



Date: December 21, 2010

To: Thomas J. Bonfield, City Manager
Through: Theodore L. Voorhees, Deputy City Manager
From: Joel V. Reitzer, Director, Department of General Services
Subject: Deal points for Durham Convention Center Management Agreement with Global Spectrum

Executive Summary

The City of Durham and the County of Durham are co-owners of the Durham Convention Center (“DCC”, formerly the Durham Civic Center) which is currently managed by the Marriott hotel owner, Shaner Hotel Group Properties Two Limited Partnership (“Shaner”). The current management agreement expired on December 31, 2010. Following an RFP process for a new management agreement, the Durham Convention Center Authority has recommended the City and County pursue an agreement with Global Spectrum, L.P. Staff recommends that the City Council review the deal points described herein, which include two agreements: 1) a management consulting agreement with Global Spectrum, L.P., (“Global Spectrum”), for management consulting services during the pre-opening/construction improvements phase of the DCC, from the date of City and County approval through June 30, 2011, and 2) a management contract for convention center management services from July 1, 2011 through June 30, 2016, with the option to terminate for convenience effective June 30, 2014.

Recommendation

The General Services Department recommends that City Council:

Receive an update on the deal points of the proposed Durham Convention Center Management Agreements with Global Spectrum, L. P.

Background

The City of Durham and County of Durham are co-owners of the Durham Convention Center. There are currently three legal documents between the City, County and Marriott hotel owner (Shaner Hotel Group) The Air Lease Agreement effective October 9, 1987 has a term of 75 years and The Parking Lot Lease Agreement, effective October 9, 1987 has a term of 30 years. The current Management Agreement, effective June 1, 2005 had a term of 5 years expiring on June 30, 2010, which was amended and extended through December 31, 2010. The Air Lease and Parking Lot Lease agreements with the hotel (Shaner) will remain in effect.

The past two fiscal years have been challenging for the Convention Center business, resulting in reduced revenue and increased budget deficits. Given the City/County financial investment in the Convention Center, additional scrutiny of the contract, cost allocations and other contract terms has been warranted. As part of the City and County's due diligence regarding future operation and maximizing the full potential of the DCC, Hunden Strategic Partners ("Consultant") was hired in 2009 to review the DCC operations, financials and provide a written report for the Owners. The report by Hunden Strategic Partners (with Thomas & Gibbs, CPAs) was issued in February, 2010, comparing the DCC to other similar municipally-owned convention center operations and provided the following recommendations.

Consultant Recommendations:

- Reduce the current annual operating deficit to \$ 1 million or less
- Complete planned facility modifications to improve efficiency and update outdated systems
- Implement a new management agreement to incentivize the management company
- Create value in the Convention Center, by cutting operational costs and maximizing revenue
- Immediately seek proposals for a new operating agreement from the current operator and from third-party managers

The Hunden report was shared with City and County management, the DCC Authority and current management company. After review, analysis and discussion, City, County and DCC Authority determined it was in the best interests of the public owners to issue a Request for Proposals to test the marketplace and receive competitive proposals for management of the DCC. Since mid - 2009, City and County Staff have actively participated in DCC Authority meetings, conducted regular bi-weekly meetings with Staff and the City/County consultant, Hunden, to review, analyze and scrutinize the DCC operations in furtherance of the public owners' objectives.

RFP Process:

RFP preparations included development of proposed deal points (taking into consideration Hunden's recommendations) as well as form contract preparations for inclusion with the RFP. During the RFP preparations, the City and County negotiated resolution of the FY09-10 Budget deficit with Shaner Hotel, resulting in a budget amendment in the amount of \$175,000, and negotiated a six month extension to the management agreement extending Shaner's contract from June 30, 2010 to December 31, 2010.

The RFP for Facility Management Services for the DCC was issued on 9/15/2010 and was advertized on the City's website. On 10/7/10 a pre-proposal conference and DCC facility tour was conducted. Four potential proposers were in attendance, Global Spectrum, Shaner, SMG and VenuWorks. Addendum #1 responding to proposer's questions was issued to proposers and posted on City's website. On 10/29/10 RFP submittals were received from 3 firms, Global Spectrum, Shaner and VenuWorks. The proposals were distributed to the Evaluation Team, consisting of City and County Staff and the DCC Authority Chair, and identified as follows:

- Patrick Byker, Durham Convention Center Authority Chair
- Joel Reitzer, City of Durham General Services Director

- Karmisha Wallace, Assistant to the City Manager
- Vincent Wingate, Senior EO/EA Specialist
- Drew Cummings, Assistant County Manager
- David Boyd, City of Durham Finance Director
- George Quick, County of Durham Finance Director

The Evaluation Team reviewed the submittals considering the following submitted data:

- Cover Letter
- Management Company Profile
- Firm's Facility Management Portfolio
- Customer Service, Policies and Procedures
- Overall Management Plan
- General Manager Candidate
- Comparable Facilities
- References
- Comments Re: Proposed Agreement/Innovation

In advance of the interviews, references were checked, and all contacted references reported favorably. Firm presentation and interviews were conducted on 11/11/10. During the interviews, approximately 21 questions were posed to each firm (7 questions had been issued in advance). The questions emphasized fiscal, customer service, marketing and operational abilities of the firms. Upon conclusion of all interviews, the evaluation team conducted open discussion regarding quality and responsiveness of the RFP submittals, presentations and response to the interview questions. Each management company was evaluated based upon quantitative and qualitative criteria included in the RFP. Each firm was eligible for a total of 100 pts, distributed as follows:

- RFP submittal 50 pts
- Presentation 10 pts
- Interview Questions/Answers/Discussion 40pts

The Evaluation Committee Results/Rank order of Firms:

- #1-Global Spectrum
- #2-VenuWorks
- #3-Shaner

The results of the RFP process and the committee's recommendation to negotiate with the top ranked firm, Global Spectrum, was presented to the DCC Authority in Executive Session on November 16, 2010, wherein discussion followed. The DCC Authority voted unanimously to support and endorse the recommendation and forwarded endorsement of the recommendation to the City and County Managers, and advised the Owners (City and County partners) to proceed with negotiations with the top ranked firm, Global Spectrum.

Negotiation Process:

The City/County negotiation team included Joel Reitzer, Director, Department of General Services, Drew Cummings, Assistant County Manager, Karmisha Wallace, Assistant to the City Manager, and Jina Propst, Facilities Operations Manager.

The negotiating team have attempted to negotiate a contract that would improve DCC operations, improve financial performance, work within existing IRS revenue rules, and

provide for consulting by the management company during the renovations/construction due to begin in January, 2011, defined as the pre-opening period. The team's objective was to improve financial performance by 20% or greater over a two year period, and 10% minimum per year over the life of the 5 year management agreement, resulting in a 50% (minimum) reduction in costs for the new five year term management agreement.

The team met with Global Spectrum's executives, provided a facilities review, reviewed past DCC financial results, outlined feasibility of expanded kitchen facilities and made its own forecasts that prepared the team to review financial proposals.

Global Spectrum presented two financial proposals, one for the pre-opening consulting management agreement, and one for FY 2011/12 operating year. Staff reviewed and negotiated a management fee for each time period, incentives and operating budgets. The budgets align with the targets set by the team for improved financial performance. Both budgets were presented to the DCC Authority on December 21, 2010 and the DCC Authority voted to recommend to City and County Managers to seek authorization from the elected Boards to execute contracts with Global Spectrum, L.P. for management of the DCC.

Proposed Management Consulting Agreement (pre-opening/construction phase)

Under the proposed agreement, the Owners (City/County) will pay a management consulting fee of \$48,000, plus expenses, including but not limited to, marketing, facilities operations, and utilities. Services include coordination with Owners' design and construction team, interface with Marriott Hotel for joint business development, and meeting planning and coordination for the pre-opening/construction period from the date of City and County contract approval to June 30, 2011. The budget for the management consulting agreement is attached hereto as Attachment 1 and describes the expense items necessary for operations for the management consulting phase. The total operating budget is \$383,000, which includes the consulting fee referenced above and all expenses. Should DCC operations receive revenue from event operations for the management consulting period, the operating budget shall be amended accordingly.

Proposed 5 year Management Contract

Under the proposed agreement, the Owners (City/County) pay a management fee of \$100,000 for the first full year of operation, July 1, 2011-June 30, 2012. The management fee is then subject to annual adjustment for the term of the management agreement in accordance with the CPI index. The City and County have negotiated with Global Spectrum and arrived at a mutually acceptable DCC operating budget for FY2011/12 (see attachment 2, FY2011/12 proposed operating budget). The proposed budget includes a net operating subsidy of \$727,596, an improvement of \$458,000 over the Owner subsidy required in FY2009/10. As with the prior 5 year management agreement, the City and County will fund 100 % of the expenses of the DCC out of the approved operating budget and the City and County will receive 100% of the income derived from the Convention Center. The management agreement expenses and income model is improved over the prior management agreement as follows:

Management Contract Business Points:

- **# 1-Base Management Fee = \$ 100,000.** The management fee recommended by Hunden Strategic Partners, the Consultant hired by the City and County, was \$125,000 for the first full year of operations. Global Spectrum has offered to charge a fee of \$ 100,000 for the first full year in exchange for the opportunity to earn incentive fees in the first year, versus beginning in the second year. The management fee will increase annually in accordance with the CPI index.
- **# 2-Incentive Fee (Qualitative and Quantitative Measures)**
 - **Quantitative Measures = 20% above \$ 1,500,000 in gross revenue (\$75,000 cap).** Global Spectrum proposes to increase revenue from prior year revenue of \$1,500,000 up to \$1,650,000 in FY 2011/12. In the first year of the proposed 5 year agreement, the Owners would pay Global Spectrum an incentive of 20% of gross revenue above \$1,500,000 up to a maximum incentive payment of \$75,000. DCC Operations' sole focus will be on the Convention Center, and this will be accomplished in cooperation with the Marriott Hotel, the DCVB, and all other area hotels. Global Spectrum will utilize their national marketing program to increase bookings for new business to the center as well as book historical repeat business.
 - **Qualitative Measures (\$25,000 cap)** Global Spectrum proposed to provide an emphasis on qualitative improvement to the center and earn fees in return for being rated high by the DCC Authority on the following measures, each representing 5% (and also \$5,000 of the \$25,000 cap in this part of the incentive) of the qualitative scores as follows :
 - Customer Service
 - Cooperation with the DCC Authority and the DCVB
 - Overall Financial Performance
 - Asset Management
 - Creative/Effective Marketing

Incentive Fee example: If Global Spectrum generates revenue of \$1,650,000 for FY11/12, the amount over the baseline of \$1,500,000 is \$150,000 ($\$1,650,000 - \$1,500,000 = \$150,000$); the financial incentive is calculated at $\$150,000 \times 20\% = \$30,000$ in incentive fee added to base management fee (based on quantitative measures). If Global Spectrum receives a rating of 100 by the DCC Authority on all 5 qualitative measures (each worth \$5,000 each) = \$25,000. Therefore, the total incentive fee earned would be \$30,000 plus \$25,000 for total incentive of \$55,000. The management base fee is \$100,000 plus incentives of \$55,000 = total fee compensation of \$155,000.
- **# 3- Develop Effective Management Plan and Operations Plan**
 - Integrate DCC Operations into the Durham Community more effectively
 - Partnership with NCCU hospitality program
 - Implement cost-saving efficiencies and target reduction in Overall Expenses by 21.5%, including estimated cost reduction in labor payroll by approximately 14%

- Invest up to \$250,000 in the outfitting of a commercial kitchen to support meetings and events, and recover these costs over a five year period over which the improvements will be amortized.
 - Target a reduction in Owners' subsidy by 38% in year 1 of operation, increase operational performance by 10% per year-on-year
 - Sell and book more events- increase center utilization by all sectors, not just hotel occupants
 - Offer flexibility and creativity with alternative food and beverage choices to events
 - Provide the Owners opportunity to use the center for Durham Owners' events
- **#4- Increase Operational Transparency**
Hunden's analyses forecasted that the separation of DCC expenses from Hotel expenses would decrease operating expenses over the contract term. Operations will focus solely upon generating meetings and events versus confusing that interest with hotel occupancy. A much clearer demarcation of allocated resources will also exist, as they will no longer be shared with the Hotel. During the consulting management period, the budget expenditures will be subject to review and approval by the Owners based on allowance items identified in that budget. In the first full year of operations, the expense budget will be fixed, and the management company will manage to its approved budget. The company will comply with IRS Revenue Procedure 97-13. This ensures that in no case shall Global Spectrum's total annual incentive income (quantitative and qualitative fee) exceed Global Spectrum's annual base fee. Global Spectrum will provide detailed monthly, quarterly and annual reports, have an open-book policy with the Owners' Contract Administrator and support annual independent audits.

Issues/Analysis

Staff's recommendation to review the deal points and move forward with negotiating contracts and eventually execute a management consulting contract for the pre-opening/construction term and 5 year facility management contract with Global Spectrum, will involve some transition. Global Spectrum demonstrated during the RFP process, reference checks and subsequent meetings and negotiations with the DCC negotiation team, its' ability to successfully manage a transition process. Global Spectrum has worked in several similarly situated venues, successfully transitioning management from either hotels or other management companies for its public owners. The transition period, coinciding with the construction period, will require close cooperative coordination among City/County Staff, Shaner Hotel and Global Spectrum. This is an ideal time for transition, inventorying and sales and marketing efforts. The DCC will be closed during the pre-opening/construction period, but for limited events that were feasible to accommodate.

Due to air lease terms, and necessity of hotel to have a kitchen for hotel operations, the existing DCC kitchen will be available for Hotel use. Future terms regarding appropriate rental of this DCC space is to be determined.

As part of construction project and management agreement with Global Spectrum, a new DCC kitchen will be constructed. This will alleviate any potential disputes regarding usage and availability and further will allow each discrete operation (hotel and convention center) to function separately, with autonomy and accountability.

The most challenging aspects of proceeding with a new and different operator are only related to bifurcating systems and personnel that previously have been shared by Owners and Hotel. City and County Staff, after close review and scrutiny are confident that the new proposed contract and recommended management company provides the quality service and fiscal responsibility necessary for successful DCC operations.

Alternatives

An alternative is to not proceed with negotiations with Global Spectrum, resulting in the DCC without a management company and requiring the City and County to manage the facility. City and County Staff have met with the DCVB and should it become necessary, the DCVB would be available to provide marketing services for the DCC. The Owners would be required to hire additional staff and contracted services. Based upon draft review of associated costs, it is highly unlikely that the Owners would be able to successfully manage the facility for less than the operating budget proposed by Global Spectrum. Another alternative would be to extend the contract with Shaner Hotel Group for an additional year to 5 years. The estimated cost to the public owners is a minimum of \$1,000,000 per year and compared to Global Spectrum's proposal is not recommended

Financial Impacts:

Proposed Management Consulting Agreement (January, 2011-June 30, 2011)

FY 2010/11 approved budget for the DCC is \$1,000,000.00. The first six month operating period July 1, 2010-December 31, 2010 consisted of payments of a flat fee to the management company in the amount of \$102,700 per month for a total of \$616,200. After accounting for this six month period, a balance of \$383,000 is available for operations during the approximate time period January, 2011-June 30, 2011. Attachment 1 is the detailed operating budget through June 30, 2011.

Management Fee:

During the management consulting agreement, Global Spectrum will receive a management fee in the amount of \$48,000 for services during the pre-opening/construction period.

Revenues:

During the management consulting agreement, the City and County will receive 100% of the revenues for the DCC.

Expenses:

During the management consulting agreement, Global Spectrum is responsible for expenses related to the limited operations that will be ongoing during the pre-opening/construction period. Expenses include salaries/benefits, contracted services, sales/marketing, maintenance and other required services and is further detailed on Attachment 1. Global Spectrum will be responsible for managing DCC expenses within the operating budget of \$383,000.

Proposed 5 year Management Agreement (July 1, 2011-June 30, 2016)

Management Fee:

During the 5 year term management agreement, Global Spectrum will receive a management fee of \$100,000, for the first full year of operation. The management fee is then subject to annual adjustment for the term of the management agreement in accordance with the CPI index.

Additional Fee Opportunities (Incentives):

During the first full operating year, Global Spectrum will have the opportunity to earn additional fees, as an incentive to increase gross operating revenue, in excess of \$1.5 million in FY 2011/12. The revenue benchmark will be increased to \$1,650,000 in FY 2012/13 and the revenue basis benchmark will increase thereafter by the CPI index.

The portion of the financial incentive fee is capped at an amount not to exceed 75% of total eligible income for any given contract year. The incentive structure with Global is structured to include quantitative (75% of incentive fee and qualitative incentive 25% of incentive fee). Qualitative measures to be evaluated by the DCVB annually will include a) financial performance, b) customer service, c) cooperation with DCVB and DCC Authority, d) asset management and e) creative/effective marketing.

Revenues:

During the 5 year term management agreement, the City and County will receive all revenues generated by the DCC.

Expenses:

During the 5 year term management agreement, Global Spectrum is responsible for all expenses associated with the DCC as provided for in an annual operating budget. The operating budget for the first full year of operation is under development in conjunction with the City and County's budget approval process. Attached as Attachment 2, is the proposed budget of \$727,596, (pending approval by the City and County) for FY 2011/12.

SDBE Summary

The Equal Opportunity/Equity Assurance Department reviewed the bid submitted by Global Spectrum, Glastonbury, CT and have determined that they are in compliance with the Ordinance to Promote Equal Business Opportunities in City contracting.

SDBE REQUIREMENTS

The goals for this project were: 0% M/SDBE and 0 % W/SDBE.

Workforce Statistics

Workforce statistics for Global Spectrum, Glastonbury, CT are as follows:

Total Workforce	5,118	
Total Females	1,910	37%
Total Males	3,208	63%
Black Males	841	16%
White Males	2,099	41%

Other Males	268	5%
Black Females	543	11%
White Females	1,203	24%
Other Females	164	3%

Attachments:

- Attachment 1: Consulting Management services budget for pre-opening/construction period
- Attachment 2: FY2011/12 proposed operating budget