

FISCAL NOTE FOR NON-CAPITAL PROJECTS

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Legislation Title:

AN ORDINANCE relating to the Seattle Center; authorizing the Seattle Center Director to execute a five year extension to an agreement with SMG, doing business as SAVOR, for the management of food and beverage services at Marion Oliver McCaw Hall at Seattle Center.

Summary of the Legislation: This legislation authorizes the Seattle Center Director to execute a five year extension to the restated five year agreement for the Management of Food and Beverage Services at Marion Oliver McCaw Hall at Seattle Center Between the City of Seattle and SMG.

Background:

McCaw Hall opened in June 2003 as a \$127 million renovation of the Seattle Opera House, made possible by a partnership between the Pacific Northwest Ballet, Seattle Opera, (jointly the “Resident Tenants”) the Seattle Center Foundation and the City. This partnership secured \$55 million in public funds and over \$72 million in private philanthropic gifts to make the Hall a reality. In addition, the Resident Tenants each committed to use McCaw Hall as their primary venue for the presentation of their regular season performances. In recognition of the significant private funds raised for the building and the Resident Tenants commitment of future use, the City committed to continue financial support of McCaw Hall at an established amount and to joint management of McCaw Hall under the oversight of a “Marion Oliver McCaw Hall Operating Board” (the “MOB”) consisting of one representative from Seattle Center and one representative from each Resident Tenant as authorized by Ordinance 121206. The MOB is responsible for on-going management of McCaw Hall and shared responsibility for its operations and budget. While McCaw Hall receives a set amount of General Fund, the Opera and Ballet pay an annual use fee in addition to their direct event expenses which, when added to the City’s support and other building revenues, must ensure McCaw Hall has a balanced budget. Essentially, the license fee increases or expenses must be reduced to balance the budget. If McCaw Hall does not operate profitably the use fee will be increased in future years or McCaw Hall fund balances may be used to address the loss.

Each year the Ballet and Opera present approximately 150 performances in McCaw Hall. In addition, McCaw Hall hosts production of a wide range of popular music concerts, lectures,

corporate meetings, receptions, weddings, festival performances, community, and non-profit events. McCaw Hall has balanced its budget every full year of operations since its opening.

The exclusive food service provider for McCaw Hall is SMG, doing business as SAVOR. SAVOR manages Prelude Café and provides concession and catering services for events in the hall. SAVOR was selected as the concessionaire as a result of a 2008 Request for Proposal (RFP) process, taking over food services from the Westin Hotel. A national firm, SMG typically provides food service for arenas, but wanted to broaden their market to performing arts venues. The 2008 RFP Review Panel, which included representatives from both Resident Tenants and local food service providers, unanimously recommended SAVOR as the concessionaire because of their willingness to make an initial \$650,000 capital investment in food service equipment and related items, the proposed financial return to the hall, and the high quality of SAVOR's product and enthusiasm of their staff.

The MOB approved a 5 year Agreement with SAVOR, that, with the approval of the Seattle City Council, if necessary, the Seattle Center Director could renew for an additional term of 5 years. In 2008 the Seattle City Council was considering legislation that would have increased from 5 to 10 years the term of concession agreements that the Seattle Center Director was authorized to execute so in 2008 there was uncertainty about whether or not the Agreement extension would require legislative approval. The original agreement has been amended over the last five years to address requirements of the Liquor Control Board, modify concession fees, incentivize achievement of high customer satisfaction reviews and increase SAVOR's capital investment in the Hall. The original agreement, as amended, is the restated agreement addressed by this legislation.

While the revenues generated from food and beverage service concession fees is important to McCaw Hall, of even greater significance is the need to ensure the quality of food and service provided meets the exacting standards of the clients and patrons of McCaw Hall. SAVOR has done this admirably and the MOB supports extension of the concession agreement.

Contract Terms:

SAVOR has the right to be the exclusive provider of food and beverage services at McCaw Hall and is also one of the approved caterers for other Seattle Center facilities.

- Term: The 5 year contract extension is for the period August 1, 2013 through July 31, 2018. The initial contract term was 5 years, beginning June 30, 2008.
- Concession Fee: SAVOR pays a minimum annual guaranteed concession fee of \$250,000, with the guaranteed amount increasing annually by the CPI, contingent on the Resident Tenants scheduling a minimum of 105 public performances. If fewer performances are scheduled then the minimum guarantee is reduced proportionately. Concession fees are paid as follows:

Service	% of Gross Sales
Café Services and Concession Services at McCaw Hall	11.5%
Catering Services at McCaw Hall	17.5%
Concession Services and Catering Services at Seattle Center except for McCaw Hall	7.5%
Gross sales from corkage fees for authorized non-profit organizations	10%

- Seattle Center retains the right to allow the pouring of wine donated by persons other than SAVOR at the Seattle Opera, the Pacific Northwest Ballet and other non-profit organizations catered events for set corkage fees.
- As consideration for being recognized as an institutional donor to the Resident Tenants, SAVOR provides up to \$25,000 of in-kind food and beverage services at Resident Tenant events. These in-kind services are not included in gross sales.
- Customer Service/Performance Incentive: A service quality monitoring program with established criteria for evaluative and quantitative standards of performance, including a secret shopper program, is in operation. If gross sales reach specified levels and SAVOR achieves an average annual score of 90% on shopper report and customer/patron surveys then SAVOR is eligible to receive a performance incentive payment ranging from \$5,000 to \$15,000 depending upon annual gross sales.
- Marketing: SAVOR works cooperatively with the City in marketing and booking McCaw Hall including cross marketing to other SAVOR customers.
- Utilities: SAVOR pays for kitchen utilities and food service related garbage and recycling costs.
- Sustainability: SAVOR uses recyclable and biodegradable products for containers and supplies whenever possible.
- Capital Investment: At commencement of the agreement, SAVOR invested \$650,000, which was amortized for income tax purposes over ten years, for small wares, food service equipment and a computerized point-of-sale system. The purchases are owned by SAVOR and if the extension is not authorized, McCaw Hall may purchase the equipment for the unamortized value. During the 5 year extension period, SAVOR will invest \$100,000 for mobile bar stations in the lobbies, digital/video menu boards and improvements to the dining environment in Prelude Restaurant. These improvements must be completed before August, 2014.
- Kitchen Equipment Reserve Fund: Starting January 1, 2016, SAVOR will pay 1.5% of Gross Sales into a McCaw Hall maintained kitchen equipment reserve fund for maintenance and replacement of city-owned food and beverage service equipment.

Please check one of the following:

☐ **This legislation does not have any financial implications.**

☒ **This legislation has financial implications.**

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2013 Appropriation	2014 Anticipated Appropriation
TOTAL				

**See budget book to obtain the appropriate Budget Control Level for your department.*

Appropriations Notes:

N/A

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
TOTAL				

Revenue/Reimbursement Notes:

There are no new revenues associated with this legislation, but the 2013 and 2014 adopted budgets include projected McCaw Hall concession and catering revenue of \$270,000 per year from SAVOR in McCaw Hall.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2013 Positions	2013 FTE	2014 Positions*	2014 FTE*
TOTAL							

** 2014 positions and FTE are total 2014 position changes resulting from this legislation, not incremental changes. Therefore, under 2014, please be sure to include any continuing positions from 2013.*

Position Notes:

N/A

Do positions sunset in the future?

N/A

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2013 Expenditures	2014 Anticipated Expenditures
TOTAL				

* See budget book to obtain the appropriate Budget Control Level for your department.

Spending/Cash Flow Notes:

N/A

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

The legislation does not have indirect or long-term financial implications.

b) What is the financial cost of not implementing the legislation?

Food and beverage service is an integral part of the event experience in McCaw Hall. All event producers, including the Resident Tenants, expect to be able to provide event patrons with a food service experience commensurate with the quality of their events. If food and beverage service is not available, or is not of a quality attractive to patrons, McCaw Hall would lose events and patrons and the associated revenues.

c) Does this legislation affect any departments besides the originating department?

No

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

Instead of granting the agreement extension, the food service opportunity could be advertised through a new RFP process and a new food service provider selected. It should be noted that the MOB did not consider issuing a new RFP to be respectful of the work that SAVOR has done in McCaw Hall to date or expect one to result in a significantly better arrangement, either financially and/or due to improved quality, than experienced currently with SAVOR.

e) Is a public hearing required for this legislation?

No

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No

g) Does this legislation affect a piece of property?

No

h) Other Issues:

List attachments to the fiscal note below: