

ACTION REQUIRED

May 7, 2010

To: The Board of Governors of Exhibition Place

From: Dianne Young, Chief Executive Officer

Subject: **Agreement with Servomation Inc. for Exclusive Food & Beverage Services**

Summary:

Servomation Inc. (Servo) has been the exclusive food and beverage provider at Exhibition Place since the opening of Direct Energy Services in April 1997. Servo is a business unit of Centerplate, a hospitality partner to more than 250 prominent sports, entertainment and convention venues across North America. The existing agreement between the Board and Servo is set to expire on June 30, 2010.

Over the last 12 years, Servo has made capital investments of approximately \$5.0M (plus another \$4.0M in Allstream Centre) and paid commissions to the Board and MLSEL totalling \$15.234M and \$1.97M respectively, to December 31, 2009.

In 2002, the Board decided to issue a Request for Proposals for Exclusive Food and Beverage Services (the "RFP") and while there were initially 5 companies interested in the offer, only Servo submitted a bid. As noted below, Exhibition Place staff believe that a major reason for the receipt of only one bid was the upfront Opportunity Fee of \$2.1M that was required to be paid by a new company. In 2010, while reduced, the required Opportunity Fee would be \$825,000 at a time when food and beverage companies have been suffering from an economic recession. Because of this, in the Fall 2009, Exhibition Place staff approached Servo to discuss the existing agreement and this report is now recommending a further agreement with Servo for a term of two years commencing July 1, 2010 with an automatic one year renewal option based on mutual agreement of both parties. Maple Leaf Sports & Entertainment Ltd. (MLSEL) will also be recommending to their board of directors a similar agreement with respect to the Ricoh Coliseum.

Approval of the Agreement between the Board and Servo will have a negative impact of approximately \$85,000 in 2010 because of the change in commission structure. However, staff believe they will be able to make up this shortfall from other revenue areas and operating savings.

Recommendations:

It is recommended that the Board:

- (1) Enter an agreement with Servo to provide exclusive food and beverage services to Direct Energy Centre and other buildings utilized for trade and consumer show venues on the same terms and conditions as the existing agreement save and except for the terms and conditions set out in Appendix "A" to this report and those set out in the Confidential Attachment and such other terms satisfactory to the City Solicitor and CEO; and**

- (2) Direct that the information contained in the Confidential report contained in Attachment 1 to this report not be released publicly in order to protect the competitive position and future economic interests of the Board.**

Financial Implications

Approval of the Agreement between the Board and Servo will have a negative impact of approximately \$85,000 in 2010 when compared to budget as the budget assumed commission at current levels. However, staff believe they will be able to make up this shortfall from other revenue areas and operating savings.

Background:

At its meeting of April 25, 1997 the Board approved of entering into an Agreement with Servomation Inc. as the exclusive provider of food and beverage services within the Direct Energy Centre and other buildings on the grounds managed by Exhibition Place. The Agreement between the Board and Servo provided for an initial term of 5 years (January 1, 1998 to December 31, 2002) with an option for the Board to extend this Agreement for a further 5 years.

At its meeting of October 26, 2001, the Board approved of issuing a RFP for an exclusive food service provider and on April 9, 2002, the RFP was issued through the City of Toronto Purchasing Department with a closing date of May 31, 2002. Five major international food service providers attended the mandatory informational session and formally expressed an interest in responding to the RFP although only one bid was received from Servo.

At its meeting of October 25, 2002 the Board approved of entering into an agreement with Servo for the provision of exclusive food and beverage services in Direct Energy Centre and other buildings on the grounds utilized for trade and consumer show venues for a term ending on June 30, 2010. This report was subsequently approved by City Council at its meeting of November 26, 27 and 28, 2002.

Issue Statement

The existing agreement with Servo is set to expire on June 30, 2010. In the Fall 2009, Exhibition Place staff approached Servo to discuss the existing agreement and given the issues noted below and in the confidential agreement, Exhibition Place staff believed that it would be in the best interests of the Board to enter into a new short-term agreement with Servo.

Comments:

Servo is a business unit of Centerplate, a hospitality partner to more than 250 prominent sports, entertainment and convention venues across North America. Centerplate has provided services to 11 Super Bowls, 19 World Series, key events for the Democratic and Republican National Conventions, the South Beach Wine and Food Festival, Art Basel Miami Beach, 15 official U.S. Presidential Inaugural Balls and the largest plated dinner in history at the Alpha Kappa Alpha Centennial Celebration. In addition, Centerplate is a hospitality partner to Superbowl XLIV, 2010 Winter Olympics in Vancouver, and 2010 NCAA Men's Final Four weekend in Indianapolis.

In January 2009, Centerplate completed a merger with Kohlberg & Company, L.L.C., a leading private U.S. equity firm. Kohlberg & Company was founded in 1987 by Jerry Kohlberg (Senior Founding Partner of Kohlberg Kravis Roberts – KKR) and Jim Kohlberg with the intent to invest in companies where an infusion of capital would have a strategic impact on the company's operations, allowing for further growth and profitability.

On January 5, 2010 Centerplate completed a merger with Boston Culinary Group (BCG). As one of the largest foodservice management companies in the recreation and leisure industry with a proven 40-year track record, BCG brought over 100 venue partners to the client roster, amplifying Centerplate's leadership position and enhancing its ability to provide a total solution platform.

As indicated above, Servo has been the exclusive food and beverage provider since the opening of Direct Energy Services in April 1997. Since 1997 the following significant directions have taken place with respect to the services provided by Servo:

- Servo made a capital investment of \$3.999M in 1996 which investment was to be depreciated/amortized over a ten (10) year term from the date of deployment or installation.
- In September 2003, Servo made a capital investment of \$750,000 in Ricoh Coliseum which investment was to be depreciated/amortized over a ten (10) year term from date of deployment or installation. Following assumption of the Ricoh leasehold in 2005 by MLSEL have paid commissions totalling \$1.97M.
- In 2003, Servo made a capital investment of \$250,000 towards the purchase and upgrade of portable and permanent food and beverage equipment for Direct Energy Centre which investment was to be depreciated/amortized over a ten (10) year term from the date of deployment or installation.
- Servo has paid commissions of \$15.234M from 1998 to December 31 2009 (last 12 years) as detailed in the chart below.
- In 2009, Servo and its partner The National Hotel Corporation entered into an agreement with the Board to provide a capital investment of \$4.0M in food and beverage equipment for Allstream Centre and the provision of exclusive food services for that facility for a term of 15 years. In advance of entering into this agreement, Servo relinquished its rights to the Automotive Building and in 2007 with the commencement of construction of this building, there were no further trade and consumer shows booked and a corresponding decrease in commission revenues.

Year	Commissions
1998	\$1,609,805
1999	\$1,500,684
2000	\$1,677,592
2001	\$1,213,591
2002	\$1,319,061
2003	\$1,062,935
2004	\$1,160,046
2005	\$1,227,224
2006	\$1,174,047
2007	\$1,279,160
2008	\$1,010,953
2009	\$ 998,960
Total	\$15,234,058

As part of our negotiations with Servo, we discussed the decrease in overall commissions and some of the major reasons which are set out below and in the Confidential Attachment:

- Catering Revenues: Catering revenues have decreased steadily since the facility first opened in 1997 with the major decrease due to the inability to attract major galas to the facility because of the costs of decorating the venue to transform it into a “ballroom” venue which cost could be easily in excess of \$75,000 for just one event.
- Ricoh: Loss of concession revenue paid to the Board from the Coliseum Arena when the Arena was renovated and leased to MLSEL.
- Economic Downturn: Temporary decrease in food and beverage sales in 2009 related to the economy which downturn was generally experienced in many venues in Toronto and across North America
- Use of Subcontractors: Increased number of subcontractors used by Servo in order to add to the food mix and add specialty items as requested by the clients. The commissions paid to the Board from these subcontractors are less than the commissions paid from food sales at the Servo concession stands.

As part of the proposed three-year agreement (2 + 1 year option), new terms and conditions outlined in this report and the Confidential Attachment attempt to address the issues noted above so that commission revenues can increase.

New Agreement versus RFP

As indicated in the Background section above, at the end of the five year term, Exhibition Place issued a RFP for food and beverage services on the grounds. While there was initially some interest from five major food services companies, in the end only Servo submitted a bid. Staff believe that the hurdle faced by the private sector in submitting a bid, was the requirement to pay an upfront Opportunity Fee of \$2.1M million which was the unamortized portion of the initial Capital Investment of the \$3.999M made by Servo. In addition, the Board was looking for a further Capital Investment for Ricoh Coliseum and investment in new portable equipment for Direct Energy Centre.

The hurdles that existed in 2002 are as great in 2010 or even greater considering the economic crisis affecting all major food and beverage enterprises within North American trade and consumer show facilities. The Opportunity Fee that would have to be paid in June 2010 is \$587,500 for the Direct Energy Centre and \$237,500 for the Ricoh Coliseum, totalling \$825,000 and there is still a requirement for some Capital Investment in Direct Energy Centre. Entering into a further agreement with Servo for another three (3) years as proposed, will eliminate the buy-out amount within the Direct Energy Centre and reduce the buy-out amount to \$12,500 within the Ricoh Coliseum.

The Direct Energy Centre is operating in a very competitive market in Toronto and the GTA; indications from industry research published in Trade Show Executive predict a lingering economy in 2010 including a 16% decline in show attendance. However, overall, the industry is healthy and is expected to see a slow recovery in early to mid 2011; and once the economy turns around, the trend for the next few years is positive. Staff are of the view that this is not an opportune time to go out to the marketplace.

Servo has and continues to demonstrate its commitment to Exhibition Place. New management engaged by Servo a few years ago have impressed our clients with their willingness to look at new ways of doing business. Servo management have worked with Exhibition Place staff to improve its menu offerings and its customer service and have been very dedicated to our sustainability program introducing local foods and recycling initiatives. Servo has participated in joint marketing initiatives, responded to client needs and developed a very positive reputation in the City. In spite of the poor economic outlook as outlined by our consultant, Cameron Hawkins & Associates (attached to the Confidential report), Servo is willing to share with the Board a further capital investment to upgrade the concession booths in Direct Energy Centre.

Finally, MLSEL has also been in negotiations with Servo and are prepared to enter into a new agreement with Servo for Ricoh Coliseum for a term corresponding to the agreement proposed in this report.

Contact:

Dianne Young

Chief Executive Officer

Telephone: 416-263-3611

Fax: 416-263-3640

E-Mail: dyoung@explace.on.ca