



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 17.

Agenda Date: 1/10/2019

In Control: City Council A Session

DEPARTMENT: Convention & Sports Facilities

DEPARTMENT HEAD: Patricia Muzquiz Cantor

COUNCIL DISTRICTS IMPACTED: District 2

SUBJECT: Fourth Amendment of Food Service Agreement for the Alamodome with Savor Black Tie Joint Venture through its majority partner, SMG Food and Beverage, LLC.

SUMMARY:

This Ordinance authorizes a Fourth Amendment to the Food Service Agreement for the Alamodome with Savor Black Tie Joint Venture through its majority partner, SMG Food and Beverage, LLC., revising the commission structure for food and beverage services.

BACKGROUND INFORMATION:

Ordinance No. 2016-01-28-0031, dated January 28, 2016, authorized a Food Services Agreement for the Alamodome with Savor Black Tie Joint Venture (Savor) through its majority partner, SMG Food and Beverage, LLC, for a period of fifteen (15) years, beginning March 1, 2016 through February 28, 2031, to perform catering, concession services and merchandise sales for a variety of events to include sporting events, concerts, and family shows. Ordinance 2017-04-20-0259, dated April 20, 2017, authorized a Second Amendment to clarify the commission structure related to Merchandise sales and branded third party sales, meaning the third-party is clearly linked with the unique product (s) being sold. Ordinance 2017-11-09-0889 dated November 9, 2017, authorized a Third Amendment to modify the commission structure which resulted in a reduction in commission to the City of approximately \$300K.

The Food Services Agreement for the Alamodome is structured with the City receiving a percentage commission on various types of food, beverage, and merchandising sales. This commission structure assumed a certain amount of event days would be held at the Alamodome each year over the life of the agreement. Since the inception of the contract, the amount and quality of events at the Alamodome have been below the forecasted amount and the corresponding gross sales have been lower than anticipated. The City provided the following historical food & beverage sales in the solicitation: \$9.7M in FY13, \$9.8M in FY14, and \$7.74M in FY15 for a 9 month period (October 1, 2014 to June 30, 2015). Based on the historical sales, Savor's original proforma anticipated gross receipts in the amount of \$9.7M the first year of the contract. Actual gross receipts by SAVOR during the first two years of the contract were \$8.7M and \$8.8M respectively. Gross Receipts in the third year of the contract are projected to be about the same as previous years totaling approximately \$8.7M.

Although sales have been less than expected in the last three years, SAVOR has invested over \$3.6M in capital improvements in the Alamodome and has contributed significantly to major improvements in food and beverage service delivery.

Staff recognizes that the food and beverage revenue has been lower in the years immediately following the request for proposals and is taking steps to increase the number and quality of events at the Alamodome. In the interim, staff believes that additional relief for our Concessionaire partner is warranted. In order to maintain the service levels and operating standards of food and beverage service at the Alamodome, staff is recommending a second and final modification of the commission structure in an effort to preserve the continued success of the Alamodome and its Concessionaire. The intent of this amendment is three-fold: (1) to modify the commission structure to alleviate potential losses to the operator, (2) to provide a mechanism to return to the original commission structure as originally proposed by the concessionaire in response to the request for proposal once gross receipts return to at a minimum FY 13 and FY 14 levels, and (3) to eliminate the City’s obligation to reimburse the Concessionaire if the contract is terminated.

The City and Savor have negotiated and agreed to the supplemental terms and conditions set forth in this Fourth Amendment. The commission restructure is described in the table below. The recommended revised commission structure is still in alignment with similar volume operations in the US. Changes to the commission structure under the fourth amendment may result in a reduction of approximately \$587K in commissions to the City on an annual basis if certain gross receipt thresholds are not met. This amendment establishes a gross receipts threshold for this year of \$9.7M and increases the threshold by \$100K every subsequent year resulting in a gross receipts threshold of \$10.9M the fifteenth and last year of the agreement. The Fourth Amendment allows for the original commission structure to be reintroduced once the food and beverage revenue increases and meets the gross receipts threshold set for that particular year.

Commission Category	Commission Approved by Council November 9, 2017	Proposed Commission Restructure	Proposed Commission (If Gross Receipts Meet Annual Threshold*)
Catering & Suites	27% under \$1M 37% over \$1M	No change	32%
Concession & Bar Sales	38% \$0-3.8M 40% \$3.8-\$6.5M 44% \$6.5M+	28% for Food and non-alcoholic 32% Alcoholic Beverages	40% \$0-\$3M 44% \$3M+
Branded Sales (meaning the third-party is clearly linked with the unique product(s) being sold)	27.5%	19%	30%

**This is consistent with the original Commission amount as authorized in January 2016.*

The fourth amendment also eliminates the City’s obligation to reimburse SAVOR for the capital investment it made unless such termination is at the convenience of the City. Under the current contract agreement, the City is obligated to reimburse the capital investment if the contract is terminated for any reason. This amendment remedies this requirement. The amortized value of that capital investment through October 2018 is approximately \$2.8M.

ISSUE:

The terms have been negotiated between the parties to ensure that the concessionaire is successful by breaking even or making a reasonable profit from this operation. Moreover, the negotiated agreement eliminates the

City's liability if the agreement is terminated due to the default of the concessionaire. Currently, if the contract is terminated for any reason, the City is responsible for the reimbursement of Savor's capital investments.

ALTERNATIVES:

Alternatives to the proposed action include not amending the current agreement with Savor. However, if this amendment is not approved, SAVOR will continue to sustain losses and may elect to terminate the contract which would trigger the City's obligation to reimburse them for the capital investment. Staff can also be directed to terminate the current contract with SAVOR and enter into a temporary contract with another concessionaire until the department can solicit the services from other concessionaires through a request for proposal. These options are not recommended as they may negatively impact the food service operation and ultimately the fan experience.

FISCAL IMPACT:

This Ordinance authorizes a Fourth Amendment to the Food Service Agreement for the Alamodome with Savor Black Tie Joint Venture through its majority partner, SMG Food and Beverage, LLC., revising the commission structure for food and beverage services. Under the existing commission structure, this contract generates annual commissions of approximately \$2.1 million to the City and is projected to generate a total of \$26.5 million in commissions over the remaining length of the contract.

This action may reduce the City's revenue by an estimated \$587,132.00 annually for a total commission amount of \$1.59M should the Gross Receipts not surpass \$9.7M gross receipts threshold for 2018. If the \$9.7M gross receipts threshold is attained this contract year, the commissions generated will increase to \$3.4M under the original commission structure.

This amendment also eliminates the City's obligation to reimburse SAVOR for the capital investment if the agreement is terminated due to the default of the concessionaire.

RECOMMENDATION:

Staff recommends authorizing a Fourth Amendment of Food Service Agreement for the Alamodome with SAVOR Black Tie Joint Venture through its majority partner, SMG Food and Beverage, LLC.