



City of San Antonio

Legislation Details (With Text)

File #: 20-4947
Type: Miscellaneous Item
In control: City Council A Session
On agenda: 8/20/2020
Title: Ordinance approving a one-time 5-year extension of the Food Service Agreement with RK Culinary Group, LLC for the October 1, 2025 to September 30, 2030 term; and the acceptance of a \$500,000.00 renewal fee to be deposited in the Community and Visitor Facilities Fund. [Carlos Contreras, Assistant City Manager; Patricia Muzquiz Cantor, Director, Convention and Sports Facilities]

Sponsors:

Indexes:

Code sections:

Attachments: 1. Signed Agreement, 2. Draft Ordinance, 3. Staff Presentation, 4. Ordinance 2020-08-20-0557, 5. Ordinance 2020-08-20-0557 Contract

| Date | Ver. | Action By | Action | Result |
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DEPARTMENT: Convention & Sports Facilities

DEPARTMENT HEAD: Patricia Muzquiz Cantor

COUNCIL DISTRICTS IMPACTED: Council District 1

SUBJECT:

An Extension and First Amendment to the Food Service Agreement with RK Culinary Group, LLC for the Henry B. Gonzalez Convention Center

SUMMARY:

This ordinance authorizes the exercise of a one-time extension for a 5-year renewal of the Food Service Agreement for October 1, 2025 to September 30, 2030 with RK Culinary Group, LLC (RK JV), a joint venture between The RK Group, True Flavors Catering and Black Tie Affairs; and the acceptance of \$500,000 renewal fee to be deposited in the Community and Visitor Facilities Fund.

BACKGROUND INFORMATION:

This contract covers all food and beverage service on an exclusive basis for events held in the Convention Center (includes the Lila Cockrell Theatre). Included are the rights to provide event-related non-edible merchandise services (including novelties, souvenirs and programs) for a commercial event. The current Food

Service Agreement at the Henry B. Gonzalez Convention Center was approved by City Council in May 2015 for a 10-year term set to expire on September 30, 2025 with one 5-year renewal option.

This ordinance authorizes the 5-year renewal of the Food and Service Agreement with RK JV for October 1, 2025 to September 30, 2030 and acceptance of \$500,000 renewal fee to be deposited in the Community and Visitor Facilities Fund. Amid the COVID-19 pandemic, the Convention Center has seen drastically reduced revenues since March and is projecting low revenues into next fiscal year. Economists predict that it will take the Hotel Occupancy Tax Fund approximately four to five years to recover and get back to pre-pandemic levels. Leisure business is expected to recover first with conventions and meetings taking longer to recover. The Convention Center's adopted revenue in FY 2020 of \$20.4M was reduced by \$10.6M and is estimated to be \$9.9M by the end of the fiscal year with only \$1.0M in revenue generated from March to September. Moreover, the Convention Center is projecting continued impact from the pandemic in the first and second quarter of FY 2021 resulting in \$9.1M in total revenues in FY 2021. With no business activity since March, the RK JV has also seen significant sales revenue reductions projecting \$178,900 in revenue from March to September (projected revenues during that period would have been excess of \$11M). For FY2021, assuming no further reduction in business, RK JV is projected to have revenues of \$8.85M, which is roughly one third of its typical annual revenues. As a result of the lack of business caused by the pandemic, RK JV is in need of securing a loan to cover their projected operating deficit and to ramp up its operation at the Convention Center when business returns. In order to secure financing, the lender is requiring that the 5-year renewal option in the contract be approved. RK JV was able to obtain a Paycheck Protection Program Loan; however, all funds have been exhausted to pay for payroll, loan interest payments, and health insurance costs.

Below is a table that reflects RK JV and Convention Center revenues in 2019 and projected FY 2020 and FY 2021 revenues.

RK and Convention Center Revenue Summary

| Time Period | RK | Convention Center |
|------------------------------------|-----------|--------------------------|
| FY 2019 (Oct. 2018 to Sept. 2019) | \$22.0M | \$19.9M |
| FY 2020 (Mar. 2020 to Sept. 2020)* | \$178.9K | \$1.0M |
| FY 2021 (Oct. 2020 - Sept. 2021)* | \$8.85M | \$9.1M |

*Impact of COVID-19 Pandemic began affecting revenues beginning March 2020.

RK JV has been an excellent partner and has contributed to the success of the Convention Center. It is known in the convention center industry as being a quality provider and it is this reputation that has helped the Convention Center and San Antonio gain major meetings and conventions. Historically, catering and concessions commissions from RK JV has accounted for 33% of the total Convention Center revenue. Moreover, to date from the beginning of the contract, RK JV has invested more than \$1.4M in additional equipment and infrastructure upgrades required for high-volume sales as well as laundered linens for the City at no charge and are creating a customized visitor app to help with wayfinding around the Convention Center and surrounding downtown area.

RK JV is also an exceptional employer, providing health insurance to all its employees covering 86% of the medical insurance cost, and provides other fringe benefits such as free parking and employee shuttle service to the Convention Center and free meals.

The RK Group, a majority partner in the joint venture, has philanthropic initiatives known collectively as RK Cares, which has an extraordinary impact on the overall community by supporting a variety of civic, youth, arts/culture, educational, entrepreneurial, spiritual and professional non-profits. Each year, they discount products and services, waive fees and make donations to these non-profit organizations worth hundreds of thousands of dollars. In 2018, The RK Group was recognized by the San Antonio Business Journal (SABJ) for its ongoing philanthropic efforts. Rosemary Kowalski, the company's matriarch, received the SABJ Lifetime Achievement Award for Corporate Philanthropy. Since the COVID-19 outbreak, the RK Group has helped feed thousands of San Antonio families at two "Food from the Heart" events with large food donations (37,000+ meals) and helped the San Antonio Food Bank feed approximately 500 families with 12,500 lbs of food donated and distributed at a June 2020 food drive, which their staff were on hand to help distribute.

ISSUE:

This ordinance will authorize a 5-year renewal of the Food Service Agreement for October 1, 2025 to September 30, 2030 with RK JV; and acceptance of \$500,000 renewal fee to be deposited in the Community and Visitor Facilities Fund.

ALTERNATIVES:

An alternative is to not approve the 5-year renewal option for October 1, 2025 to September 30, 2030. However, that could jeopardize RK JV from securing a loan. The RK JV is an important component to the Convention Center's ability to rebound from the pandemic and is a main contributor to its success.

FISCAL IMPACT:

This ordinance authorizes a 5-year renewal of the Food Service Agreement for October 1, 2025 to September 30, 2030 with RK JV; and the acceptance of \$500,000 renewal fee to be deposited in the Community and Visitor Facilities Fund.

RECOMMENDATION:

Staff recommends authorizing a 5-year renewal of the Food Service Agreement for October 1, 2025 to September 30, 2030 with RK JV; and acceptance of a \$500,000 renewal fee.