



CITY OF HAMILTON
City Manager's Office
Strategic Partnerships and Communications

TO:	Mayor and Members General Issues Committee
DATE:	July 9, 2018
SUBJECT/REPORT NO:	Downtown Entertainment Assets Operating Agreements (CM18013) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Ryan McHugh (905) 546-2424, Extension 2725
SUBMITTED BY:	John Hertel Director, Strategic Partnerships and Communications City Manager's Office
SIGNATURE:	

RECOMMENDATION

- (a) That a 6-month extension of the existing Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum), which is set to expire on December 31, 2018, be approved;
- (b) That a 6-month extension of the existing Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group), which is set to expire on December 31, 2018, be approved;
- (c) That the Mayor and the City Clerk be authorized and directed to execute any documents required to give effect to a 6-month extension to the Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum);
- (d) That the Mayor and the City Clerk be authorized and directed to execute any documents required to give effect to a 6-month extension to the Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group);

- (e) That staff be directed to invite Global Spectrum to submit two proposal(s):
 - (i) A 5-year extension of the existing Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P.; and,
 - (ii) A second proposal which also includes the scope of work outlined in the Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group);
- (f) That staff be directed to invite Carmen's Group to submit two proposals:
 - (i) A 5-year extension of the existing Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd.; and,
 - (ii) A second proposal which also includes the scope of work outlined the Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum);
- (h) That staff be directed to evaluate any proposal(s) the City receives using the criteria and methodology used by KPMG during the HECFI review and outlined in Appendix "A" and report back to General Issues Committee with a staff recommendation on how best to proceed with the management of these entertainment assets;
- (j) That a contribution to an upset limit of \$100,000 from the Tax Stabilization Reserve (#110046) be used to fund an independent third party review of the staff recommendation.

EXECUTIVE SUMMARY

Based on the direction Council provided in 2011, staff commissioned an "External Audit Review of HECFI Operations" with the assistance of KPMG. Upon the completion of this exercise in 2013, Council approved the staff recommendations put forward in report CM11013(e) at the February 12, 2013 General Issues Committee. Based on this direction, staff executed the following agreements:

1. The Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. attached as Appendix "A" to report CM11013(e). This agreement designated Global Spectrum as the operator of the City-owned FirstOntario Centre (formerly Copps Coliseum) and the FirstOntario Concert Hall

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(formerly Hamilton Place) for a 5-year term which concludes on December 31, 2018.

2. The Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. attached as Appendix “B” to report CM11013(e). This agreement designated the Carmen’s Group as the operator of the City owned Hamilton Convention Centre for a 5-year term which concludes on December 31, 2018.

Since this transition away from HECFI’s operations in March 2013, both Global Spectrum and the Carmen’s Group have had considerable success given the limitations of the aging facilities they operate. In addition to providing the City combined savings of approximately \$5,000,000 since transitioning away from HECFI’s operation in 2013, both Global Spectrum and Carmen’s Group have been exceptional stewards of the facilities and have been actively involved in the local community.

Both agreements state that “the City, in its discretion, may extend the Initial Term for an additional five (5) years, to end on 11:59 p.m. December 31, 2023 by providing to Manager written notice of its desire to extend no later than one hundred fifty (150) days prior to the expiration of the Initial Term.” Since both agreements are set to expire on December 31, 2018, the 150 day “cut-off date” for providing both Global Spectrum and the Carmen’s Group notice that the City wishes to exercise this extensions would be August 3, 2018.

Given the fact that both Global Spectrum and the Carmen’s Group have had measurable success operating their respective facilities and have met their financial commitments to the City, staff were prepared to recommend that Council give staff authorization to exercise both 5-year extensions. However, in February 2018, the Carmen’s Group provided the open letter attached as Appendix “B” to the Mayor and Members of Council. The letter concludes with a “Formal request that City Council now examine alternate contract management arrangements regarding the current three entertainment venues including facility redevelopment exploration.” This letter was accompanied by a second open letter to the Mayor and Members of Council dated May 11, 2018, which is attached as Appendix “C”.

Through ongoing discussions with Carmen’s and Global Spectrum, both organizations have notified staff that they are prepared to forgo their 5-year extension and submit proposals for:

1. A 5-year extension of the scope of work outlined in their existing management agreements (for Global Spectrum – FirstOntario Centre and FirstOntario Concert Hall, for Carmen’s Group – The Hamilton Convention Centre); and,

2. The opportunity to manage all three facilities, which would effectively result in the City terminating one of their existing agreements with either Global Spectrum or the Carmen's Group.

It is staff's opinion that the recommendation outlined above would put the City in the position to secure an agreement or agreements, with terms even more favourable than the existing 5-year renewal options that staff were prepared to recommend to Council. Staff would evaluate any proposal(s) the City receives as a result of recommendations contained within report CM18013 using the criteria and methodology used by KPMG during the HECFI review and outlined in Appendix "A". Staff are also recommending that Council approve an amount not to exceed \$100,000 to fund an independent third party review of the staff recommendation.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

FINANCIAL:

That a contribution to an upset limit of \$100,000 from the Tax Stabilization Reserve (#110046) be used to fund an independent third party review of the staff recommendation set out in item (f) of report CM18013.

STAFFING: N/A

LEGAL:

The current agreements will expire December 31, 2018 if no notice of extension is provided by August 3, 2018. Legal Services will prepare an extension agreement, if approved.

HISTORICAL BACKGROUND

At its meeting held on December 15, 2010, City Council approved the following motion:

Motion respecting Audit of Hamilton Entertainment and Convention Facilities Incorporated

- (a) That an Independent External Audit Review be conducted of the HECFI operations;

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- (b) That upon completion of the Audit that staff report back to Council with a process to privatize HECFI through a Request for Tender Process not overlooking a potential public bid.

Based on this direction, staff submitted Report 11-006 at the February 23, 2011 General Issues Committee, where Council approved the following staff recommendations;

- (a) That Phase 1 of the Independent External Audit Review of HECFI Operations be approved and funded from the HECFI Reserve in an amount to not exceed \$90,000.
- (b) That the Terms of Reference for the Independent External Audit Review of HECFI Operations (Appendix A to report CM11001) be approved.
- (c) That the requirements of the Purchasing Policy Bylaw be waived in the interests of rapid completion of the Review.
- (d) That staff be directed to seek responses from no less than three major accounting firms or their consulting subsidiaries including a Scope of Work and a budget for completion of the tasks set out in the Terms of Reference. That value for money rather than lowest price be part of the evaluation criteria.
- (e) That following receipt and evaluation of the responses, the City Manager be authorized to negotiate with one, or more of the firms, and retain a firm to complete the review and to execute a contract for the work in a form satisfactory to the City Solicitor.

Based on this direction, staff initiated the first phase, which consisted of a review of the existing HECFI operation by KPMG in conjunction with HLT Advisory Inc. Upon the completion of Phase 1, staff submitted Report CM11013 at the June 23, 2011 General Issues Committee, where Council approved the following staff recommendations;

- (a) That Report CM11013 respecting the Independent External Audit Review of HECFI Operations be received.

At its meeting of June 29, 2011, Council approved the following recommendations pertaining to Phase 2 of the HECFI Review:

- (a) That the City Manager be authorized and directed to proceed with Phase 2 of the HECFI Review Terms of Reference, utilizing the services of KPMG, as follows:

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- (i) Prepare and issue a Request for Interest (RFI) or Expression of Interest (EOI) for the purchase, lease, or management, of all or parts of HECFI facilities;
- (ii) Summarize options in a report to GIC;
- (b) That the City Manager be authorized and directed to negotiate the scope and cost of the Review with KPMG;
- (c) That the City Manager report back to the General Issues Committee with the results of Phase 2 by December 31, 2011;
- (d) That the cost of Phase 2 be funded from the HECFI Reserve.

At the October 11, 2011 GIC, staff submitted a report titled “Independent External Audit Review of HECFI Operations Phase 2 (CM11013(a))” and Council received this report which outlined the terms of reference for Phase 2 of the HECFI review as directed by Council.

At the April 27, 2012 General Issues Committee, Council approved Report CM11013c which included the following staff recommendations:

- (a) That the City Manager be authorized and directed to enter into negotiations with Global Spectrum/Live Nation, and SMG/Forum Equity, in an effort to finalize a proposed Memorandum of Understanding subject to further approval of the City, with one of the aforementioned groups that achieves the objectives of Council with respect to the operations of the HECFI Facilities;
- (b) That the proposed Memorandum of Understanding achieved in Recommendation of Report CM11013c, together with the details of the HECFI Business Plan as presented to their Board, be presented to the General Issues Committee for their consideration on or before June 30, 2012, to provide staff with directions or recommend Council approval necessary for entering into the Memorandum of Understanding and providing for an operating agreement between the City and the preferred group;
- (c) That KPMG LLP be retained to facilitate the negotiations with the proponents outlined in Recommendation a) of Report CM11013c based on the fee schedule contained in their Terms of Reference (attached hereto as Appendix “A”), and funded through the HECFI Reserves.

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At the February 12, 2013 General Issues Committee staff submitted a report titled “Independent External Review of HECFI Operations - Phase III Contract Negotiations (CM11013(e))” Where Council approved the following staff recommendations:

- (a) That an agreement for the management of Copps Coliseum and Hamilton Place substantially in the form of the Management. Agreement between the City of Hamilton and Global Spectrum Facilities Management L.P. (attached as Appendix "A" to Report CM11013(e)) be approved.
- (b) That an agreement for the management of the Hamilton Convention Centre substantially in the form of the Facility Operating Management Agreement between the City of Hamilton and the Carmen's Group Inc. (attached as Appendix 'B' to Report CM11013(e)), be approved.
- (d) That the Mayor and City Clerk be authorized and directed to execute the Management Agreement between the City of Hamilton and Global Spectrum Facilities Management L.P., the Facility Operating Management Agreement between the City of Hamilton and Carmen's Group Inc. (attached as Appendices 'A' and "B" respectively to Report CM11013(e)), and all necessary associated documents, all in a form satisfactory to the City Solicitor.
- (e) That the position, Director, Enterprise Management and Revenue Generation for the oversight of the contracts and other duties as outlined in Report CM11013(e) be approved and funded through the overall savings resulting from the implementation of the HECFI facilities Operating Contracts.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

City Manager’s Office: Strategic Partnerships and Communications
Corporate Services: Finance and Administration, Procurement, Legal
Planning and Economic Development: Economic Development, Planning, Tourism
Public Works: Facilities Management and Capital Projects

Global Spectrum’s latest annual report attached as Appendix “D”
Carmen’s Group latest annual report attached as Appendix “E”

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Global Spectrum is widely regarded as a world leader in hosting and entertainment, partnering with over 300 clients at 400 global properties. Global Spectrum’s expertise is embodied within three divisions: Venue Management, Food Services and Hospitality and Ticketing and Fan Engagement. According to Global Spectrum’s latest Annual Report, their “mission is to provide world class, diversified and quality entertainment to the people of Hamilton and its surrounding areas.” Since 2013 the facilities under Global Spectrum’s management hold on average 203 events per year, with average annual attendance of 470,000. Under the agreement with Global Spectrum, the City of Hamilton has provided operating subsidies for the operation of the FirstOntario Centre and FirstOntario Concert Hall totalling \$12,466,667 since the agreement’s commencement in March 2013.

The Hamilton Convention Centre which has been operated by the Carmen’s Group since 2013, offers traditional convention centre events (conventions and conferences, meeting rooms, trade show exhibitions, banquets) with full food and beverage capabilities. The Carmen’s Group prides themselves “on being one of Hamilton’s largest and most successful hospitality and entertainment brands, with five beloved venues and 400 employees, and a long history of commitment to this community.” The venue hosts thousands of visitors each year from all over the world. In 2017, the Hamilton Convention Centre held 137 events across 206 days, which resulted in an occupancy rate of 67%. Despite a budgeted net positive contribution of \$165,000 by the Carmen’s Group in 2018, the City of Hamilton has provided the Hamilton Convention Centre a net operation subsidy of \$964,000 since 2013.

Under the existing Management Agreement between the City of Hamilton and Global Spectrum, the operating and capital costs associated with the FirstOntario Centre and the FirstOntario Concert Hall are allocated as follows:

Description	Global Spectrum
Capital vs. Operating Costs	The City is responsible for all Capital costs while Global Spectrum is responsible for all Operating Costs.
Utilities	Any utility costs above the 2011 Actual utility cost of \$1.2M will be paid by Global Spectrum.
Net Contribution from City	City will cover the first \$1.4M in losses, and Global Spectrum will cover the next \$500k in losses. Additional losses will be covered by the City. If losses are less than \$1.4M, Global Spectrum will retain the first \$450k as their management fee, and additional savings will be split between the City (70% to the City, 30% to Global Spectrum).

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The City of Hamilton has provided Global Spectrum the following operating subsidies over the life of this agreement:

Agreement Year	Subsidy of Operating loss	Subsidy of Utility Cost	Total Net Operating Subsidy
2017	\$1,300,000	\$1,200,000	\$2,600,000
2016	\$1,400,000	\$1,200,000	\$2,600,000
2015	\$1,400,000	\$1,200,000	\$2,600,000
2014	\$1,400,000	\$1,200,000	\$2,600,000
2013**	\$1,166,667	\$1,000,000	\$2,166,667
Total	\$6,666,667	\$5,800,00	\$12,466,667

Despite providing Global Spectrum operating subsidies of \$12,466,667 since the commencement of the agreement, the City has still realized over \$2,000,000 in operating savings based on 2013 baseline projections. The City also benefited from a one-time \$500,000 payment for capital improvement upon execution of the agreement. During the life of the agreement, the City has made capital expenditures totalling \$7,053,341 to the end of 2017 in the FirstOntario Centre and Hamilton Place broken out as follows:

FirstOntario Centre

Agreement Year	Capital Expenditures	Description
2017	\$500,000	Roof replacement (partial section), partial security system installation, removal of planter system, visual barriers on York St.
2016	\$740,000	Roof replacement (partial section), Acrylic Safety Glass for Rink, Elevator Compliance, Overhead Door Replacement, Domestic Water Pump Replacement
2015	\$56,000	Roof repair, Escalator and Elevator Compliance, Vertical Transportation Study
2014	\$448,000	Roof replacement (section), Exterior Door Replacement
2013	\$2,336,000	Refrigeration Plant Replacement, Washroom Renovation
Total	\$4,080,000	

FirstOntario Concert Hall

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Agreement Year	Capital Expenditures	Description
2017	\$638,300	Curtains for Theatre, Lighting replacement, House & stage & Controls, Concert Hall Sound Board Replacement
2016	\$94,768.	Furniture order for Mezzanine, Asbestos sampling and abatement Spec., Dance Floor - Adagio – Black 5'3" W x 101'L-Roll5,
2015	\$571,800	HP Vertical Movement Passenger Guards, Orchestra Lift guards, Freight Guards, Elevator Cylinder for Passenger + Staff elevators, Carpet replacement in Foyer & Mezzanine, Recommissioning of heating system, HP & HCC Asbestos survey and abatement
2014	\$869,148	HP Skylight caulking, HP & HCC Doors and Fire exits, HP Theatre New Audio system, HP TV, Sound Bar & TV bracket, HP Roof drain, HP & HCC Horizontal Exits Upgrades
2013	\$799,325	Reskinning the exterior, Consulting-window, carpets & Roof drains, HP & HCC Horizontal Exits, Elevator Cylinder replacement, concrete Rehabilitation
TOTAL	\$2,973,341	

Under the existing Management Agreement between the City of Hamilton and Carmen's Group, the operating and capital costs associated with the Hamilton Convention Centre are allocated as follows:

Description	Carmen's Group
Capital vs. Operating Costs	The City is responsible for all Capital costs while Carmen's Group is responsible for all Operating Costs (less the annual subsidies indicated below)
Utilities	Carmen's Group is contractually committed to paying the City the following annual utility contribution: For the 2014 Operating Year: \$105,000; For the 2015 Operating Year: \$115,000;

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	For the 2016 Operating Year: \$135,000; For the 2017 Operating Year: \$145,000; For the 2018 Operating Year: \$165,000;
Net Contribution from City	The City is contractually committed to paying Carmen's Group a subsidy in the following amounts: For the 2014 Operating Year: \$344,454.00; For the 2015 Operating Year: \$250,000.00; For the 2016 Operating Year: \$200,000.00; For the 2017 Operating Year: \$125,000.00; For the 2018 Operating Year: \$0;

The City of Hamilton has provided Carmen's Group the following operating subsidies over the life of this agreement:

Agreement Year	Subsidy of Operating loss	Less Carmen's Group Utility Contribution	Total Net Operating Subsidy/ (Contribution)
2017	\$125,000	(\$145,000)	(\$20,000)
2016	\$200,000	(\$135,000)	\$65,000
2015	\$250,000	(\$115,000)	\$135,000
2014	\$344,000	(\$105,000)	\$239,000
2013**	\$650,000	(\$105,000)	\$545,000
Total	\$1,569,000	(\$605,000)	\$964,000

The City also benefited from a one-time \$700,000 payment for capital improvement upon execution of the agreement. During the life of the agreement, the City has made capital expenditures totalling \$813,741 in the Hamilton Convention Centre broken out as follows:

Hamilton Convention Centre

Agreement Year	Capital Expenditures	Description
2017	\$167,983	Exterior door replacement, health & safety repairs, brick structural investigation (ongoing)
2016	\$185,789	Exterior door replacement, scissor lift, escalator & elevator Repairs
2015	\$271,908	Asbestos abatement, Chedoke Room ceiling renovation, LED lighting, Webster's Lounge skylight, escalator & elevator repairs
2014	\$177,809	Escalator repairs, kitchen floor tile replacement, natural gas ovens, exterior door replacement, roof evaluation

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2013	\$10,252	Select HVAC replacement, Exterior Door Replacement
Total	\$813,741	

ALTERNATIVES FOR CONSIDERATION

Alternative 1:

- (a) That Council direct staff to notify Global Spectrum Facility Management, L.P. (Global Spectrum) that the City wishes to exercise the 5-year extension outlined in the existing Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P.;
- (b) That Council direct staff to notify Mercanti Banquet & Convention Centre Ltd. (Carmen's Group) that the City wishes to exercise the 5-year extension outlined in the existing Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd.;
- (c) That the Mayor and the City Clerk be authorized and directed to execute any documents required to give effect to the 5-year extension to the Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum);
- (d) That the Mayor and the City Clerk be authorized and directed to execute any documents required to give effect to the 5-year extension to the Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group).

Alternative 2:

- (a) That 1-year extension of the existing Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum), which is set to expire on December 31, 2018, be approved;
- (b) That 1-year extension of the existing Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group), which is set to expire on December 31, 2018, be approved;
- (c) That the Mayor and the City Clerk be authorized and directed to execute any documents required to give effect to the 1-year extension to the Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum);

- (d) That the Mayor and the City Clerk be authorized and directed to execute any documents required to give effect to the 1 year extension to the Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group);
- (e) That Council directs Staff to issue a more formal RFP for the scope of work outlined within the existing Management Agreement between the City of Hamilton and Global Spectrum Facility Management, L.P. (Global Spectrum) and the existing Facility Operating Agreement between the City of Hamilton, the Hospitality Centre Corporation and Mercanti Banquet & Convention Centre Ltd. (Carmen's Group).

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Culture and Diversity

Hamilton is a thriving, vibrant place for arts, culture, and heritage where diversity and inclusivity are embraced and celebrated.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

Economic Prosperity and Growth

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" – KPMG HECFI Review Methodology

Appendix "B" – Carmen's Letter to the Mayor and Members of Council – February 2018

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Appendix “C” – Carmen’s Letter to the Mayor and Members of Council – May 2018

Appendix “D” – Global Spectrum Latest Annual Report

Appendix “E” – Carmen’s Group Latest Annual Report