METROPOLITAN EXPOSITION RECREATION COMMISSION

Resolution No. 03 - 02

For the purpose of approving negotiated contract terms for the amendment and extension of the current Food and Beverage Management contract with ARAMARK/Giacometti Partners ("ARAMARK/GP") and authorizing the MERC General Manager to negotiate an amendment and extension to the contract consistent with the terms approved by the Commission.

WHEREAS, The Commission is responsible for the overall management of its operating facilities and has the authority to contract with outside firms to provide necessary operational services to meet the event needs of each facility, and;

WHEREAS, in June of 1999, the Commission approved the selection of ARAMARK/Giacometti Partners as the exclusive providers of Food and Beverage Management Services for all MERC facilities, which included a $1 million investment and was for a term of five years with a provision to extend for an additional five year extension, and;

WHEREAS, extension terms have been negotiated by staff and agreed to by ARAMARK/Giacometti Partners to execute the amendment and extension provisions of the ARAMARK/Giacometti Partnership/MERC Commission Food and Beverage Management Services Contract, attached as Exhibit A, and;

WHEREAS, the Commission has the authority to delegate, to the MERC General Manager, the authority to negotiate final contract language to incorporate the terms, attached as Exhibit A, into the contract amendment.

BE IT THEREFORE RESOLVED that the Metropolitan Exposition Recreation Commission approves the terms set forth in the attached Exhibit "A" for the amendment and extension of the current Food and Beverage Management Contract with ARAMARK/Giacometti Partners, and further, authorizes the MERC General Manager to negotiate an amendment and extension to the contract consistent with the terms attached as Exhibit A.

Passed by the Commission on January 22, 2003.

Chair

Secretary/Treasurer

Approved as to Form:
Daniel B. Cooper, General Counsel

By:
Lisa Umscheid
Sr. Assistant Counsel

Exhibit A

January 17, 2003

TO: **MERC Commission**

Judy Rice George Bell
Gary Conkling Don Trotter
Kay Dean-Toran George Forbes

FROM: Jeffrey A. Blosser

RE: ARAMARK/GP Contract Extension

1) Term. The term will extend for five years, following the expiration of the current contract term in June 2004.

2) Rights. Exclusive food and beverage rights stated in the current contract.

3) Investment/Management Fee. ARAMARK/GP will pay MERC a $750,000 grant and will receive a management fee of 3.9% of net gross receipts. Grant funds would be due and payable to MERC no more than thirty (30) days after the execution of this contract extension.

4) Recovery of Grant. ARAMARK/GP will amortize its grant on a straight line depreciation schedule for six years. The amortization of the grant will not be an allowable charge consistent with the current contract.

5) Reserve. As outlined with the exception of changing the wording "replacements" to "capital improvements".

6) Profit Split. ARAMARK/GP will receive a share of profits equal to 9.5% of all annual net profits starting July 1, 2003 and continue through the extension term. ARAMARK/GP will have 1% of net

profits available in addition to the 9.5% as an incentive, based on criteria utilized by the MERC Facilities in the qualitative review process. This additional 1% can be earned if ARAMARK/GP meets the facility qualitative conditions, per the Contract, annually.

7) Net Profit Incentive. ARAMARK/GP will receive an additional 2% of all annual net profits if net profits are higher then $3,350,000. This incentive amount shall be distributed to each facility as a specific net profit goal. MERC and ARAMARK/GP will determine a net revenue goal number at each facility and ARAMARK/GP could earn at least 1% of the 2% goal if an individual facility's net profit goals are net. The MERC General Manager shall determine the final net profit incentive goals prior to each fiscal year for each MERC facility.

8) MERC If ARAMARK/GP provides the most favorable quote/proposal under applicable MERC purchasing policies, MERC will add all vending machine management responsibilities, both front and back of house, to the extension provision. ARAMARK/GP would include all revenues and expenses (if any) as part of the contractual mix just like the rest of the operation in terms of accounting for revenues and expenses of the vending operation.

9) Accounting Procedures. The Reserve Account would be as follows: A separate MERC account will be established for the 5% reserve dollars generated. ARAMARK/GP will deposit monthly, 5% of net gross receipts as outlined by the contract into this account. Management of this account as specified in the original contact.

The accounting process shall change with this new accounting method by ARAMARK/GP, but ARAMARK/GP shall continue to give MERC all monthly expense and revenue statements to be recorded monthly. Procedures will be mutually agreed to by both MERC and ARAMARK/GP for the management of all food and beverage accounting. An annual audit will be performed, when requested by MERC, of the food and beverage accounting processes to be performed by an outside accounting firm chosen by MERC. The cost of this annual audit will be treated as an operating expense.

Following MERC's approval of ARAMARK/GP's internal controls to adequately collect, control, track and report cash receipts, MERC agrees to convert current MERC/ARAMARK/GP accounting procedures to standard ARAMARK/GP accounting systems, which include collection and deposit of all cash sales transactions directly into ARAMARK's bank deposit account for all operations conducted by ARAMARK/GP. The term cash includes, but is not limited to, currency, checks, money orders, negotiable instruments and charge card transactions. To assure performance (requirement when accounting for public funds), prior to the change in accounting process, ARAMARK/GP will file with the MERC General Manager, for the benefit of MERC, a surety bond of an amount to be negotiated. ARAMARK/GP will pay the costs of the surety bond.

Payments for all supplies and services, including payroll expenses, will be directly handled by ARAMARK/GP.

ARAMARK/GP will provide a monthly financial statement with payment in the amount of net profit from operations, less the ARAMARK management fee and profit share.

ARAMARK/GP will continue to define gross receipts, profits and allowable charges in accordance with the current contract.

10) The remainder of the original terms of the contract remain the same.

MERC Staff Report

Agenda Item/Issue: Approves negotiated contract terms for the amendment and extension of the current Food and Beverage Management Contract with ARAMARK/Giacometti Partners ("ARAMARK/GP"), and authorizes the MERC General Manager to negotiate an amendment and extension to the contract consistent with the terms approved by the Commission.

Resolution No. 03-02 **Presented By:** Jeffrey A. Blosser

Date: January 22, 2003

Background and Analysis: The MERC Commission approved the selection of ARAMARK/GP as the exclusive providers of Food and Beverage Management Service for all MERC facilities in June of 1999 after an extensive RFP process. This contract contained a $1 million investment and was for a term of five years with a provision to extend for an additional five years. Staff is requesting the approval of the terms of the five year extension, attached to the Resolution as Exhibit A.

An industry overview of food and beverage contract management fees was performed by William Caruso and Associates. The terms contemplated in the five year extension are generally within the ranges noted in the industry overview. See Attachment A to this Staff Report.

Financial Impact: MERC will receive a $750,000 investment upon the execution of the extension. The following illustrates the changes in the terms contained in the extension as compared to the June 1999 contract.

Current	Proposed
Mgmt Fee 3.9% of net gross 8% of net profits Additional 2.5% of net profits based on incentives Further additional 2% of net profits > $3,350,000	Mgmt. Fee 3.9% of net gross 9.5% of net profits Additional 1% of net profits based on incentives Further additional 2% of net profits > $3,350,000

ARAMARK/GP will take over the accounting functions for this account with monthly audits of all the activities by MERC as well as an annual audit by an independent third party. The increase in the amount to be paid to ARAMARK/GP is estimated at $12,800 annually, over the remaining term of the contract and its extension.

Recommendation: Staff recommends that the Metropolitan Exposition Recreation Commission approve the amendment and extension of the ARAMARK/GP Food and Beverage Management Service Contract and authorize the MERC General Manager to negotiate final contract terms for this amendment and extension to the Contract.

ATTACHMENT A

WC&A

WILLIAM CARUSO & ASSOCIATES, INC

December 16, 2002

Panorama Point
9200 E. Mineral Avenue
Suite 100
Englewood, CO 80112
303 649-1600
303 649-1660 fax

Mr. Jeff Blosser
Director
The Oregon Convention Center
777 N.E. Martin Luther King Jr. Boulevard
Portland, OR 97232-2742

RE: Industry Management Fee Contract Review – The Oregon Convention Center

Dear Jeff:

Pursuant to our approved proposal to you, we are pleased to present an industry overview of management fee formatted food/beverage contracts at building complexes generally consisting of a convention center, expo center, and performing arts venue. It was understood that these facilities should be generating revenues of approximately $8.0-$10.0 million annually (gross-all buildings), should operate on a ten (10) year contract basis and would require a $1.75 million investment within the contract term. Utilizing these parameters, we have developed an industry basis concerning management/incentive fees and overhead rate costs utilizing historical data of buildings where WC&A has developed and negotiated contractual terms and utilizing data obtained from many of the largest foodservice management contract operators now serving the public assembly building industry. We also utilized generalized industry data obtained from IAAM sources relating to buildings and their general spaces. To encourage data development no building or complex names have been used. Information has been averaged and results are indicated for 12-15 similar building complexes throughout the United States utilizing similar contractual requirements noted above. Other common assumptions utilized have included but are not limited to the following:

- Capital Investment: – $1.75 million over the contract term – subject to standard industry buy-back protection and depreciated on a term straight-line method.
- Revenues: –generally based on an average 60 percent food/35 percent retail sales mix, escalating at 2.5 percent-3.0 percent per annum.
- Profit Incentive – calculated by subtracting the actual out-of-pocket costs of the food/beverage services from the Gross Receipts or Revenues. The costs include the actual product expense, on-site payroll, payroll taxes, fringe benefits, depreciation and amortization of capital investment, on-site direct and indirect operating expenses such as repair and maintenance, cleaning, office supplies, and base management fees, etc.
- Product Costs – generally average 22.0-26.0 percent of gross sales.
- Labor Costs – generally average 24.0-30.0 percent of gross sales.

On the basis of the above and noting that incentive fee percentages are on net revenues (after costs), the following industry averages are provided:

1. Management Fee 4.0-5.0%
   (percent of gross revenues)

2. Incentive Fee 8.0-12.0%
   (percent of net operating revenues)

3. Overhead Rates 7.0-10.0%
   (exclusive of OCC Reserves)

   Convention Centers/Expo Centers 7.0-8.0%

   Performing Arts Centers 9.0-10.0%

Based upon the above, we believe that the information contained herein reflects a fair and comparative contract review basis given both the sources and timeliness (current) of the information derived. Should you have any questions or require additional clarification, please feel free to contact me at your convenience. Thank you again for this opportunity to be of service!

Very truly yours,

WILLIAM CARUSO & ASSOCIATES, INC.

William J. Caruso, FFCSI, ISHC
President

PROFESSIONAL MEMBER · FOODSERVICE CONSULTANTS SOCIETY INTERNATIONAL · 025 FCSI WILLIAM J. CARUSO

WJC/maz