provider. Center projects that this sponsorship will generate $420,000 over a period of five years. For 2015 and 2016 respectively, Center projects that and that all sponsorship revenues will total $160,000 and $190,000 respectively. Coca-Cola would not have made this sponsorship deal had the Center House remained a facility with stale offerings and declining sales figures. Instead, the company recognized the Armory as a facility with increasing popularity and made a strategic investment to link its brand with Seattle Center's. Center anticipates that this investment will raise its profile among other brands that execute similar sponsorship arrangements.

With the remodel now complete, and with a full complement of high quality vendors, we have already seen an increase in sales. In 2013, prior to the opening of Blue Water Taco, we saw the first increase in gross sales figures in six years. However, revenues are still less than the amounts generated from 2007 through 2010. This is because the post-renovation leases are structured differently from the pre-renovation leases. When new vendors were recruited to open locations in the Armory, Center required them to remodel their spaces. Three vendors alone – Skillet, MOD Pizza, and Blue Water Taco – have invested nearly $1,000,000 combined in tenant improvements. The current lease terms recognize vendors' tenant-improvement investments in their spaces.

	Actual				**Projected**				
Year	2010	2011	2012	2013	2014	2015	2016	2017	20
Sales	6,627,391	5,659,693	6,824,850	8,293,829	8,332,433	10,482,139	10,287,000	10,801,350	11,34
Revenue	841,119	678,497	769,429	784,105	953,944	977,466	1,022,152	1,053,434	1,10

Our revenue projections, which are based on industry trends, our observation of increased foot traffic at the Armory, and our event projections, suggest a minor but steady upward trajectory.

Options

The SLI passed by Council directed the department to identify ways to improve revenues and decrease expenses for food service operations.

Improving Revenues – Seattle Center examined various revenue streams at the Armory. Seattle Center has sought to maximize revenues from food court operations by setting competitive rental rates. We believe the Armory will be successful by focusing on local vendors that offer a variety of food offerings. (This focus does not preclude Center from seeking out vendors with nationally recognized brand names that appeal to out-of-town visitors.) Seattle Center is committed to continuously monitoring the Armory's range of food options to ensure that vendors maintain a high quality experience for our patrons. One reason for Center House's declining sales beginning in 2007 was that many of the vendors had become accustomed to a steady level of Sonics-related business and had become complacent. They did not change menu options on a regular basis, the quality of their food declined, and they did not keep up with the evolving culinary preferences of Seattle Center's visitors. Relatedly, Seattle Center has also committed to managing vendors more aggressively. In the past Center has not replaced vendors whose sales are in decline or those who failed to keep their offerings in line customer expectations. The department will be more aggressive in replacing underperforming vendors now that the Armory has demonstrated its attractiveness to vendors who can be successful.

Decreasing Expenses – Because customers can choose to eat elsewhere, revenues are not under Seattle Center's direct control. Center can, however, manage expenses. The main components of Armory food court operating expenses are staff (Dining Room Attendants) and management. The Dining Room Attendants are responsible for maintaining a clean environment, setting tables to accommodate various events and responding to customer needs. Seattle Center managed its staff expense by intentionally "staffing down" during the remodel to account for sparser crowds. Now that the remodel is complete, we have increased staffing commensurate with the increased number of Armory customers but not beyond the minimum level to keep the dining area clean and welcoming. Center adjusts dining-room staffing seasonally and in line with event-driven demand to control labor expenses.

Seattle Center's budget for 2015-2016 eliminates funding for the existing contract with Levy Restaurants Inc. Prior to the Armory remodel, a full-time manager oversaw the food court as part of her duties. In 2013, that position was reduced to half time in recognition that those responsibilities had been effectively transferred to Levy. Levy's $150,000 management fee was only partially offset by a reduction of $60,000 in staffing expense. Now that the Armory is leased at capacity and a new management model is in place, the department believes that it is situated to move forward without this contracted help. Seattle Center will allow the Levy contract to end on its expiration date of June 30, 2015, and, subsequent to that date, we will restore the half-time position to full time in order to resume management of the Armory.

If recruitment expertise is needed in the future to identify a new lessee to the food court, we anticipate a short-term contract with a consultant specifically to assist in that effort. Levy's expertise includes commercial lessee recruitment, design services for food service facilities and restaurant operations. Seattle Center will be able to contract for these services, individually and on an as-needed basis. Since all current vendors have updated their menus and now have well-established operating protocols – that is, since they have availed themselves of Levy's expertise – Levy's services are no longer necessary.

Increasing Net Revenues – Terminating the contract with Levy Restaurants Inc. will be an important first step towards increasing the net revenues of the Armory food court. Seattle Center will also pursue other sponsorships and partnerships, such as the one with Coca-Cola, and will seek out opportunities to draw revenue-generating customers to the revitalized Armory.

Seattle Center believes that increasing revenues are tied to regular customer-focused capital investment in the Armory. Renovated public restrooms and an improved waste and recycling center for food court customers, for instance, contribute to a positive customer-service experience and likely repeat visits.

Continued Periodic Reinvestment/Re-evaluation – The final piece of ensuring the future success of the Armory is to make regular capital reinvestment in this massive, heavily used facility that is now three quarters of a century old. Following the transformation of the Armory food court area in 2012, Seattle Center made capital investments in customer-facing areas. In 2015-16 Seattle Center will continue to prioritize investments in the Armory, such as fire alarm improvements and continued restroom renovation. Investments like these enhance the public's experience in the Armory and support the Armory's ability to generate revenue.

Financial Projections

In 2014 Seattle Center produced the Armory Business Plan, which set a course for the facility's successful and sustainable future as measured in terms of Programs, Place, Capacity Building, and Financial Performance. Seattle Center is committed to monitoring its financial performance both as a whole and in discrete business programs. Our projections suggest that our continued sustained attention to the Armory's food service will lead to improved revenues and increased net revenues.

	Pre-Renovation	**Renovation**		**Post-Renovation**				
	2010 Actual	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2014 Adopted**	**2015 Projected**	**2016 Projected**	**2017 Projected**
Revenue								
Food Revenue	841,119	678,477	604,429	784,105	953,944	977,466	1,022,152	1,053,434
Closure Offset	0	335,000	165,000	0	0	0	0	0

Sponsorship	0	0	0	100,000	130,000	160,000	190,000	225,000
Subtotal Revenue	**841,119**	**1,013,477**	**769,429**	**884,105**	**1,083,944**	**1,137,466**	**1,212,152**	**1,278,434**
Expense								
Staff Expense[1]	368,294	358,078	370,630	372,155	414,432	455,399	498,156	510,609
Mgmt Fee (Levy)	0	150,000	240,000	150,000	150,000	75,000	0	0
Subtotal Expenses	**368,294**	**508,078**	**611,260**	**522,155**	**564,432**	**530,399**	**498,156**	**510,609**
Net from Operations:	**472,825**	**505,399**	**158,169**	**361,950**	**519,512**	**607,067**	**713,996**	**767,825**
Debt Payment	**0**	**62,000**	**381000**	**384,000**	**384,000**	**380,000**	**381,000**	**382,000**
Total Net	**472,825**	**443,399**	**-222,831**	**-22,050**	**135,512**	**227,067**	**332,996**	**385,825**

[1] Staff Expense figures include the cost of the 0.5 FTE Manager 2 from 2010-2012 and 2015 Projected -2017 Projected.

Seattle Center expects that the Armory's other revenue sources, which include event-related and lease revenues, will also increase. As noted above and described in the Armory Business Plan, the remodel has allowed the department to reintroduce the Armory to potential commercial clients. We continue to work with promoters who are interested in hosting their events in this "new" event space. With the opening of the Loft in 2014, Seattle Center hopes to create additional revenue opportunities by marketing Armory vendors to clients both informally and as catering options for their events.

Non-Food Service Revenue Source	2014	2015	2016	2017	2018
Armory Loft	10,000	15,000	16,000	18,000	20,000
Armory Atrium	12,000	15,000	18,000	20,000	25,000
Other Armory Programming	12,000	13,000	14,000	15,000	15,000
Tenant Lease	388,079	446,491	461,348	461,607	470,897
Total	**422,079**	**489,491**	**509,348**	**514,607**	**530,897**

Conclusion

We believe the Armory is on its way to improving its overall financial performance. Armory sales were at an all-time high in 2013. Our 2015 Proposed Budget includes changes to increase the Armory manager position to full time while not renewing the Levy contract. It also includes growth of revenues in light of the increased sponsorship opportunities the Armory remodel has fostered. Seattle Center looks forward not only to the Armory's continued life as a welcoming space for tourists, locals and promoters of community festivals, but also to a new era of its financial success.