



**CITY OF KINGSTON**  
**REPORT TO COUNCIL**

**Report No.: 12-312**

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**TO:** Mayor and Members of Council

**FROM:** Denis Leger, Commissioner of Transportation, Properties & Emergency Services

**DATE OF MEETING:** September 18, 2012

**SUBJECT:** K-Rock Centre – Operator RFP Evaluation

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**EXECUTIVE SUMMARY:**

The K-Rock Centre operator contract expires on November 30, 2012. Council directed that a Request For Proposals (RFP) for the operations of the facility be issued. This report presents the results of the RFP process and seeks Council's direction on their preferred operational model and selected operator and for staff to negotiate a contract for the operations of the K-Rock Centre for the next 5-year period.

The City of Kingston received three (3) submissions to its Request for Proposals from three qualified and experienced firms: RG Properties Ltd , SMG and Global Spectrum. All three firms have proven experience in operating similar facilities and well-established reputations in the market place in North America. All three firms' submissions were thoroughly evaluated, provided additional clarification and the proponents answered the Committee's questions during a lengthy presentation and question and answer period during the interview stage of the evaluation.

The Evaluation Committee has concluded its review and has provided the analysis of the proponents' submissions, conclusions and a summary in the Options/Discussion section of this report with additional detail and observations provided as exhibits thereto. The following summarizes the following submissions and the Committee's recommendation to Council for consideration.

The proponents have presented substantially different operational models and this report is provided in a consider format to recognize these differences and to seek Council's direction on which model matches its vision.

**Option Not Recommended For Consideration:****RG Properties Ltd.**

The proponent has submitted a lease-type model with an unsecured annual financial guarantee of \$700,000. The proponent's 5-year revenue and expense projections, supplemented by proposed event activity and attendance levels are not adequately supported. In the short-term, the lease-type submission is not well-positioned to achieve the City's financial objectives of revenue optimization and added profitability. Over the longer-term, with virtually little City involvement in areas of control, authority and decision-making, and the insufficient level of accountability being suggested, this submission would not contribute as significantly to the City's sustainability and economic development objectives.

**Options Recommended For Consideration:****A) SMG:**

SMG is the incumbent operator, who is familiar to the City and is willing to provide an annual minimum guarantee of \$700,000. The proposed secured financial guarantee provides a mechanism that will address the volatility of the revenue streams, at least for the term of the contract. When compared to the Global Spectrum submission, the incumbent operator's past performance, proposal, presentation and suggested strategies do not give the Committee the same level of confidence that it will be able to sufficiently address the qualitative elements of customer satisfaction, stakeholder and community engagement to advance the City's objectives of optimizing revenues to achieve a better bottom-line and to foster community support and economic development.

The suggested strategies for resourcing and the overall approaches on event income optimization and for addressing the qualitative elements, are not likely to foster the same level of stakeholder partnership and community engagement as suggested by Global Spectrum approach, although results of operations are hedged by an annual financial guarantee of \$700,000 which includes the \$150,000 capital reserve contribution.

Based on the incumbent's past performance and the suggested strategies, staff resourcing and proposed management approach, the Evaluation Committee is not confident that the proponent will meet the 1<sup>st</sup> year projections of \$1,050,000 as referenced in Table 1 on page 8 of this report. If this option was to be the one chosen by Council, the City should request revised projections for the first year of operations.

**OR**

**B) Global Spectrum:**

The Global Spectrum submission only provides a guarantee of \$225,000 in the area of food & beverage commissions, of which approximately \$150,000 may or may not accrue to the bottom-line. This is significantly less than the unconditional guarantee being offered by SMG. When compared to the SMG submission, the proponent's detailed proposal, presentation and suggested strategies and related implementation/action plans give the Committee greater confidence that it will be able to better address the qualitative elements of customer satisfaction, stakeholder and community engagement to foster community support and economic development. The Global Spectrum submission suggests a different approach as it relates to event income optimization, the working relationship with the Frontenacs and better marketing and branding of the facility. It requires additional resources dedicated to sales and marketing efforts and customer satisfaction, which suggest, although doesn't guarantee, sustainable revenue optimization and better bottom-line results beyond the term of the agreement.

The approach offers more of a financial risk as the revenue streams can prove to be volatile and are subject to external factors such as industry, market and economic conditions, although if the approach is successful, the projected results of operations suggest a greater reward.

Based on the information provided and the time that it would be required to develop strategies, partnerships and implement action plans, the Evaluation Committee is not confident that the proponent will meet the 1<sup>st</sup> year projections \$1,079,046 as referenced in Table 1 on page 8 of this report. If this option was to be the one chosen by Council, the City should request revised projections for the first year of operations.

In summary, these are two substantially different management models being proposed:

- The SMG model which appears to be primarily focused on containing local management staff and administration costs and which is backed by a bottom-line annual minimum financial return guarantee of \$700,000, of which \$150,000 is a contribution to capital reserves.
- The Global Spectrum model which appears focused on revenue optimization strategies requiring significantly more spending in local management staff and administration costs directed at efforts in events management, sales and marketing, branding the facility and on fostering stakeholder partnerships and community involvement and which provides no bottom-line annual minimum financial guarantee.

Council will need to assess and determine where it wants to put its emphasis. It needs to determine which model and operator is likely to contribute the most to the objectives of revenue optimization to achieve a better bottom-line, fostering community support and economic development.

**RECOMMENDATION:**

**THAT** Council provide direction to staff with respect to the following options:

(a) **THAT** Council direct staff to pursue contract negotiations with SMG for the purposes of entering into a new contract for the operation of the K-Rock Centre for a period of five years commencing December 1, 2012 and ending on November 30, 2017 on the basis of their submission to the RFP process and subject to successful negotiations, that Council award the contract to SMG and authorize the Mayor and Clerk to sign the agreement in a form satisfactory to the Director of Legal Services.

**-OR-**

(b) **THAT** Council direct staff to pursue contract negotiations with Global Spectrum for the purposes of entering into a new contract for the operation of the K-Rock Centre for a period of five years commencing December 1, 2012 and ending on November 30, 2017 on the basis of their submission to the RFP process and subject to successful negotiations, that Council award the contract to Global Spectrum and authorize the Mayor and Clerk to sign the agreement in a form satisfactory to the Director of Legal Services, and

**THAT** Council approve an amount of \$50,000, representing the maximum amount to be paid by the City for transition costs associated with the selection of a new operator, to be funded from the Working Fund Reserve.

**AUTHORIZING SIGNATURES:**

ORIGINAL SIGNED BY COMMISSIONER Denis Leger, Commissioner of Transportation, Properties & Emergency Services
ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER Gerard Hunt, Chief Administrative Officer

**CONSULTATION WITH THE FOLLOWING COMMISSIONERS:**

Cynthia Beach, <i>Sustainability &amp; Growth</i>	√
Lanie Hurdle, <i>Community Services</i>	√
Jim Keech, <i>President and CEO of Utilities</i>	N/R

**(N/R indicates consultation not required)**

**OPTIONS/DISCUSSION:*****Background***

On May 15, 2012 Council was presented with a staff report recommending that it enter into a five-year agreement for the operation of the K-Rock Centre with the incumbent operator commencing on December 1, 2012 and ending on November 30, 2017. The recommendation was supported with a proposal submitted by the incumbent operator after the City had undertaken an extensive negotiation process. In its consideration of the staff report and operator proposal, Council determined that it wished to explore the market and accordingly, staff initiated a competitive process in the form of Request for Proposals (RFP) in order to attempt to secure the best proposal for the operation of the K-Rock Centre for the next five-year period.

**A. Request For Proposals (RFP)**

City staff developed a Request for Proposals document labelled RFP No. F31-TPES-COM-2012-1, which was released on June 19, 2012 with a submission date of July 25, 2012. The significant elements of this document have been included as **Exhibit A - RFP Requirements and Evaluation Criteria** and the complete document can be accessed using the following hyperlink:

[http://www.cityofkingston.ca/business/tenders/RFP\\_F31-TPES-COM-2012-01.asp](http://www.cityofkingston.ca/business/tenders/RFP_F31-TPES-COM-2012-01.asp)

The elements requested in the call for proposals were based on similar criteria and weightings that were determined as key for success during the City's first RFP process in 2006. In addition, these elements, criteria and weightings were adjusted based on the City's past five years of experience and elements that were deemed critical for improved and sustainable success.

In response to the RFP, The City of Kingston received three (3) submissions to its Request for Proposals from the following firms:

- RG Properties Ltd
- SMG
- Global Spectrum.

All three firms have proven experience in operating similar facilities and well-established reputations in the market place in North America. All three firms' submissions were thoroughly evaluated, provided additional clarification and answered the Committee's questions during a lengthy presentation and question and answer period during the interview stage of the evaluation.

**B. Evaluation of Proposals**

The RFP Evaluation Committee reviewed in detail the submissions received for content, completeness and the ability of the proponents to describe their ability to meet the City's objectives. The Committee also held interviews with the proponents where they were asked to present their submission and to clarify specific categories and respond to questions.

**Evaluation Criteria**

The criteria and weighting for the evaluation of the submissions was outlined in the RFP document as follows:

<b>EVALUATION CRITERIA</b>	<b>WEIGHT</b>
Financial	45%
Facility Management	35%
Demonstrated Experience and References	15%
AODA Requirements	5%

**C. Financial Context**

The evaluation of the financial component took into consideration the proponents' submissions supplemented by additional information that was requested and clarifications provided during the interview process. Three summary tables have been provided in this section to assist in the understanding of comparative elements of the proposals:

- Table 1 – Financial Comparators (Income Statement)
- Table 2 – Management Fee
- Table 3 – Financial Comparators (Other).

The RFP document did not specify a minimum annual financial expectation but it did indicate that the City's goal that revenues received from K-Rock Centre operations increase and that the net income generated contribute more than it had to the debt repayment requirements while maintaining a high standard of sports and entertainment programming for residents and visitors.

Proponents were to take into account the three complete calendar years' past experience of the K-Rock Centre, the City's 2012 approved budget and additional opportunities in both event income and other revenue streams. The proponents were provided with detailed history of net operating income information, summarized as follows:

	<b>2009 Audited</b>	<b>2010 Audited</b>	<b>2011 Audited</b>	<b>2012 Budget</b>
<b>Gross Revenues</b>	\$2,440,748	\$2,605,155	\$2,142,849	\$2,780,255
<b>Operational Expenses</b>	\$1,618,131	\$1,964,124	\$1,596,449	\$1,844,571
<b>Net Income from Operations (prior to capital reserve contribution and management fee)</b>	\$822,617	\$641,031	\$546,400	\$935,684

The proponents were requested to submit a proposed 5-year statement of operations which would project streams of various revenues and operational expenses to arrive at an annual net income from operations and further identify a capital reserve contribution as well as any associated management fees to arrive at an adjusted net income figure.

A comparison of the year 1 projections and the 5-year total projections is attached as **Exhibit B - Comparison of Proponents' Annual Income Projections** to this report. In addition, **Exhibit C – Individual Proponents' Statement of Operations** supplements this information by providing the proponents' complete proposed income statements as requested in the RFP.

Total event income typically accounts for 45%-55% of all revenues that accrue to the facility and is the basis upon for all other income streams to be realized. Accordingly, the number, type and quality of events and the related attendance at these events will be a significant determinant of event income and may have a significant impact on other streams of revenues such as premium seating (suites and club seats) and sponsorship and advertising. The event income will also be impacted by many other factors including ticket-related surcharges and convenience fees, quality and pricing in the food and beverage areas as related fees or commissions from these areas are significant and accrue to the bottom-line of the facility. **Exhibit D - Comparison of Proponents' Event Assumptions** provides information related to projected number of events by type, attendance and related event income.

The detailed information based on certain underlying assumptions which is contained in **Exhibits B to D** as well as other financial information and clarifications provided by way of interview or supplemental information all contributed to the evaluation and scoring of the financial component of the submissions.

The following tables provide summary comparisons of certain financial elements that are key to the projections contained in the respective submissions.

**Table 1 – Financial Comparators (Income Statement)** outlines certain financial information that was either included in the first year income statement or was provided as additional financial information to support the numbers contained therein.

**Table 1- Financial Comparators (Income Statement):**

<b>Selected Comparators Year 1</b>	<b>RG Properties Ltd.</b>	<b>SMG</b>	<b>Global Spectrum</b>
<b>Net Operating Income (NOI) - projected</b>	<b>\$580,193</b>	<b>\$1,050,000</b>	<b>\$1,079,046</b>
<b>NOI Annual Financial Guarantee (incl. \$150,000 capital reserve amount)</b>	<b>\$700,000</b>	<b>\$700,000</b>	<b>N/A</b>
<b>Annual F&amp;B Commission guarantee (\$225,000 less estimated Frontenacs share)</b>	<b>N/A</b>	<b>N/A</b>	<b>\$150,000</b>
Food and Beverage (F&B) Commissions: ( as % of gross sales)			
• Concessions	N/A	32%	30%
• Restaurant	N/A	22%	20%
• Suites (catering)	N/A	17%	15%
<b>Revenue-based comparators</b>			
Number of events	55	127	139
Total attendance	147,000	265,816	353,600
Total event income	\$1,054,413	\$1,455,939	\$1,765,861
Suite agreements	\$475,000	\$539,720	\$635,000
Advertising	\$396,280	\$494,768	\$557,032
<b>Expense-based comparators</b>			
Salaries, wages & benefits	\$856,000	\$908,823	\$1,210,452
Total indirect expenses	\$1,736,000	\$1,833,852	\$2,258,847
<b>Total Management Fee (financial &amp; qualitative) included in Income Statement</b>	<b>N/A</b>	<b>\$145,000</b>	<b>\$205,809</b>
<b>Total Qualitative Management Fee Omitted from I/S</b>	<b>N/A</b>	<b>N/A</b>	<b>\$50,000</b>



Additional information is provided in **Table 2 – Management Fee** that provides further insight as to how management fee or compensation is arrived at.

**Table 2 - Management Fee**

<b>RG Properties Ltd</b>	<b>SMG</b>	<b>Global Spectrum</b>
<p><b><u>Financial</u></b>  <u>Based on Net Operating Income (NOI)</u>                      On first \$700,000      0%                      Other &gt; \$700,000    100.0%</p> <p>NOI in year 1 = \$580,193</p> <p><b>\$0 in year 1</b></p>	<p><b><u>Financial (\$200,000 max.)</u></b>  <u>Based on Net Operating Income (NOI)</u>                      On first \$150,000      0%                      On next \$550,000      0%                      On next \$200,000    37.5%                      Other &gt; \$900,000    30.0%</p> <p>NOI in year 1 = \$1,050,000</p> <p><b>\$120,000 fee in year 1</b></p>	<p><b><u>Financial (no max.)</u></b>  <u>Based on Net Operating Income (NOI)</u>                      On first \$500,000      8%                      On next \$250,000      40%                      Other &gt; \$750,000      20%</p> <p>NOI in year 1 = \$1,079,046</p> <p><b>\$205,809 fee in year 1</b></p>
<p><b><u>Qualitative</u></b>                      N/A</p>	<p><b><u>Qualitative (\$25,000 max.)</u></b>                      (only eligible if NOI reaches \$700,000)</p> <p>Based on City evaluation of performance in the following areas:</p> <ul style="list-style-type: none"> <li>• Community Involvement \$6,250</li> <li>• Tenant/User Relations \$6,250</li> <li>• Customer Satisfaction \$6,250</li> <li>• Sales and Marketing \$6,250</li> </ul> <p>Included as Indirect Expenses - Other</p>	<p><b><u>Qualitative (\$50,000 max.)</u></b>                      (only eligible if NOI reaches \$750,000)</p> <p>Based on City evaluation of performance in the following areas:</p> <ul style="list-style-type: none"> <li>• Stakeholder Involvement \$10,000</li> <li>• Improved Food &amp; Beverage \$10,000</li> <li>• Customer Service \$10,000</li> <li>• New Event Creation \$10,000</li> <li>• Increasing ticket sales \$10,000</li> </ul> <p>Not included in the income statement (omission)</p>

Other financial information that is not included in the income statement but that was given added consideration and forms part of the proponents' submissions is outlined in **Table 3 – Financial Comparators (Other)**.

**Table 3 - Financial Comparators (Other)**

<b>A) Cash Contributions (off-income statement; paid by proponents)</b>	<b>RG Properties Ltd.</b>	<b>SMG</b>	<b>Global Spectrum</b>
<b>1. Capital Investments (revenue-enhancing)</b>			
Building and functional improvements	N/A	\$100,000	\$150,000
Food & beverage area enhancements	N/A	\$100,000	\$250,000
<b>2. Event attraction/loss mitigation (differing methodology and risks as detailed in exhibits)</b>			
Event development fund (one-time)	N/A	\$100,000	N/A
Event loss protection (\$12,500 x 4 events x 5 years)	N/A	N/A	\$250,000
<b>3. Other financial contributions</b>			
Community activities sponsorships (\$10,000 x 5 years)	N/A	\$50,000	N/A
Annual scholarship awards (\$1,500 x 3 x 5 years)	N/A	N/A	\$22,500
<b>B) Operator Transition Costs (City's share- max.)</b>	\$50,000	N/A	\$35,000

#### **D. Detailed Reviews**

The Evaluation Committee has reviewed and assessed in detail all of the elements that were to be evaluated with respect to the following criteria:

- Financial
- Facility Management
- Demonstrated Experience & References
- AODA Requirements

Attached to the report are Exhibits with detailed explanations to the evaluation process. **Exhibit E to G - Evaluation Committee Reviews** provides the detailed Committee review and specific observations with regards to each individual submission and to the individual elements subject to evaluation. These elements are as detailed in **Exhibit A - RFP Requirements and Evaluation Criteria**. The narrative provided support the conclusions of the Committee, the relative points assigned to each of the RFP criteria and the eventual ranking of the submissions.

#### **E. Evaluation Committee Conclusions**

##### **RG Properties Ltd.**

The lease-type model submitted by RG Properties Ltd. is not the model that will meet the City's objectives as it will not be able to significantly influence or impact the operations of the facility. It proposes to relinquish too much control, authority and decision-making to the proponent and does not maintain a sufficient level of accountability. Despite the annual financial guarantee of \$700,000 per year, the focus suggested by the proponent does not promise to optimize the City's financial return on its investment on this community asset, nor deliver a sufficient number, diversity and quality of events that would strive for financial sustainability and provide significant economic benefit to the community.

Through the interview process, the proponent has indicated that although the guarantee would be incorporated into a contract, there was no interest shown in securing this guarantee through a financial or insurance instrument. In addition, there is no upside to the proposal as any funds earned that would be in excess of the guarantee would fully accrue to the proponent. The City of Kingston's 2009 experience has shown that the Net Income from Operations (prior to management fees and capital reserve contributions) has well exceeded the 1<sup>st</sup> year amount projected and has approached it in 2010 and 2011.

The Evaluation Committee does not recommend that Council give further consideration to entering into a contract with RG Properties Ltd. for the operations of the K-Rock Centre.

**SMG**

The SMG proposal is based on a fee-for-service with the management compensation being variable and performance-based. There is significant value attached to the \$700,000 annual financial guarantee under this model. The City's sole experience is with them as incumbent operator.

With SMG at the helm, the facility has consistently achieved a positive bottom-line, albeit it has been below their budget projections and in decline for 2009 to 2011 inclusive. Despite their experience at the K-Rock Centre, SMG continues to provide projections which estimate annual net income from operations ranging from \$1.0 million to \$1.2 million and yielding \$900,000 to \$1.0 million after payment of management fees.

Through the years and in earlier negotiations in 2012, the City had brought to light that the proponent had to put additional focus on and improve in a number of qualitative aspects of operation. These included:

- greater number, quality and diversity of events
- areas of food and beverage concessions as it relates to product quality and availability, and expediency of service
- expanding the K-Rock Centre's sales and marketing reach
- community and stakeholder involvement
- tenant/user relations
- customer satisfaction

In comparison to the Global Spectrum submission and interview, SMG did not provide the Committee with confidence that these matters would be appropriately addressed in an effective manner leveraging community relationships.

Although there is evidence that added focus will be given to these areas in their submission, the Committee does not feel that the proponent provides the level of quality and creativity of approaches that will positively impact the expected long term financial and economic development objectives. Based on the strategies identified in their submission, the Committee is not confident that SMG will make as significant strides in these areas in comparison to the Global Spectrum proposal.

The Committee further concludes that the annual financial guarantee does not in of itself guarantee future financial and economic sustainability. This proposal represents a hedge on current operations.

**Global Spectrum**

The Global Spectrum proposal is also based on a fee-for-service with the management compensation being variable and performance-based. They have not provided the City with any income guarantee other than food & beverage commissions of \$225,000 of which an estimated \$150,000 would accrue to the facility net of the Frontenacs portion, and only in the event that the OHL franchise is maintained.

The City has no direct experience with Global Spectrum and although Global has extensive experience in the management of these facilities, it has not always generated net income from operations at these facilities. The KPMG report which was commissioned by the City and provided to Council as an exhibit to Report No. 12-175 on May 15, 2012 has attested to this fact. The proponents do not feel that the comparisons are valid as the John Labatt Centre in London, although profitable is operated on a lease-type basis and their involvement with the Windsor facility is limited to events not overall facility management. In addition, they indicate significant improvement to bottom-line to operations at the General Motors Centre in Oshawa, a facility competing in the GTA market, since they took over from a different operator. They have indicated that location of the K-Rock Centre, its regional market and lesser number of competing entertainment venues makes it relatively more advantageous than other facilities. Although there is an appreciation of these assertions, the Committee has not attempted to verify or dispute these assertions made by the proponent.

Global Spectrum estimates annual net income from operations in the range of \$1.1 million and yielding \$800,000 to \$900,000 after payment of management fees. The largest difference in this proposal compared to SMG's is that there is more being spent and invested annually (approximately \$400,000) to yield a similar bottom-line. The proponent suggests that this is an investment in staffing and execution on qualitative aspects that might yield greater returns in the form of community involvement and customer satisfaction, which in turn would attract greater and more sustainable revenues. In the City's experience, revenues have proven to be much more volatile than expenses recognizing that there are many industry, economic, demographic and market conditions that to some degree impact these. The City's past experience, granted, is based on current operations with the incumbent operator and while acknowledging that it is not the sole determinant of market capacity, but it must be given its due consideration. This volatility may mean that in a period of economic downturn, the revenues might not be as easily achieved. Although the optimization of revenues offers a significant upside for both the City and the operator, the associated expenses needed to pursue the revenues presents a significant financial risk.

The Evaluation Committee believes that the Global Spectrum submission, the proponent's presentation and ability to respond effectively to questions was, in many aspects, superior to the SMG proposal. Its proposal not only provides additional focus in the qualitative areas that needed improvement, but gives strategies, implementation and action plans on how they will so.

Although there is no guarantee, this might better position the City in obtaining its objectives and might, over the longer term, deliver a more financially sustainable, community-supported operation. This proposal represents assuming a greater financial risk for potentially greater rewards.

**F. Ranking of Submissions**

The Evaluation Committee has spent a considerable amount of time in reviewing the written submissions, conducting extensive interviews seeking clarification of the submissions and evaluating the submissions as they related to the various components of the RFP requirements. The Committee factored into account the quality, detail and implementation strategies that were contained therein and followed up on during the interview process.

**Table 4 – Ranking of Submissions** represents the ranking and respective scores that were determined by consensus. They represent Committee’s evaluation based on the quality of the submission, presentations and the proponents’ ability to answer questions of clarification in a concise and direct manner that best aligned to the City’s objectives.

**Table 4 - Scoring of Submissions**

	<b>RG Properties Ltd.</b>	<b>SMG</b>	<b>Global Spectrum</b>
<b>Ranking</b>	<b>3</b>	<b>2</b>	<b>1</b>
Financial (45 points)	22	45	36
Facility Management (35 points)	13	18	27
Demonstrated Experience and References (15 points)	10	12	14
AODA Requirements (5 points)	2	2	4
<b>Total</b>	<b>47</b>	<b>77</b>	<b>81</b>

**G. Summary**

The RFP process yielded competitive submissions from three qualified prospective operators, two of which require added consideration as they propose fee for service models rather than the lease model, the latter which would not advance the City’s objectives of optimizing revenues to achieve a better bottom-line and to foster community support and economic development. As such, the Committee has recommended to Council that it should only further consider the two proposals put forth by SMG and Global Spectrum. It should be noted that both of these submissions are competitive, but differ substantially in their approach to achieve the City’s objectives. As an additional note, the process also yielded a better submission from the incumbent operator than the negotiated proposal that had been presented to Council for its approval in May 2012.

In summary, these are two substantially different management models being proposed:

- The SMG model which appears to be primarily focused on containing local management staff and administration costs and which is backed by a bottom-line annual minimum financial return guarantee of \$700,000, of which \$150,000 is a contribution to capital reserves.
- The Global Spectrum model which appears focused on revenue optimization strategies requiring significantly more spending in local management staff and administration costs directed at efforts in events management, sales and marketing, branding the facility and on fostering stakeholder partnerships and community involvement and that provides no bottom-line annual minimum financial guarantee.

Council has to assess and determine where it wants to put its emphasis on. It needs to determine which model and operator is likely to contribute the most to the objectives of revenue optimization to achieve a better bottom-line, fostering community support and economic development.

### **Options for Consideration:**

#### **Option A - SMG:**

SMG is the incumbent operator, who is familiar to the City and is willing to provide an annual minimum guarantee of \$700,000. The proposed secured financial guarantee provides a mechanism that will address the volatility of the revenue streams, at least for the term of the contract. When compared to the Global Spectrum submission, the incumbent operator's past performance, proposal, presentation and suggested strategies do not give the Committee the same level of confidence that it will be able to sufficiently address the qualitative elements of customer satisfaction, stakeholder and community engagement to advance the City's objectives of optimizing revenues to achieve a better bottom-line and to foster community support and economic development.

The suggested strategies for resourcing and the overall approaches on event income optimization and for addressing the qualitative elements, are not likely to foster the same level of stakeholder partnership and community engagement as suggested by Global Spectrum approach, although results of operations are hedged by an annual financial guarantee of \$700,000 which includes the \$150,000 capital reserve contribution.

Based on the incumbent's past performance and the suggested strategies, staff resourcing and proposed management approach, the Evaluation Committee is not confident that the proponent will meet the 1<sup>st</sup> year projections of \$1,050,000 as referenced in Table 1 on page 8 of this report. If this option was to be the one chosen by Council, the City should request revised projections for the first year of operations.

**Option B – Global Spectrum:**

The Global Spectrum submission only provides a guarantee of \$225,000 in the area of food & beverage commissions, of which approximately \$150,000 may or may not accrue to the bottom-line. This is significantly less than the unconditional guarantee being offered by SMG. When compared to the SMG submission, the proponent's detailed proposal, presentation and suggested strategies and related implementation/action plans give the Committee greater confidence that it will be able to better address the qualitative elements of customer satisfaction, stakeholder and community engagement to foster community support and economic development. The Global Spectrum submission suggests a different approach as it relates to event income optimization, the working relationship with the Frontenacs and better marketing and branding of the facility. It requires additional resources dedicated to sales and marketing efforts and customer satisfaction, which suggest, although doesn't guarantee, sustainable revenue optimization and better bottom-line results beyond the term of the agreement.

The approach offers more of a financial risk as the revenue streams can prove to be volatile and are subject to external factors such as industry, market and economic conditions, although if the approach is successful, the projected results of operations suggest a greater reward.

Based on the information provided and the time that it would be required to develop strategies, partnerships and implement action plans, the Evaluation Committee is not confident that the proponent will meet the 1<sup>st</sup> year projections \$1,079,046 as referenced in Table 1 on page 8 of this report. If this option was to be the one chosen by Council, the City should request revised projections for the first year of operations.

**EXISTING POLICY/BY LAW:**

N/A

**NOTICE PROVISIONS:**

N/A

**ACCESSIBILITY CONSIDERATIONS:**

N/A

**FINANCIAL CONSIDERATIONS:**

The RFP submissions for the operations of the K-Rock Centre suggest that the expectations with regards to the net income from operations for the K-Rock Centre should be approximately \$1.0 to \$1.2 million with an amount of approximately \$800,000 to \$900,000 accruing to the facility for the payment of both past debt and future capital expenses. This would be the amount net of overall management fees but would include the \$150,000 annual contribution to capital reserve. The Evaluation Committee is not confident that either of the proponents being considered will meet the 1<sup>st</sup> year projections. Whichever proponent is chosen by Council, the City should request a revised budget projection for 2013, the first year of operations. In the event Council determines that it wishes to transition to a new operator, it will be necessary to fund a maximum of \$50,000 in transition costs from the Working Fund Reserve.



**CONTACTS:**

**K-Rock Centre Operator RFP Evaluation Committee**

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Lanie Hurdle, Commissioner of Community Services	613-546-4291, Ext. 1231
Alan McLeod, Senior Legal Counsel	613-546-4291, Ext. 1237
Brian McCurdy, Director of Cultural Services	613-546-4291, Ext. 1354
Wally Ferris, Director of Recreation & Leisure	613-546-4291, Ext. 1302

**OTHER CITY OF KINGSTON STAFF CONSULTED:**

N/A

**EXHIBITS ATTACHED:**

Exhibit A – RFP Requirements and Evaluation Criteria  
Exhibit B - Comparison of Proponents' Annual Income Projections  
Exhibit C - Individual Proponents' Statement of Operations  
Exhibit D - Comparison of Proponents' Event Assumptions  
Exhibit E - Evaluation Committee Review – RG Properties Ltd.  
Exhibit F - Evaluation Committee Review – SMG  
Exhibit G - Evaluation Committee Review – Global Spectrum

## Exhibit A

### K-Rock Centre Operator Request for Proposals (RFP)

#### RFP Requirements and Evaluation Criteria

##### A) RFP Requirements

As described in the Request for Proposal document, the submissions had to include the following information:

##### Financial:

Each proposal had to:

- include a 5-year statement of projected annual operations reflecting the net income from operations both before and after the payment of management fees and any contribution to facility reserves for future capital costs
- be based on a five-year term between the Operator and the City renewable for a further term of 5 years at the City's sole discretion
- include a proposed management fee structure and mechanisms including any element of fixed or variable compensation including incentive fee structures on both the financial and qualitative elements of performance
- set out clear indication of annual or periodic capital or other investments that is proposed to be made by the operator
- describe in detail how food and beverage operations will be structured, how profits and/or commissions will flow as earnings to the facility as well as proposed strategies to increase food and beverage revenues and
- identify a process under which any financial compensation for non-financial performance evaluation would be undertaken

##### Facility Management/Demonstrated Experience and References:

Each proposal had to:

- describe its company's management philosophy of operation and how this philosophy is demonstrably applied in existing facilities
- describe how its company will differentiate itself from other management companies and will optimize service and earnings to the stakeholders
- provide an organization chart, including all staffing positions and outline individual staff roles, responsibilities and qualifications
- provide a narrative with illustrations from facilities currently being operated by its company delineating its ability to perform in the following areas as they relate to facility management:

- 
- Administration
  - Marketing including Event Production
  - Approach to Ticketing Operations
  - Financial Management
  - Sponsorship and Advertising
  - Primary licensee relations, Kingston Frontenac Hockey Limited
  - Stakeholder relations including the community, the City, suite and club seat licensees, sponsors/advertisers and other City cultural venues/events
  - Tourism including working with the Kingston Economic Development Corporation (KEDCO), Downtown Kingston! and the Kingston Accommodation Partners (KAP)
  - Customer service and satisfaction
  - Other - A description of other special resource skills or services your company may have which are not addressed in this RFP and will be available as part of the management agreement
  - Repairs and Maintenance - approach to annual repairs and maintenance, preventive maintenance and replacement capital expenditures
  - Suite and Club Seat Holder Relations as well as Sponsorship and Advertising, outlining previous experience with premium seating user relations, pricing considerations and methodologies, and marketing plan, including timing, packaging, pricing and renewal strategies.
  - Maintenance of LEED® Design Standing: the Operator will be required to operate the facility's physical systems to obtain specified energy efficiencies as well as sustainable procedures and product use and any other measures under the LEED® program. Operators will be responsible for providing a detailed plan on how they will operate the systems and administer the facility in all other respects to meet energy efficiency as well as sustainable best practices. The plan must also demonstrate how energy savings will be monitored, measured and realized.

## **B) Evaluation Criteria**

The criteria and weighting for the evaluation of the submissions was outlined in the RFP document as follows:

<b>EVALUATION CRITERIA</b>	<b>WEIGHT</b>
Financial	45%
Facility Management	35%
Demonstrated Experience and References	15%
AODA Requirements	5%

### **1. Financial (45 points):**

The financial category included analysis of the financial information proposed but also weighed the supporting information supplied to determine how well they met the City of Kingston objectives. Under the 45 points allocated to the Financial Analysis portion of evaluation, the following factors and considerations were used:

- each financial proposal was evaluated and awarded points in relation to the other proposals as well as the financial history of the K-Rock Centre and comparable facilities elsewhere
- the financial proposal which most fully, clearly and certainly offered to provide the City the greatest net annual income from K-Rock operations over the term of the agreement was awarded full points and other proposals were awarded a pro-rated number of points
- the financial component was multi-faceted and added consideration was given to other financial elements which supported the financial proposal including:
  - financial guarantees on income streams
  - financial risk mitigation – event development
  - capital investments
  - community or other financial support
  - projected gross revenues and expenditures
  - event income and underlying assumptions on categories, # of events and attendance projections
  - food & beverage revenues and assumptions on per capita spending

- sponsorship & advertising revenues
- premium seating revenues
- ticketing rebate revenues
- salaries & staffing related costs
- management fee structure – financial & qualitative components
- transition fees where applicable
- proposals were also to set out in detail ticketing fee structures as well as food and beverage pricing models and the respective sharing of revenue streams from these and all other sources

## **2. Facility Management (35 points):**

- a detailed facility management proposal had to be submitted
- proposals had to demonstrate a vision and understanding for operating the K-ROCK Centre in a manner that addresses strategies around business and operational management, financial management and stakeholder relationships and that allows for future expansion and flexibility in programming
- proposals submitted by other than the incumbent operator had to set out detailed plans for minimizing disruptions during any transition period including estimated costs and sources of funding for the transition plan including but not limited to ticketing and box office operations, food and beverage operations, continuation of existing booking commitments as well as an approach to records transition to maintain operational history, IT access and other records related issues with examples for all aspects of transition from other transitional experiences at other facilities

## **3. Demonstrated Experience and References (15 points):**

- each proposal had to clearly detail a record of success in the areas of expertise required for operating a sports and entertainment centre of similar nature, size, scope and complexity
- each proposal had to clearly demonstrate the firm's experience with similar sports, entertainment and spectator facilities in:
  - Operation and facility marketing
  - Suite and premium user relations management
  - Sponsorship and advertising
  - Facility repairs and maintenance
- each short listed firm had to identify, under privilege and confidence, all key personnel and provide resumes with descriptions of their experience working with each other, their record of creativity and customer service as

well as details of previous success in achieving financial and other qualitative performance goals

- each proposal had to provide references on an as requested basis of other facilities operated by proponents including key contact names and telephone numbers. References would be to substantiate the experience of respondent company and individuals

**4. Accessibility for Ontarians with Disabilities Act (AODA) Compliance (5 points):**

- Each proposal had to include detailed description of implementation strategies related to such accessibility standards for both staffing and customer service. Maximum points were to be awarded to proposals which take on the spirit as well as the letter of these legal obligations and which provide the greatest focus on respect, courtesy and comfort.

**Exhibit B - Comparison of Proponents' Annual Income Projections  
K-Rock Centre**

City Experience	City Experience				RG	SMG	GS	RG	SMG	GS
	2009 Audited	2010 Audited	2011 Audited	2012 Budget	Year 1	Year 1	Year 1	5 Year Total	5 Year Total	5 Year Total
<b>EVENT INCOME</b>										
<b>Direct Event Income</b>										
Rental Income	\$ 391,708	\$ 388,141	\$ 294,341	\$ 404,249	\$ 354,000	\$ 477,015	\$ 466,591	\$ 1,839,000	\$ 2,552,494	\$ 2,421,223
Service Revenue	1,267,897	1,194,408	801,407	704,950	585,000	730,817	1,100,000	3,044,364	3,910,582	5,682,013
Service Expenses	(1,311,855)	(1,159,466)	(812,203)	(695,932)	(630,000)	(705,187)	(1,174,688)	(3,278,545)	(3,773,435)	(6,074,934)
<b>Total Direct Event Income</b>	<b>347,750</b>	<b>423,083</b>	<b>283,545</b>	<b>413,267</b>	<b>309,000</b>	<b>502,645</b>	<b>391,903</b>	<b>1,604,819</b>	<b>2,689,641</b>	<b>2,028,302</b>
<b>Ancillary Income</b>										
F & B Concessions	134,260	140,240	97,362	157,990	156,951	150,636	172,912	928,739	806,048	946,241
F & B Catering	26,821	27,674	32,726	35,066	35,382	39,437	18,625	223,131	211,026	95,155
F & B Restaurant	76,124	63,951	54,246	79,843	65,820	99,862	87,947	334,034	534,358	472,700
Novelty Sales	37,273	47,917	25,983	51,583	25,000	24,497	38,769	125,000	131,082	203,490
<b>Total Ancillary Income</b>	<b>274,478</b>	<b>279,782</b>	<b>210,317</b>	<b>324,482</b>	<b>283,153</b>	<b>314,432</b>	<b>318,253</b>	<b>1,610,904</b>	<b>1,682,514</b>	<b>1,717,586</b>
<b>Other Event Income</b>										
Suite Tickets	73,989	144,072	53,414	76,328	50,000	21,575	199,317	265,456	115,447	1,011,214
Ticket Rebates	305,413	244,530	103,083	181,638	0	190,104	311,053	-	1,017,241	1,672,985
Facility Fees	321,699	357,010	246,229	448,718	412,260	427,183	545,335	2,136,300	2,285,843	2,926,772
<b>Total Other Event Income</b>	<b>701,101</b>	<b>745,612</b>	<b>402,726</b>	<b>706,684</b>	<b>462,260</b>	<b>638,862</b>	<b>1,055,705</b>	<b>2,401,756</b>	<b>3,418,531</b>	<b>5,610,971</b>
<b>Total Event Income</b>	<b>1,323,329</b>	<b>1,448,477</b>	<b>896,588</b>	<b>1,444,433</b>	<b>1,054,413</b>	<b>1,455,939</b>	<b>1,765,861</b>	<b>5,617,479</b>	<b>7,790,686</b>	<b>9,356,859</b>
<b>OTHER OPERATING INCOME</b>										
Luxury Box Agreements	471,080	496,640	473,552	524,000	475,000	539,720	635,000	2,899,923	2,888,027	3,251,627
Club Seat Agreements	176,725	184,286	191,827	197,500	192,000	203,425	200,000	1,019,355	1,088,522	1,061,827
Advertising	338,035	316,370	409,226	430,822	396,280	494,768	557,032	2,103,904	2,647,489	2,893,357
F & B Misc.	2,040	0	0	0	20,000	0	0	106,183	-	-
Ice Rentals	120,758	150,850	166,173	170,000	170,000	170,000	170,000	902,553	909,665	902,553
Other Income	8,781	8,532	5,483	13,500	8,500	20,000	10,000	45,128	107,020	53,091
<b>Total Other Operating Income</b>	<b>1,117,419</b>	<b>1,156,678</b>	<b>1,246,261</b>	<b>1,335,822</b>	<b>1,261,780</b>	<b>1,427,913</b>	<b>1,572,032</b>	<b>7,077,046</b>	<b>7,640,723</b>	<b>8,162,455</b>
<b>Adjusted Gross Income</b>	<b>2,440,748</b>	<b>2,605,155</b>	<b>2,142,849</b>	<b>2,780,255</b>	<b>2,316,193</b>	<b>2,883,852</b>	<b>3,337,893</b>	<b>12,694,525</b>	<b>15,431,409</b>	<b>17,519,314</b>
<b>INDIRECT EXPENSES</b>										
Salaries & Wages	672,507	771,458	751,609	787,720	756,000	764,124	987,890	4,013,707	4,056,838	5,244,843
Payroll Taxes & Benefits	99,374	139,565	114,203	151,828	100,000	144,699	222,562	530,914	768,227	1,181,611
Net Salaries and Benefits	771,881	911,023	865,812	939,548	856,000	908,823	1,210,452	4,544,621	4,825,065	6,426,454
Contracted Services	19,368	33,015	34,576	35,200	75,000	34,145	133,420	398,186	182,707	708,345
General and Administrative	153,323	162,970	112,326	168,650	120,000	174,688	158,000	637,096	934,752	838,843
Operating	9,901	68,938	61,558	71,750	0	77,000	77,000	-	412,025	408,803
Repairs & Maintenance	108,037	104,268	110,623	103,300	115,000	103,950	114,500	610,552	556,234	607,896
Operational Supplies	71,489	108,885	85,395	108,600	160,000	101,455	91,000	849,461	542,883	483,131
Insurance	26,146	26,955	28,508	26,500	15,000	28,000	48,500	79,638	149,827	257,493
Utilities	457,986	454,320	391,401	391,023	395,000	380,791	392,000	2,097,109	2,021,673	2,081,181
Other	0	93,750	(93,750)	0	0	25,000	33,975	-	125,000	180,377
<b>Total Indirect Expenses</b>	<b>1,618,131</b>	<b>1,964,124</b>	<b>1,596,449</b>	<b>1,844,571</b>	<b>1,736,000</b>	<b>1,833,852</b>	<b>2,258,847</b>	<b>9,216,663</b>	<b>9,750,166</b>	<b>11,992,523</b>
<b>Net Income (Loss) from Operations</b>	<b>822,617</b>	<b>641,031</b>	<b>546,400</b>	<b>935,684</b>	<b>580,193</b>	<b>1,050,000</b>	<b>1,079,046</b>	<b>3,477,862</b>	<b>5,681,243</b>	<b>5,526,791</b>
Management Fee	128,250	129,917	132,374	135,683	(119,807)	120,000	205,809	(22,138)	732,201	1,055,359
Cap'l Reserve Exp.	100,000	100,000	100,000	100,000	150,000	150,000	150,000	750,000	750,000	750,000
<b>Adj. Net Income (Loss)</b>	<b>\$ 594,367</b>	<b>\$ 411,114</b>	<b>\$ 314,026</b>	<b>\$ 700,001</b>	<b>\$ 550,000</b>	<b>\$ 780,000</b>	<b>\$ 723,237</b>	<b>\$ 2,750,000</b>	<b>\$ 4,199,042</b>	<b>\$ 3,721,432</b>

**Exhibit C - Individual Proponents' Statement of Operations  
K-Rock Centre**

	<b>City Experience</b>				<b>RG Properties Ltd.</b>					
	<b>2009 Audited</b>	<b>2010 Audited</b>	<b>2011 Audited</b>	<b>2012 Budget</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
<b>EVENT INCOME</b>										
<b>Direct Event Income</b>										
Rental Income	\$ 391,708	\$ 388,141	\$ 294,341	\$ 404,249	\$ 354,000	\$ 360,000	\$ 367,000	\$ 375,000	\$ 383,000	\$ 1,839,000
Service Revenue	1,267,897	1,194,408	801,407	704,950	585,000	596,700	608,634	620,807	633,223	3,044,364
Service Expenses	(1,311,855)	(1,159,466)	(812,203)	(695,932)	(630,000)	(642,600)	(655,452)	(668,561)	(681,932)	(3,278,545)
<b>Total Direct Event Income</b>	<b>347,750</b>	<b>423,083</b>	<b>283,545</b>	<b>413,267</b>	<b>309,000</b>	<b>314,100</b>	<b>320,182</b>	<b>327,246</b>	<b>334,291</b>	<b>1,604,819</b>
<b>Ancillary Income</b>										
F & B Concessions	134,260	140,240	97,362	157,990	156,951	174,761	194,217	198,937	203,873	928,739
F & B Catering	26,821	27,674	32,726	35,066	35,382	41,985	48,588	48,588	48,588	223,131
F & B Restaurant	76,124	63,951	54,246	79,843	65,820	66,299	66,792	67,300	67,823	334,034
Novelty Sales	37,273	47,917	25,983	51,583	25,000	25,000	25,000	25,000	25,000	125,000
<b>Total Ancillary Income</b>	<b>274,478</b>	<b>279,782</b>	<b>210,317</b>	<b>324,482</b>	<b>283,153</b>	<b>308,045</b>	<b>334,597</b>	<b>339,825</b>	<b>345,284</b>	<b>1,610,904</b>
<b>Other Event Income</b>										
Suite Tickets	73,989	144,072	53,414	76,328	50,000	51,500	53,045	54,636	56,275	265,456
Ticket Rebates	305,413	244,530	103,083	181,638	0	0	0	0	-	-
Facility Fees	321,699	357,010	246,229	448,718	412,260	419,400	426,900	434,760	442,980	2,136,300
<b>Total Other Event Income</b>	<b>701,101</b>	<b>745,612</b>	<b>402,726</b>	<b>706,684</b>	<b>462,260</b>	<b>470,900</b>	<b>479,945</b>	<b>489,396</b>	<b>499,255</b>	<b>2,401,756</b>
<b>Total Event Income</b>	<b>1,323,329</b>	<b>1,448,477</b>	<b>896,588</b>	<b>1,444,433</b>	<b>1,054,413</b>	<b>1,093,045</b>	<b>1,134,724</b>	<b>1,156,467</b>	<b>1,178,830</b>	<b>5,617,479</b>
<b>OTHER OPERATING INCOME</b>										
Luxury Box Agreements	471,080	496,640	473,552	524,000	475,000	522,500	574,750	632,225	695,448	2,899,923
Club Seat Agreements	176,725	184,286	191,827	197,500	192,000	197,760	203,693	209,804	216,098	1,019,355
Advertising	338,035	316,370	409,226	430,822	396,280	408,168	420,413	433,026	446,017	2,103,904
F & B Misc.	2,040	0	0	0	20,000	20,600	21,218	21,855	22,510	106,183
Ice Rentals	120,758	150,850	166,173	170,000	170,000	175,100	180,353	185,764	191,336	902,553
Other Income	8,781	8,532	5,483	13,500	8,500	8,755	9,018	9,288	9,567	45,128
<b>Total Other Operating Income</b>	<b>1,117,419</b>	<b>1,156,678</b>	<b>1,246,261</b>	<b>1,335,822</b>	<b>1,261,780</b>	<b>1,332,883</b>	<b>1,409,445</b>	<b>1,491,962</b>	<b>1,580,976</b>	<b>7,077,046</b>
<b>Adjusted Gross Income</b>	<b>2,440,748</b>	<b>2,605,155</b>	<b>2,142,849</b>	<b>2,780,255</b>	<b>2,316,193</b>	<b>2,425,928</b>	<b>2,544,169</b>	<b>2,648,429</b>	<b>2,759,806</b>	<b>12,694,525</b>
<b>INDIRECT EXPENSES</b>										
Salaries & Wages	672,507	771,458	751,609	787,720	756,000	778,680	802,040	826,102	850,885	4,013,707
Payroll Taxes & Benefits	99,374	139,565	114,203	151,828	100,000	103,000	106,090	109,273	112,551	530,914
Net Salaries and Benefits	771,881	911,023	865,812	939,548	856,000	881,680	908,130	935,375	963,436	4,544,621
Contracted Services	19,368	33,015	34,576	35,200	75,000	77,250	79,568	81,955	84,413	398,186
General and Administrative	153,323	162,970	112,326	168,650	120,000	123,600	127,308	131,127	135,061	637,096
Operating	9,901	68,938	61,558	71,750	0	0	0	0	-	-
Repairs & Maintenance	108,037	104,268	110,623	103,300	115,000	118,450	122,004	125,664	129,434	610,552
Operational Supplies	71,489	108,885	85,395	108,600	160,000	164,800	169,744	174,836	180,081	849,461
Insurance	26,146	26,955	28,508	26,500	15,000	15,450	15,914	16,391	16,883	79,638
Utilities	457,986	454,320	391,401	391,023	395,000	406,850	419,056	431,627	444,576	2,097,109
Other	0	93,750	(93,750)	0	0	0	0	0	-	-
<b>Total Indirect Expenses</b>	<b>1,618,131</b>	<b>1,964,124</b>	<b>1,596,449</b>	<b>1,844,571</b>	<b>1,736,000</b>	<b>1,788,080</b>	<b>1,841,724</b>	<b>1,896,975</b>	<b>1,953,884</b>	<b>9,216,663</b>
<b>Net Income (Loss) from Operations</b>	<b>822,617</b>	<b>641,031</b>	<b>546,400</b>	<b>935,684</b>	<b>580,193</b>	<b>637,848</b>	<b>702,445</b>	<b>751,454</b>	<b>805,922</b>	<b>3,477,862</b>
Management Fee	128,250	129,917	132,374	135,683	(119,807)	(62,152)	2,446	51,453	105,922	(22,138)
Cap'l Reserve Exp.	100,000	100,000	100,000	100,000	150,000	150,000	150,000	150,000	150,000	750,000
<b>Adj. Net Income (Loss)</b>	<b>\$ 594,367</b>	<b>\$ 411,114</b>	<b>\$ 314,026</b>	<b>\$ 700,001</b>	<b>\$ 550,000</b>	<b>\$ 550,000</b>	<b>\$ 549,999</b>	<b>\$ 550,001</b>	<b>550,000</b>	<b>2,750,000</b>



City Experience					SMG					
	2009	2010	2011	2012	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	Audited	Audited	Audited	Budget						
<b>EVENT INCOME</b>										
<b>Direct Event Income</b>										
Rental Income	\$ 391,708	\$ 388,141	\$ 294,341	\$ 404,249	\$ 477,015	\$ 496,096	\$ 510,978	\$ 526,308	\$ 542,097	\$ 2,552,494
Service Revenue	1,267,897	1,194,408	801,407	704,950	730,817	760,050	782,851	806,337	830,527	3,910,582
Service Expenses	(1,311,855)	(1,159,466)	(812,203)	(695,932)	(705,187)	(733,394)	(755,396)	(778,058)	(801,400)	(3,773,435)
<b>Total Direct Event Income</b>	<b>347,750</b>	<b>423,083</b>	<b>283,545</b>	<b>413,267</b>	<b>502,645</b>	<b>522,752</b>	<b>538,433</b>	<b>554,587</b>	<b>571,224</b>	<b>2,689,641</b>
<b>Ancillary Income</b>										
F & B Concessions	134,260	140,240	97,362	157,990	150,636	156,661	161,361	166,202	171,188	806,048
F & B Catering	26,821	27,674	32,726	35,066	39,437	41,014	42,245	43,512	44,818	211,026
F & B Restaurant	76,124	63,951	54,246	79,843	99,862	103,856	106,972	110,181	113,487	534,358
Novelty Sales	37,273	47,917	25,983	51,583	24,497	25,477	26,241	27,028	27,839	131,082
<b>Total Ancillary Income</b>	<b>274,478</b>	<b>279,782</b>	<b>210,317</b>	<b>324,482</b>	<b>314,432</b>	<b>327,008</b>	<b>336,819</b>	<b>346,923</b>	<b>357,332</b>	<b>1,682,514</b>
<b>Other Event Income</b>										
Suite Tickets	73,989	144,072	53,414	76,328	21,575	22,438	23,111	23,804	24,519	115,447
Ticket Rebates	305,413	244,530	103,083	181,638	190,104	197,708	203,639	209,749	216,041	1,017,241
Facility Fees	321,699	357,010	246,229	448,718	427,183	444,270	457,598	471,326	485,466	2,285,843
<b>Total Other Event Income</b>	<b>701,101</b>	<b>745,612</b>	<b>402,726</b>	<b>706,684</b>	<b>638,862</b>	<b>664,416</b>	<b>684,348</b>	<b>704,879</b>	<b>726,026</b>	<b>3,418,531</b>
<b>Total Event Income</b>	<b>1,323,329</b>	<b>1,448,477</b>	<b>896,588</b>	<b>1,444,433</b>	<b>1,455,939</b>	<b>1,514,176</b>	<b>1,559,600</b>	<b>1,606,389</b>	<b>1,654,582</b>	<b>7,790,686</b>
<b>OTHER OPERATING INCOME</b>										
Luxury Box Agreements	471,080	496,640	473,552	524,000	539,720	561,309	578,148	595,493	613,357	2,888,027
Club Seat Agreements	176,725	184,286	191,827	197,500	203,425	211,562	217,909	224,446	231,180	1,088,522
Advertising	338,035	316,370	409,226	430,822	494,768	514,559	529,995	545,895	562,272	2,647,489
F & B Misc.	2,040	0	0	0	0	0	0	0	-	-
Ice Rentals	120,758	150,850	166,173	170,000	170,000	176,800	182,104	187,567	193,194	909,665
Other Income	8,781	8,532	5,483	13,500	20,000	20,800	21,424	22,067	22,729	107,020
<b>Total Other Operating Income</b>	<b>1,117,419</b>	<b>1,156,678</b>	<b>1,246,261</b>	<b>1,335,822</b>	<b>1,427,913</b>	<b>1,485,030</b>	<b>1,529,580</b>	<b>1,575,468</b>	<b>1,622,732</b>	<b>7,640,723</b>
<b>Adjusted Gross Income</b>	<b>2,440,748</b>	<b>2,605,155</b>	<b>2,142,849</b>	<b>2,780,255</b>	<b>2,883,852</b>	<b>2,999,206</b>	<b>3,089,180</b>	<b>3,181,857</b>	<b>3,277,314</b>	<b>15,431,409</b>
<b>INDIRECT EXPENSES</b>										
Salaries & Wages	672,507	771,458	751,609	787,720	764,124	787,048	810,659	834,979	860,028	4,056,838
Payroll Taxes & Benefits	99,374	139,565	114,203	151,828	144,699	149,040	153,511	158,117	162,860	768,227
Net Salaries and Benefits	771,881	911,023	865,812	939,548	908,823	936,088	964,170	993,096	1,022,888	4,825,065
Contracted Services	19,368	33,015	34,576	35,200	34,145	35,510	36,576	37,673	38,803	182,707
General and Administrative	153,323	162,970	112,326	168,650	174,688	181,676	187,126	192,740	198,522	934,752
Operating	9,901	68,938	61,558	71,750	77,000	80,080	82,482	84,957	87,506	412,025
Repairs & Maintenance	108,037	104,268	110,623	103,300	103,950	108,108	111,351	114,692	118,133	556,234
Operational Supplies	71,489	108,885	85,395	108,600	101,455	105,513	108,679	111,939	115,297	542,883
Insurance	26,146	26,955	28,508	26,500	28,000	29,120	29,994	30,893	31,820	149,827
Utilities	457,986	454,320	391,401	391,023	380,791	392,215	403,982	416,101	428,584	2,021,673
Other	0	93,750	(93,750)	0	25,000	25,000	25,000	25,000	25,000	125,000
<b>Total Indirect Expenses</b>	<b>1,618,131</b>	<b>1,964,124</b>	<b>1,596,449</b>	<b>1,844,571</b>	<b>1,833,852</b>	<b>1,893,310</b>	<b>1,949,360</b>	<b>2,007,091</b>	<b>2,066,553</b>	<b>9,750,166</b>
<b>Net Income (Loss) from Operations</b>	<b>822,617</b>	<b>641,031</b>	<b>546,400</b>	<b>935,684</b>	<b>1,050,000</b>	<b>1,105,896</b>	<b>1,139,820</b>	<b>1,174,766</b>	<b>1,210,761</b>	<b>5,681,243</b>
Management Fee	128,250	129,917	132,374	135,683	120,000	135,453	148,287	158,811	169,650	732,201
Cap'l Reserve Exp.	100,000	100,000	100,000	100,000	150,000	150,000	150,000	150,000	150,000	750,000
<b>Adj. Net Income (Loss)</b>	<b>\$ 594,367</b>	<b>\$ 411,114</b>	<b>\$ 314,026</b>	<b>\$ 700,001</b>	<b>\$ 780,000</b>	<b>\$ 820,443</b>	<b>\$ 841,533</b>	<b>\$ 865,955</b>	<b>\$ 891,111</b>	<b>4,199,042</b>

City Experience					Global Spectrum					
	2009	2010	2011	2012	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	Audited	Audited	Audited	Budget						
<b>EVENT INCOME</b>										
<b>Direct Event Income</b>										
Rental Income	\$ 391,708	\$ 388,141	\$ 294,341	\$ 404,249	\$ 466,591	\$ 476,464	\$ 486,165	\$ 494,706	\$ 497,297	\$ 2,421,223
Service Revenue	1,267,897	1,194,408	801,407	704,950	1,100,000	1,115,827	1,139,568	1,163,309	1,163,309	5,682,013
Service Expenses	(1,311,855)	(1,159,466)	(812,203)	(695,932)	(1,174,688)	(1,192,277)	(1,217,128)	(1,245,032)	(1,245,809)	(6,074,934)
<b>Total Direct Event Income</b>	<b>347,750</b>	<b>423,083</b>	<b>283,545</b>	<b>413,267</b>	<b>391,903</b>	<b>400,014</b>	<b>408,605</b>	<b>412,983</b>	<b>414,797</b>	<b>2,028,302</b>
<b>Ancillary Income</b>										
F & B Concessions	134,260	140,240	97,362	157,990	172,912	180,527	185,518	199,726	207,558	946,241
F & B Catering	26,821	27,674	32,726	35,066	18,625	18,839	19,155	19,268	19,268	95,155
F & B Restaurant	76,124	63,951	54,246	79,843	87,947	91,024	94,581	97,953	101,195	472,700
Novelty Sales	37,273	47,917	25,983	51,583	38,769	40,013	41,401	41,568	41,739	203,490
<b>Total Ancillary Income</b>	<b>274,478</b>	<b>279,782</b>	<b>210,317</b>	<b>324,482</b>	<b>318,253</b>	<b>330,403</b>	<b>340,655</b>	<b>358,515</b>	<b>369,760</b>	<b>1,717,586</b>
<b>Other Event Income</b>										
Suite Tickets	73,989	144,072	53,414	76,328	199,317	200,857	202,910	204,065	204,065	1,011,214
Ticket Rebates	305,413	244,530	103,083	181,638	311,053	318,226	331,110	333,980	378,616	1,672,985
Facility Fees	321,699	357,010	246,229	448,718	545,335	566,275	591,743	609,601	613,818	2,926,772
<b>Total Other Event Income</b>	<b>701,101</b>	<b>745,612</b>	<b>402,726</b>	<b>706,684</b>	<b>1,055,705</b>	<b>1,085,358</b>	<b>1,125,763</b>	<b>1,147,646</b>	<b>1,196,499</b>	<b>5,610,971</b>
<b>Total Event Income</b>	<b>1,323,329</b>	<b>1,448,477</b>	<b>896,588</b>	<b>1,444,433</b>	<b>1,765,861</b>	<b>1,815,775</b>	<b>1,875,023</b>	<b>1,919,144</b>	<b>1,981,056</b>	<b>9,356,859</b>
<b>OTHER OPERATING INCOME</b>										
Luxury Box Agreements	471,080	496,640	473,552	524,000	635,000	642,550	650,212	657,987	665,878	3,251,627
Club Seat Agreements	176,725	184,286	191,827	197,500	200,000	206,000	212,180	218,545	225,102	1,061,827
Advertising	338,035	316,370	409,226	430,822	557,032	567,532	578,347	589,486	600,960	2,893,357
F & B Misc.	2,040	0	0	0	0	0	0	0	-	-
Ice Rentals	120,758	150,850	166,173	170,000	170,000	175,100	180,353	185,764	191,336	902,553
Other Income	8,781	8,532	5,483	13,500	10,000	10,300	10,609	10,927	11,255	53,091
<b>Total Other Operating Income</b>	<b>1,117,419</b>	<b>1,156,678</b>	<b>1,246,261</b>	<b>1,335,822</b>	<b>1,572,032</b>	<b>1,601,482</b>	<b>1,631,701</b>	<b>1,662,709</b>	<b>1,694,531</b>	<b>8,162,455</b>
<b>Adjusted Gross Income</b>	<b>2,440,748</b>	<b>2,605,155</b>	<b>2,142,849</b>	<b>2,780,255</b>	<b>3,337,893</b>	<b>3,417,257</b>	<b>3,506,724</b>	<b>3,581,853</b>	<b>3,675,587</b>	<b>17,519,314</b>
<b>INDIRECT EXPENSES</b>										
Salaries & Wages	672,507	771,458	751,609	787,720	987,890	1,017,527	1,048,053	1,079,494	1,111,879	5,244,843
Payroll Taxes & Benefits	99,374	139,565	114,203	151,828	222,562	229,239	236,116	243,199	250,495	1,181,611
Net Salaries and Benefits	771,881	911,023	865,812	939,548	1,210,452	1,246,766	1,284,169	1,322,693	1,362,374	6,426,454
Contracted Services	19,368	33,015	34,576	35,200	133,420	137,423	141,545	145,792	150,165	708,345
General and Administrative	153,323	162,970	112,326	168,650	158,000	162,740	167,622	172,651	177,830	838,843
Operating	9,901	68,938	61,558	71,750	77,000	79,310	81,689	84,140	86,664	408,803
Repairs & Maintenance	108,037	104,268	110,623	103,300	114,500	117,935	121,473	125,117	128,871	607,896
Operational Supplies	71,489	108,885	85,395	108,600	91,000	93,730	96,542	99,438	102,421	483,131
Insurance	26,146	26,955	28,508	26,500	48,500	49,955	51,454	52,997	54,587	257,493
Utilities	457,986	454,320	391,401	391,023	392,000	403,760	415,873	428,349	441,199	2,081,181
Other	0	93,750	(93,750)	0	33,975	34,994	36,044	37,125	38,239	180,377
<b>Total Indirect Expenses</b>	<b>1,618,131</b>	<b>1,964,124</b>	<b>1,596,449</b>	<b>1,844,571</b>	<b>2,258,847</b>	<b>2,326,613</b>	<b>2,396,411</b>	<b>2,468,302</b>	<b>2,542,350</b>	<b>11,992,523</b>
<b>Net Income (Loss) from Operations</b>	<b>822,617</b>	<b>641,031</b>	<b>546,400</b>	<b>935,684</b>	<b>1,079,046</b>	<b>1,090,644</b>	<b>1,110,313</b>	<b>1,113,551</b>	<b>1,133,237</b>	<b>5,526,791</b>
Management Fee	128,250	129,917	132,374	135,683	205,809	208,129	212,063	212,710	216,648	1,055,359
Cap'l Reserve Exp.	100,000	100,000	100,000	100,000	150,000	150,000	150,000	150,000	150,000	750,000
<b>Adj. Net Income (Loss)</b>	<b>\$ 594,367</b>	<b>\$ 411,114</b>	<b>\$ 314,026</b>	<b>\$ 700,001</b>	<b>\$ 723,237</b>	<b>\$ 732,515</b>	<b>\$ 748,250</b>	<b>\$ 750,841</b>	<b>\$ 766,589</b>	<b>3,721,432</b>

**Exhibit D - Comparison of Proponents' Event Assumptions  
K-Rock Centre**

Category	Number of Events			Attendance			Total Event Income		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Ticketed Events</b>									
Concerts	19	13	12	65,362	36,283	27,053	\$ 724,769	\$ 413,285	\$ 313,238
Entertainment	9	15	2	24,110	49,371	7,205	\$ 161,939	\$ 444,507	\$ 82,098
Family Shows	8	4	2	7,691	4,443	2,458	\$ 55,338	\$ 22,979	\$ 11,520
Sporting	5	16	22	8,540	40,664	23,691	\$ 58,332	\$ 158,863	\$ 165,754
Performing Arts	6	2	1	7,303	4,163	2,033	\$ 73,689	\$ 56,325	\$ 27,426
	<b>47</b>	<b>50</b>	<b>39</b>	<b>113,006</b>	<b>134,924</b>	<b>62,440</b>	<b>\$ 1,074,067</b>	<b>\$ 1,095,959</b>	<b>\$ 600,036</b>
<b>Kingston Frontenacs</b>	<b>37</b>	<b>35</b>	<b>40</b>	<b>85,396</b>	<b>84,320</b>	<b>83,514</b>	<b>\$ 257,816</b>	<b>\$ 280,240</b>	<b>\$ 276,435</b>
<b>Other</b>	<b>21</b>	<b>31</b>	<b>47</b>	<b>8,183</b>	<b>9,261</b>	<b>38,376</b>	<b>\$ 29,826</b>	<b>\$ 46,869</b>	<b>\$ 18,339</b>
<b>Totals</b>	<b>105</b>	<b>116</b>	<b>126</b>	<b>206,585</b>	<b>228,505</b>	<b>184,330</b>	<b>\$ 1,361,709</b>	<b>\$ 1,423,068</b>	<b>\$ 894,810</b>

Category	RG	SMG	GS	RG	SMG	GS	RG	SMG	GS
<b>Ticketed Events</b>									
Concerts	10	18	12	40,000	63,933	60,000	\$ 400,000	\$ 610,996	\$ 567,316
Entertainment		9	4		17,721	14,140		\$ 155,000	\$ 98,332
Family Shows	2	6	21	15,000	7,260	56,980	\$ 139,000	\$ 55,000	\$ 351,019
Sporting		24	18		30,500	42,000		\$ 144,824	\$ 141,282
Performing Arts	2	4	4	12,000	7,024	10,100	\$ 120,000	\$ 71,116	\$ 74,768
	<b>14</b>	<b>61</b>	<b>59</b>	<b>67,000</b>	<b>126,438</b>	<b>183,220</b>	<b>\$ 659,000</b>	<b>\$ 1,036,936</b>	<b>\$ 1,232,717</b>
<b>Kingston Frontenacs</b>	<b>40</b>	<b>38</b>	<b>36</b>	<b>80,000</b>	<b>99,069</b>	<b>116,600</b>	<b>\$ 280,000</b>	<b>\$ 354,306</b>	<b>\$ 426,095</b>
<b>Other</b>	<b>1</b>	<b>28</b>	<b>44</b>	<b>0</b>	<b>40,309</b>	<b>53,780</b>	<b>\$ -</b>	<b>\$ 64,697</b>	<b>\$ 107,048</b>
<b>Totals</b>	<b>55</b>	<b>127</b>	<b>139</b>	<b>147,000</b>	<b>265,816</b>	<b>353,600</b>	<b>\$ 939,000</b>	<b>\$ 1,455,939</b>	<b>\$ 1,765,860</b>

## **Exhibit E**

### **K-Rock Centre Operator Request for Proposals (RFP)**

#### **Evaluation Committee Review**

#### **RG Properties Ltd.**

### **1. Financial Evaluation**

#### **Net Operating Income**

The RG Properties Ltd. submission included a statement of proposed annual operations which suggested that the facility would earn in the range \$580,193 in the first year of operations which would grow to \$805,922 by the fifth year of operations. In the submission, the proponent indicated that they would guarantee a return of a total of \$700,000 per annum, which would include the \$150,000 yearly capital reserve fund for future capital. The proponent was willing to absorb projected shortfalls in the first two years of operations and to not earn any significant management fee or profit from operations until the fifth year when this was estimated to be \$105,922. No reason was given that supported its view of low income projections compared to SMG and Global Spectrum.

#### **Event Income**

The submission's event assumptions for number of events, attendance and event income are significantly lower than those experienced by the City in its first three complete years of operations (2009-2011) as outlined in Exhibit D - Comparison of Proponents' Event Assumptions. The assumption of the number of events totaling 55, of which 40 are Frontenacs hockey games, is also a lot less than the numbers suggested by the two other proponents. In addition, the attendance assumptions for the Kingston Frontenacs hockey games average to 2,000 patrons per game which is well below what the facility has experienced in 2009 and 2010. Accordingly the proposal has event income projections that do not advance the City's previously stated financial growth objectives and casts some doubt as to whether the other dependent revenue streams (i.e. premium seating, sponsorship & advertising) are indeed achievable and can be sustained on such a low number of events.

**Premium Seating Revenues**

The proponent's submission includes amounts for suite and club seat revenues that reflect the 2011 audited revenues for those income streams. It fails to recognize the added income potential resulting from the fact that 5 suites that came up for renewal in September 2011 were not renewed. If these vacant suites were subsequently licensed, it would add a minimum of approximately \$30,000 to that income stream.

**Sponsorship & Advertising**

The submission suggests a decrease in overall sponsorship and advertising revenues from the level recently experienced by the municipality in 2011. There doesn't appear to be any significant growth in this revenue stream being suggested for the 5 years of operation.

**Operating Expenses**

The submission suggests overall operating expenses for the facility to be in the vicinity of \$1.7 million, which is in the range of the City's experience of the last three years. In addition, the monies that are suggested to be spent in the areas of staffing, contracted and general administration costs do, in total, appear to be relatively consistent with what has been spent in 2011 which reflected the year of least activity for ticketed events.

**Management Fee**

The proponent has suggested that there will not be any management fees in year 1 or 2 although these are expected to be achieved incrementally over the subsequent three years, increasing to \$105,922 in year 5. All annual net income in excess of \$700,000 accrues fully to the proponent and is reflected as a "management fee" in the submission. The proponent's model suggests a leasing model of operation rather than the fee for service model preferred by the City.

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## **2. Management Evaluation**

### **Administration**

The proponent's submission did not include a local management organizational structure detailing key roles and responsibilities on the various facets of operations. There would be a local general manager in place but it appeared that other local management staffing would be at a minimum as many other functions would be either assumed by this person or conducted/supported by head office operations in B.C. The leasing model of operation is one in which City has virtually no involvement in the operations of the facility.

### **Marketing and Event Production**

The proponent's submission did not provide any significant detail. There was little evidence of local demographic research or strategy to tie into local marketing opportunities.

### **Ticketing Operations**

The proponent owns and operates its own ticketing company and through clarification at the interview, ticketing operation revenues and costs are not reflected in the income statement. In this proposal, all net ticketing revenues would flow to the subsidiary company. Ticketing operations would be done by an affiliated (subsidiary) company although the box office function would be staffed locally. The ticket rebates which typically represents the facility's share of ticket convenience fees (order and ticket fees when processed by internet or phone) would accrue entirely to the proponent's ticketing company.

### **Financial Management**

The financial management of the facility, including the accounting, would be conducted in B.C. with only bookkeeping function undertaken locally. The management model proposed is one that has relatively little City involvement with regards to many facets of operation and accountability. The City would not necessarily receive the required financial information and the proponent indicated that operations would not be subject to audit.

### **Sponsorship & Advertising**

The proponent's submission did not provide any detail in regards to this category other than indicating that they would have a local sales and marketing manager who would undertake these functions.

**Licensee Relations**

The proponent's submission speaks to the importance of the Frontenacs' hockey operations to the success of the facility and to providing opportunities for success but does indicate how this could be achieved and sustained.

**Stakeholder Relations**

The proponent's submission and the ensuing interview focuses on the development of local hockey at the youth and community level. The proposal does not provide much detail with regards to stakeholder relations with promoters or local organizations.

**Tourism**

In the submission and interview, the proponent spoke to working with the Frontenacs, KEDCO and local hoteliers to facilitate major sporting events and sports tourism events such as youth hockey.

**Customer Service/Satisfaction**

The proponent's submission does not address customer service training for the facility staff. The proposal suggests the use of an on-line environment such as social media that allows instant ongoing feedback. The proponent does not feel that customer surveys are a relevant proactive method of gauging and improving customer satisfaction.

**Repairs and Maintenance**

RG Properties Ltd.'s approach is based on peer to peer interaction which it feels has provided invaluable sharing of various building operators' experience and is the foundation of their repairs and maintenance program. The submission does not suggest an asset management program based on life-cycle maintenance which will provide periodic facility condition assessments and long term capital planning.

**LEED**

RG Properties Ltd.'s submission suggests annual energy and waste audits be conducted as part of the ongoing maintenance program. It also indicates its success with a water recycling program for its ice-making facilities.

### **Transition Plan**

The proponent has indicated that they would absorb any transition costs that are in excess of \$50,000. Neither the City's expected contribution that is capped at \$50,000, nor the proponent's contribution for the excess costs have been incorporated in the first year's financials in Exhibit C. The plan is to assume and provide similar food & beverage operations for an initial period of time, transition to their own ticketing operation and to assume existing bookings. The proposal speaks of their experience in successful transitions, but does not provide a critical path of all of the considerations and implementation elements which would occur as a result of transitioning to a new operator.

### **3. Demonstrated Experience & References Evaluation**

In their submission, RG Properties Ltd. provided a brief company profile which provided references related to their management experience of six (6) facilities which were sports and entertainment facilities and multi-pad ice facilities located in British Columbia. Their submission also listed brief background on key principals within their firm who were responsible in one way or other for various elements of the operations of these facilities. Relatively speaking and in comparison with the other two submissions received, their experience is much more limited in terms of the number of sports and entertainment facilities (arenas) that they operate. The proponent has identified only one individual who would be part of the facility's local management team.

### **4. AODA Compliance Evaluation**

The submission does not address the AODA compliance and considerations to any great extent. It does suggest maintaining AODA compliance and providing access to the facility, but is generally void of detail with regard to building and customer service elements of accessibility.



## **Exhibit F**

### **K-Rock Centre Operator Request for Proposals (RFP)**

#### **Evaluation Committee Review**

#### **SMG**

### **1. Financial Evaluation**

#### **Net Operating Income**

The SMG submission included a statement of proposed annual operations which suggested that the facility would earn in the range \$1,050,000 in year 1 of operations which would grow to \$1,210,761 by the fifth year of operations. In the submission, the proponent indicated that it would also guarantee a return of a total of \$700,000 per annum, which would include the \$150,000 yearly capital reserve fund for future capital. The proponent's submission further suggests that the variable management compensation that is performance-based will range from \$120,000 in year 1 to \$169,650 in year 5. The income statement also reflects that the proponent anticipates earning the \$25,000 maximum qualitative incentive annually and that has been provided for as an operating expense in their submission.

#### **Event Income**

Based on the City's experience with the incumbent operator, it appears that the total number of ticketed (non-OHL) events, related attendance and total event income is achievable as it is relatively in the range of what had been accomplished in 2009 and 2010. As for the Frontenacs games, the attendance assumptions provided by SMG suggest overall average attendance of approximately 2,600 per game. This is an increase of more than 200 patrons per game from our best year. As would be expected, the corresponding related event income for the Frontenacs games based on percentage of gate, facility fees and the City's share of related food and beverage commissions has increased accordingly. In addition, the proposal includes an increase in the percentage of food and beverage commissions accruing to the facility which is also a contributing factor to overall increases in event income.

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### **Premium Seating Revenues**

The proponent's submission largely reflects full occupancy of suites at current pricing and does not reflect any significant growth in club seat revenues.

### **Sponsorship & Advertising**

The proposal suggests a relatively significant increase of approximately 20% in overall sponsorship and advertising revenues from the level recently experienced by the municipality in 2011. The revenue increases are most likely reflecting their \$100,000 capital investment in new in-bowl signage as well as partnering with the video display technology firm.

### **Operating Expenses**

The submission suggests overall operating expenses for the facility to be in the vicinity of \$1.8 million, which is still considerably lower than what the City experienced in 2010, the year of greatest activity for ticketed events. The monies that are suggested to be spent in the areas of staffing, contracted and general administration costs do, in total, appear to be relatively consistent with what has been spent in 2010, the City's best year. However, their salary costs alone are less than what they had budgeted in 2012, despite proposing additional staff capacity in the area of coordination of premium seat services. In addition, the utilities budget appears to be quite low for a suggested period of increased activity in both the number of ticketed and non-ticketed events. The utilities expense is more reflective of a period of lesser activity such as we experienced in 2011.

### **Management Fee**

The proponent has suggested management compensation that is variable and incentivizes performance which is outlined in Table 2 of this report. The calculations have been verified and if the proponent achieves the income level suggested, it will achieve the compensation levels identified in the statement of operations. For the first year of operations, and based on net operating income of \$1,050,000 (before capital reserve contributions and management fees), this has been calculated at \$120,000. In addition, the proponent has accounted for the added qualitative incentive which is capped at \$25,000 by providing for as an operating expense. The total financial incentive component of the management fee has been capped at \$200,000 which could be viewed as counterproductive to optimizing overall facility revenues.

## **2. Management Evaluation**

### **Administration**

SMG's submission included a local management organizational structure which was supported by position descriptions outlining roles and responsibilities. The incumbent operator's organization included two new functions of Coordinator Premium Services & Ticketing and Guest Services Coordinator. It also provided the relative experience and background of individuals. This structure reflected the reporting relationships to senior regional and head office personnel within their corporation although there is relatively little information provided as to the involvement or impact of the regional and head office personnel in supporting local operations. The corporate and regional support would be from the Eastern U.S. The management structure and local management model is comparably different than that of Global Spectrum's as it has considerably less staff capacity invested in stakeholder engagement, sales, marketing and other revenue optimization functions.

### **Marketing and Event Production**

SMG's submission included information regarding local marketing and event production. Its management team includes a manager responsible for sales and marketing and another manager responsible for operations and event services, reporting to the General Manager. These functions are supported by dedicated corporate and regional booking personnel and a booking management software system designed to assist promoters with real-time booking availability information. SMG will at times act as co-promoter or sole promoter while maintaining strong entertainment industry relationships. The focus appears to be in booking and producing events and assisting in promoter marketing efforts. The proposal does not describe marketing efforts in the marketing or branding of the K-Rock Centre. The submission and interview did not provide any added information regarding increased marketing and event production efforts.

### **Ticketing Operations**

SMG currently utilizes a third party, Tickets.Com to provide ticketing operations network, software and back-office functions. SMG utilizes its own local staff to

manage the box office functions. In return for the services provided, the ticketing company receives 55% of the service charges which are in the form of convenience fees charged to customers for order and ticket processing and fulfillment for internet and telephone orders. The facility currently receives its 45% share of all service charges plus an additional \$25,000 annually.

This generates a significant annual return which improves the overall financial bottom-line for the venue. SMG believes that the outsourced model is the one that provides the greatest flexibility and advances in marketing tools to broaden market research and maximize ticket sales. They have not included a firm ticketing approach in the RFP submission as they believe that by undertaking a competitive process, they will garner an even better deal.

### **Financial Management**

SMG provides the wide array of financial management services locally which is supported by its regional and corporate management structure. This includes budgeting, cash management, data processing, financial reporting and internal auditing. They provide very detailed information relating to annual budgeting assumptions as well as a monthly income statement (including key performance measures) and balance sheet.

### **Sponsorship & Advertising**

SMG is currently achieving 90% of budgeted revenues in this category and they believe that increased event activity combined with dedicated sales staff that the Frontenacs have put into place and assistance from KEDCO, they can return to the previous revenue levels in this area. Their proposal includes a capital investment of \$200,000 of which approximately one-half (\$100,000) is suggested to be invested in new in-bowl signage. They believe that with this investment and a partnership with the video display technology firm, they will be able to yield greater sponsorship and advertising revenues. They also indicate that the City will continue to receive assistance through an in-house sales network operation, a subsidiary corporation whose services are assigned and supported on a regional basis.

### **Licensee Relations**

SMG's submission promises greater integration with the Kingston Frontenacs as the latter has recently increased its staff complement in areas of ticketing and business operations, allowing for greater focus, communication yielding mutually beneficial opportunities for the hockey club and the facility. SMG has indicated that

it would provide corporate expert support in hockey operations to assist with identifying best practices and successful endeavours with hockey licensees. The proposal identifies clear examples of initiatives that SMG will be working on with the Frontenacs in areas such as sponsorship and advertising, ticket and food and beverage discounts, group theme nights among others. The efforts toward greater integration with the Frontenacs are anticipated to achieve greater results in attendance and sales related revenues at these events and these have been incorporated in the financial component of their submission.

### **Stakeholder Relations**

SMG's proposal identifies suite and club seat holder relations as valuable to the overall success of the facility. In 2011, a certain number of suite licenses came up for renewal and were not renewed. To this date, four (4) of the twenty-four (24) private suites remain vacant. Suites are licensed over various terms in order to best sustain suite license revenues and not to have them all come up for renewal at the same time. Recognizing that other suites are due for renewal in September 2013, the SMG submission proposes to increase efforts to better satisfy suite holders by dedicating a coordinator resource to give added customer service to suite and club seat holders. SMG is proposing all-in pricing structure for suites that would include tickets (with some limitations) to all non-OHL events. The submission also includes a corporate annual contribution of \$10,000 to be used to support community activities through sponsorship or donation. The submission suggests greater community integration including the continuation of an advisory group, the formation of a new stakeholders' committee, the formation of a student engagement group and an annual opportunity to engage the community but doesn't really address how these will function or what specific benefits will accrue as a result.

### **Tourism**

SMG's proposal provides a general synopsis of the economic impact of the facility and its operations. They identify examples of where they have worked with KEDCO in the past to attract concerts and/or package sporting events which have had a significant draw beyond Kingston and which have contributed to increased business for local restaurants and hotels. The proposal is absent of detail on how the operator may further contribute other than by staying connected to stakeholders.

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### **Customer Service/Satisfaction**

SMG's proposal identifies the various facets of its customer service training program that is extended to its employees. The feedback mechanism includes proactive measures such as bi-annual customer experience surveys and comment cards as well as reactive measures such as incident cards. The proposal speaks to the use and integration of technology to further enhance the guest experience. The submission indicates that they will implement customer service enhancements in the food and beverage operations such as debit and credit capabilities at concessions and smart phone applications for express ordering and service. The proposal includes the use of digital menus and enhancements in beverage dispensing to make the operation more efficient and additional food and beverage menu selections such as pizza, gourmet popcorn, ice cream and healthy options. The customer service enhancements suggested also include the bundling of food and beverage through a loaded ticket program. This would allow patrons the option of choosing the pre-loading of food and beverage allowances, at a discount, on event tickets. There are suggestions of better designing and utilizing the existing lounge, introducing an expanded and more diversified menu for all patrons and suite holders and creating locally sourced and distinctive menu items.

### **Repairs and Maintenance**

SMG's proposal indicates that its network of regional operations personnel conduct periodic venue audits. It also identifies a computerized maintenance management program which, in addition to venue audits, is designed to assist in more effectively managing the facility and its systems. The proposal speaks to a recently completed comprehensive venue assessment, but this has yet to be shared with the City. The proposal also provides recommendations on developing long-range capital repair and replacement programs, but this has not yet been developed. Even though the proposal suggests it, there is no significant supporting evidence of life-cycle management practices being applied to this facility.

### **LEED**

SMG's proposal outlines efforts in the review of utilities and ongoing energy reduction initiatives. It also addresses SMG's corporate environmental purchasing policy but does not go on to demonstrate in what capacity it is being conducted in this facility.

**Transition Plan**

This is largely not applicable for this proponent as they are the incumbent operator. The only significant matters of consideration would be any transition that might be associated should they change ticketing service providers or in the event of any management staff turnover.

**3. Demonstrated Experience & References Evaluation**

SMG's proposal cites extensive management experience in the operations of arena/entertainment facilities. Their proposal provides listings of the many facilities that they manage worldwide, in North America, Canada and Ontario. Their arena listing indicates that they operate 77 arenas mostly located in the U.S. Their proposal indicates that they operate two facilities in Ontario, the Hershey Centre in Mississauga and the K-Rock Centre in Kingston, both of which have OHL hockey teams. They also manage another facility in Saginaw Michigan which hosts an OHL team. Their submission also listed a brief background on key principals within their firm who were responsible in one way or other for various elements of the operations of these facilities. The proponent has identified the individuals who would comprise the facility's local management team. The proposed local management team has less demonstrated experience than the one being proposed by Global Spectrum.

**4. AODA Compliance Evaluation**

The submission includes the proponent's policy on the AODA Customer Service Standard which essentially mirrors the City's policy. The ensuing interview and question session provided little information as to how this had been implemented at the facility and did not yield a great confidence in their particular attention to customer service levels required under the AODA.

## **Exhibit G**

### **K-Rock Centre Operator Request for Proposals (RFP)**

#### **Evaluation Committee Review**

#### **Global Spectrum**

### **1. Financial Evaluation**

#### **Net Operating Income**

The Global Spectrum submission included a statement of proposed annual operations which suggested that the facility would earn in the range \$1,079,046 in year 1 of operations which would grow to \$1,133,237 by the fifth year of operations. In their submission, the proponent indicated that it would also guarantee total food and beverage commissions of \$225,000 per annum (City and Frontenacs shares combined) if the hockey team plays a full season. This would probably equate to a financial guarantee in excess of \$150,000 that would accrue to the facility proper. Although the proponent was confident in its ability to generate a significant bottom-line, it did not want to suggest additional financial guarantees without consideration of management fee premiums in consideration of risk that would be undertaken. The proponent's submission further suggests that the variable management compensation that is performance-based will range from \$205,809 in year 1 to \$216,248 in year 5. Unlike SMG's proposal, the income statement does not reflect the maximum qualitative incentive fee of \$50,000 that this proponent anticipates earning.

#### **Event Income**

The proponent is suggesting a similar number of ticketed events as the SMG proposal although the attendance figures are significantly greater. This submission reflects a lesser numbers of concerts than the SMG proposal, more in line with the number of concerts experienced by the facility in 2010 and 2011, although the attendance figures would suggest that the concerts may be bigger and generate greater attendance. The most pronounced difference between this submission and that of SMG's is in the family shows category. The proponent is suggesting a greater number of shows, greater average attendance at these shows generating substantially more event income. Some of the difference may be accounted for because certain shows such as Cirque du Soleil may be classified as entertainment for one proponent and family show for the other. Overall if you



review the ticketed events category, Global Spectrum's submission suggests a similar overall number of ticketed events as SMG, but ones that appear to be bigger, better attended and yield more event income to the facility. For the Kingston Frontenac games, the attendance assumptions provided by Global Spectrum suggest overall average attendance of approximately 3,200 per game. This is a significant increase of almost 800 more patrons per game from our best year. Accordingly, the corresponding related event income for the Frontenacs games also has increased significantly. In the interview, they indicated that they may not achieve these ambitious results for the upcoming 2012-13 hockey season as they would need time to implement strategies, although their year 1 projections does not take this into consideration. Although not guaranteed, Global Spectrum is also suggesting better overall attendance numbers as a result of increased effort and investment in marketing, promotion and partnerships.

### **Premium Seating Revenues**

The proponent's submission largely reflects full occupancy of suites. If one were to suggest that these would be licensed initially at current pricing, the proposal might overstate the existing overall revenue stream by \$70,000, based on supplemental information provided. However, the proposal does suggest an additional suite revenue stream of \$60,000 per year for the rental of the group suites on an event basis. The submission does not reflect any significant growth in club seat revenues.

### **Sponsorship & Advertising**

The proposal suggests a relatively significant increase of approximately 35% in overall sponsorship and advertising revenues from the level recently experienced by the municipality in 2011. Their proposal suggests the creation of a new ticketing brand which will accrue annual ticketing naming rights of \$20,000 to the facility. Their proposal also includes a proponent capital investment of \$150,000 of which an undetermined amount is being suggested should be additional signage and banners.

### **Operating Expenses**

The submission suggests overall operating expenses for the facility to be in the vicinity of \$2.2 million, which is still considerably greater than the other two proposals received and what the City experienced in 2010, the year of greatest activity for ticketed events. The monies that are suggested to be spent in the areas of staffing, contracted and general administration are almost \$400,000 more than the SMG in the same expense category. The financials reflect additional staffing

levels in the areas of event management, sales and marketing, and technical services. Similar to the SMG proposal, the utilities budget appears to be quite low for a suggested period of increased activity in both the number of ticketed and non-ticketed events. The utilities expense is more reflective of a period of lesser activity such as we experienced in 2011.

**Management Fee**

The proponent has suggested management compensation that is variable and incentivizes performance which is outlined in Table 2 of this report. The calculations have been verified and if the proponent achieves the income level suggested, it will achieve the compensation levels identified in the statement of operations. For the first year of operations, and based on net operating income of \$1,079,046 (before capital reserve contributions and management fees), this has been calculated at \$205,809. Unlike SMG, Global Spectrum has not accounted for the added qualitative incentive which is capped at \$50,000 in its statement of operations.

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## **2. Management Evaluation**

### **Administration**

Global Spectrum's submission also included a detailed organization chart for the K-Rock Centre and also provided position descriptions outlining individual roles and responsibilities. The organization chart included additional personnel in the areas of event management, sales and marketing, and technical services. The added focus in these areas and the related staffing costs is also reflected in the management approach as well as in the financial component. Their proposal outlines a higher level of on-going corporate support in the areas of management, marketing and operations. The submission emphasizes an approach which not only provides marketing of events, but also marketing and branding of the facility. The proposal indicates that there will be intensive oversight and coordination from their Regional Vice President who is also the General Manager of the John Labatt Centre in London. The proposal indicates support from corporate headquarters in Philadelphia as well as a regional "mentor" support from staff at Southern Ontario venues. The team that they are suggesting to manage the facility is reflective of this approach to the regional hub of facilities that Global manages.

### **Marketing and Event Production**

Global Spectrum's submission also included information related to local marketing and event production. In its submission and unlike SMG, Global does not combine the marketing and sales functions and also identifies two (2) dedicated staff to events management, maintaining the function separate from operations. Global has suggested that it will conduct market research, develop a marketing plan and an advertising sales coordination plan within 90 days of the start of operations. They are proposing a strategic and aggressive approach to expanding the sales marketing reach of the facility. Although it can leverage its strong ties with a specific promoter, the proponent maintains an "open" venue to all viable promoters. The submission indicates that the proponent will work towards developing synergies and relationships with community organizations, engaging various stakeholders and groups for supporting local events. The submission reflects the integration of the ticketing database information with event marketing efforts and incorporates a group sales strategy on the marketing of tickets and suites.

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## **Ticketing Operations**

As with the SMG proposal, the ticketing fees represent the service charges to customers for ordering tickets via phone or the internet. Global Spectrum's submission proposes to utilize a subsidiary company to provide ticketing and marketing services. The submission also speaks to the integration of the ticketing database with customer marketing. They have a fixed-fee per-ticket pricing model in which the City would have the exclusive authority to set all customer convenience fees, thereby allowing it flexibility and tiered transaction pricing based on the price of tickets. The proposal suggests the fixed, per-ticket fees payable to the subsidiary corporation and upon which the ticket rebate revenues are based in their financial submission. Based on the information provided in the submission and through additional information requested, the returns to the facility have been calculated to amount to approximately 48% of gross ticketing revenues.

## **Financial Management**

Like SMG, Global Spectrum's submission also suggests a similar range of financial management services supported by its regional and corporate management structure. They are proposing variance analyses as part of their monthly financial reporting. In addition, they propose greater written communication with the City's contract administrator, in the form of weekly, monthly and annual reports and updates focusing on areas such as activity, events, operational matters, quality control and customer service issues.

## **Sponsorship & Advertising**

Global Spectrum's submission suggests that contractually obligated commercial rights are critical to the financial viability of a venue. Their proposal outlines a separate and distinct local sales function supported by a corporate sales function, use of an affiliated company on a strict commission basis, and working with KEDCO or a combination of these methods.

They have suggested innovative approach which includes increased advertising opportunities both within the venue and on tickets. Their proposal suggests the creation of a new ticketing brand which will accrue ticketing naming rights valued at \$20,000 annually to the facility. Their proposal also includes a capital investment of \$150,000 of which an undetermined amount is being suggested for additional signage and banners. Their submission suggests that improvements in the other facets of operation will add value to prospective and existing clients and will yield greater revenues in this area.

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### **Licensee Relations**

Global Spectrum's submission also outlines its vast experience with hockey operations and rapid and efficient changeover between hockey and other events. Their proposal speaks to combining marketing efforts with the venue's primary licensee. The proposal provides illustrations of effective cross-promotion by the venue and licensee (or tenant) across multiple marketing channels (email, social network and website). The proposal also introduces ideas that have been successful in other venues that could be considered here that would be focused on increasing the customer experience and attendance and yield greater revenues for the facility. Examples include sponsorship nights, pre-game events, discounts to other ticketed events, and other distinct value-added opportunities targeted to general patrons and others to premium seating.

### **Stakeholder Relations**

Global's premium seating (suites and club seats) strategy focuses on retention first by creating more of a community within the group and by the provision of financial and value added incentives in efforts to renew contracts early. The submission outlines specific methods of how they propose to achieve this including privileges, premiums and price considerations. The submission outlines examples of community involvement and support of charitable organizations. Global Spectrum also proposes forming an advisory group that involves the participation of local organizations. It suggests a broader advisory group which would consist of the existing primary stakeholders (KEDCO, KAP, BIA) but would also include other members representing restaurant operators, tourism, local educational, health and military institutions as examples. Their proposal also provides detail as to how they will work collaboratively with community groups by leveraging key relationships. Their marketing efforts include targeting the post-secondary student population and having students as ambassadors of the facility. They have student internship programs and are proposing an annual scholarship award program of \$4,500.

### **Tourism**

Global's proposal cites their track record of fostering relationships and cooperation with local groups, including KEDCO, local tourism bureaus, hoteliers and various stakeholders in the retail, industry, service club and other local community groups. The proposal includes a list of initiatives including working to attract premier sporting events, meeting and reviewing prospective bookings with KEDCO and local hospitality partners, selling event sponsorships, participating with KEDCO on sales calls when requested, being responsive to creative alternatives in sponsorship and advertising and building a regional media relationship. Their

submission and interview was substantiated by examples of successful tourism endeavours, one example which brought significant exposure to the facility while primarily benefitting the local economy.

### **Customer Service/Satisfaction**

Global's submission speaks to its mandatory customer service orientation and program for all employees which is meant to engage patrons and further includes formal feedback mechanisms includes comment cards. Global proposes a significant capital investment in food and beverage operations (\$250,000) geared at increasing the customers' choices and experience and driving food sales. The investment is targeted to providing debit/credit card capabilities in all of the food areas, upscale portable cooking carts/bars and seating to provide a unique dining experience in the restaurant area. They propose smart phone applications to enable guests to pre-order food for more expedient service. Global indicates that they will create new menus which will include locally sourced foods and beverages. They will also implement a loaded ticket option which will allow patrons the option of choosing the pre-loading of food and beverage allowances, at a discount, on event tickets.

### **Repairs and Maintenance**

Global's submission also indicates the use of computerized maintenance management systems and outlines elements of preventive and predictive maintenance. The proposal indicates that it provides annually to its clients a 10-year capital replacement and improvement plan as part of the budget process. The elements of this plan are further categorized as 1) health and safety related, 2) cosmetic and replacement related and 3) revenue-generating and expense-reducing. In addition, the proposal includes conducting an operational audit for each new client providing in-depth analysis of the facility's assets and recommendations and comments for consideration. This will include an energy audit and further identify greening initiatives.

### **LEED**

Global's proposal provides a strong commitment to maintaining the City's LEED initiative and certification by outlining an environmental stewardship program that it will implement at the facility. This includes focus in areas of site sustainability, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality and green cleaning.

## **Transition Plan**

The proponent has provided a detailed transition plan and critical path outlining the steps and timelines associated with the implementation of transition to a new operator and the various considerations for the multi-faceted elements of operations. They have also cited successful past experience in taking over operations from other operators, including the General Motors Centre in Oshawa.

### **3. Demonstrated Experience & References Evaluation**

Global Spectrum's proposal also cites extensive management experience in the operations of arena/entertainment facilities. Their proposal also provides listings of the many facilities that they manage worldwide, in North America, Canada and Ontario. Their arena listing indicates that they operate 41 arenas, but denotes a strong Canadian presence in that 11 of these are located in 7 Canadian cities. They list amongst their Ontario clients the John Labatt Centre in London, the WFCU Centre in Windsor, the General Motors Centre in Oshawa, and the Mattamy Athletic Centre, Ryerson University in Toronto. Three of these facilities host OHL franchises. In addition, they operate other facilities in British Columbia. Their submission also listed brief background on key principals within their firm who were responsible in one way or other for various elements of the operations of these facilities. The proposed local management team has more demonstrated experience than the one being proposed by SMG.

Over the past decade, the proponent has seen dramatic growth in the number of facilities that they manage and have demonstrated their success at retaining and extending operating agreements. The proponent has identified the individuals who would comprise the facility's local management team.

### **4. AODA Compliance Evaluation**

The submission includes development of strategy, implementation and action plans which would include a facility audit and a review of existing policies, practices, training programs, amenities and customer service standards within the first 120 days of operations. They would further ensure that documentation is in place and present recommendations to the City to ensure AODA compliance and to improve customer service and delivery at the facility.