



Exhibition Place

Item No. 23

ACTION REQUIRED

July 27, 2011

To: The Board of Governors of Exhibition Place

From: Dianne Young, Chief Executive Officer

Subject: **Review of Food & Beverage Options - 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 Centre in April 1997. Servo is a business unit of Centerplate, a hospitality partner to more than 240 prominent sports, entertainment and convention venues across North America. The existing agreement between the Board and Servo is set to expire on June 30, 2012 unless the one year renewal option is exercised based on mutual agreement of both parties.

Over the last 15 years, Servo has made capital investments of approximately \$5.0M (plus another \$4.0M in Allstream Centre) and paid commissions to the Board and Maple Leaf Sports & Entertainment Ltd (“MLSEL”) (with respect to Ricoh Coliseum) totalling \$18.469M and \$2.069M respectively, to December 31, 2010.

In May, 2010 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 events for a term ending on June 30, 2012 with an automatic renewal option for one year based on mutual agreement of both parties.

Exhibition Place staff engaged fsSTRATEGY to undertake an analysis on possible future directions for the delivery of food and beverage, generally in the industry and specifically in the Toronto marketplace and at Direct Energy Centre.

Recommendations:

It is recommended that the Board:

- (1) Extend the current agreement with Servo to provide exclusive food and beverage services to Direct Energy Centre and other buildings utilized for trade and consumer show events for one additional year, expiring on June 30, 2013 on the same terms and conditions of the existing agreement 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 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 no impact on the Board in 2012 when compared to budget as the budget assumed commission at current levels. The cost

for the consultant to assist with the future F&B RFP has been included in the 2012 operating budget.

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 events 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.

At its meeting of May 27, 2010 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, 2012. In addition the Board received the information that staff would be engaging a consultant to undertake an analysis on possible future directions generally in the industry and specifically in the Toronto marketplace and at Direct Energy Centre. This analysis would be done early in 2011 to allow the Board time to consider the extension of the two year agreement to three years, ending on June 30, 2013.

Issue Statement

The existing agreement with Servo is set to expire on June 30, 2012. Based on the review of the Food & Beverage Operations Exhibition Place staff believe that it would be in the best interests of the Board to enter into a new short-term agreement with Servo ending on June 30, 2013 and that staff work with the consultant to prepare to go to the marketplace with an RFP in the Fall of 2012 and report back to the Board on the results of the RFP in early 2013.

Comments:

Servo is a business unit of Centerplate, a hospitality partner to more than 240 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 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 Centre 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 \$16.244M to the DEC from 1998 to December 31 2010 (last 13 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 commence 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
2010	\$ 1,010,369
Total	\$16,244,427

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 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.

Extension of the Servo Agreement

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.

With the agreement extended for another one (1) year as proposed, this will eliminate the buy-out on the Centerplate’s capital investment amount within the Direct Energy Centre and reduce the buy-out amount to \$12,500 within the Ricoh Coliseum.

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.

Finally, MLSEL has also been in discussions with Servo and will make their own decision with respect to an extension of their agreement.

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Dianne Young

Chief Executive Officer

Appendix "A"

Negotiated Terms and Conditions for Exclusive Food Services Agreement

- 1) Services:
 - (a) Save and except for the period of the annual CNE, the Honda INDY and Royal Agricultural Fair, Servo will have the exclusive right to provide food and beverage services within Direct Energy Centre, Queen Elizabeth Hall and the Better Living Centre (the "Facilities") but excluding the Fountain Dining Room except where requested by Exhibition Place to provide such services in the Fountain Dining Room;
 - (b) Servo Canada will not have the exclusive right to provide food and beverage services for events that are not trade and consumer show events that are held outside the Facilities and booked by the Board but Servo will, at the request of the Board, provide such food and beverages services on the same terms and conditions as provided within the Facilities.
- 2) Term: 2 years commencing July 1, 2010; with an automatic one (1) year renewal option based on mutual agreement of both parties.
- 3) Reserve Funds: Marketing and Sinking Fund - Servo will contribute 1.5% of Gross Revenues not to exceed \$75,000 annually to market the food services operations and for Repair and Maintenance at the Facilities.
- 4) Servo shall advance or pre-fund \$75,000 toward the reserve funds immediately.
- 5) Performance Bond: Servo will provide a performance bond in the amount of \$250,000 for the duration of the agreement in a form and content satisfactory to the City Solicitor.
- 6) Sponsorship and Advertising: Equal sharing (50%/50%) of any proceeds to the Board and Servo in the event Servo secures sponsorship and advertising programs for the Board. Naming arrangement is excluded and all sponsorship and advertising programs and categories targeted are subject first to Board approval.
- 7) Other Terms & Conditions: Generally as set out in the existing agreement between Servo and the Board or as set out in the Confidential Report in Attachment I but excluding any terms related to Ricoh Coliseum and MLSEL.