



CITY OF EVANSVILLE

OFFICE OF THE MAYOR
JONATHAN WEINZAPFEL

MEMORANDUM

TO: B.J. Watts, President, Evansville City Council
CC: Dr. H. Dan Adams, Wendy Bredhold, John Friend, Curt John, Dan McGinn,
Missy Mosby, Connie Robinson, Don Walker
FROM: Jonathan Weinzapfel
DATE: January 31, 2011
RE: Arena Management Contract Process

I am writing to address the process of selecting a company for the negotiation of a contract to manage the new Evansville arena in conjunction with the Evansville/Vanderburgh County Building Authority, all under the authority of the Evansville Redevelopment Commission.

In March 2010, the decision was made to have the Evansville/Vanderburgh County Building Authority ("BA") assume responsibility for the maintenance tasks at Roberts Stadium, The Victory Theatre and Mesker Amphitheatre. In addition, the BA assumed direct supervisory responsibility for the City employees assigned to support the operations being managed by SMG at these facilities. The motivation for this change was a projected \$300,000 savings in the budget of the Parks Department which was expected to result from the reorganization and change in management.

As a result of that decision, it was necessary to change the existing contract with SMG, the private firm responsible for the management of those facilities under a public/private building operating contract. Because the new Evansville arena was expected to open Downtown in November 2011, it was also necessary to negotiate changes in the contract related to Roberts Stadium until the new arena opens. The contract for operation of Roberts Stadium could have been terminated at the end of 2010, but the City needed to continue its operations for the first 10 months of 2011 to coincide with the new arena. Accordingly, the extension of the SMG contract was negotiated at the same time as were the changes to the scope of work resulting from the BA's new responsibility. Although SMG was no longer responsible for those items which had been transferred to the BA, the SMG compensation arrangement was not modified. As part of the negotiations for this extension, SMG demanded the right to negotiate first for a contract to operate the new arena. Accordingly, the City began discussions with SMG for the purpose of reaching an understanding that would form the basis for a recommendation for the award of a professional services contract for the management of the new arena.

During the course of those discussions, the City sought to change the financial arrangements in the new contract to focus more effectively on the desired outcomes. Specifically, the City wanted to define financial incentives for SMG to incent the strategic goals of the new arena, such as downtown activity, event attendance and bottom-line performance, rather than gross revenues as currently structured. Of particular focus was the use of net cash flow rather than gross cash flow in order to place more emphasis on expenditure accountability and control. Within the first several months of the BA assuming maintenance and employee management, it became clear that expense management was an area open for significant improvement, as the projected savings of \$25,000 per month was being achieved and surpassed.

The second area of focus was on the identification of the individuals to be assigned as SMG's senior management staff on-site in Evansville. It was thought that the new arena's role in the community and its potential was far different than that of Roberts Stadium and that staff with senior management experience with downtown arenas was critical, as was experience with the development and implementation of the grand opening activities. Finally, the potential for sponsorship and marketing opportunities in the new arena was significantly different from those in place at Roberts Stadium.

The discussions with SMG on these issues illuminated three points of contention. First, SMG was initially very reluctant to focus its financial incentives on net revenue or on attendance goals that reflected any activity significantly greater than that which was occurring already at Roberts Stadium. Second, SMG believed that the existing staff at Roberts was sufficient to manage the new arena and that the lack of experience with grand openings would be offset by other SMG staff members coming to Evansville temporarily on an "as needed" basis. Finally, SMG believed that the functional transfers to the BA in March 2010 needed to be undone and that SMG should resume management of the City employees.

With these three issues being presented and a need to reach an agreement as soon as possible, the decision was made to issue an RFQ seeking companies to be considered in addition to SMG. The RFQ was issued and responses were received from SMG and two other companies. An interview team ("Committee") consisting of John Friend (City Council), Andy Goebel (Building Authority Board of Directors), Ed Hafer (Evansville Regional Business Committee), Wayne Henning (Evansville Arena Project Committee), Kathy Kleindorfer (Evansville Arena Project Committee), and Sara Miller (Evansville Redevelopment Commission), with additional support from John Kish (Evansville Arena Project Director) and Dave Rector (Building Authority), conducted interviews on January 6, 2011.

The Procurement Process

When the RFQ was issued, it was emailed to eight (8) companies which had either been identified as active in this business or who had contacted the Arena Project office and expressed an interest. Because of the need for a rapid response, a deadline of three weeks for the initial response was established. It was brought to my attention that the industry was concerned that Evansville was simply "going through the motions" and that SMG had a lock on the business. John Kish, the Arena Project Director, spoke with two vendors to assure them that the City was serious about considering other companies. As the RFQ was drafted, generic information was

intentionally requested in an attempt to make a response relatively easy in order to encourage responses. Responses were received from SMG, VenuWorks and Central Illinois Arena Management, Inc. (AKA Southern Indiana Arena Management; operators of the arena in Bloomington, IL). Interviews with each company occurred on January 6, 2011.

The following items were reported to me concerning the proposals and interviews:

A. Central Illinois Arena Management

This is a small company which manages one arena in Bloomington, IL. One principal of this firm had been active in the effort to convince the City government to fund that arena project. They have managed the facility for a number of years. The facility is operated in part with services provided by City employees so the BA arrangement did not present them with concerns.

The company discussed their focus on management and the ability to attract talent to their building. They are part of a booking coalition of “independently” managed arenas (“independently” meaning not operated by one of the larger companies). They had previously met with the Evansville Arena staff in June 2010 and were proud to report that they had 13 concerts on their calendar through the end of 2010 while Roberts had only three.

Their proposal was to have one of the two owners move to Evansville to start up an operation for the new arena which would likely include the move of one other senior manager.

While the Committee was enthusiastic about the abilities and personalities of the two owners, in the end, the Committee concluded that there was an inadequate number of experienced staff in the company to support a start-up in Evansville. There was also an obvious vulnerability to some accident happening to one of the two owners and there being inadequate support to fill the resulting void.

B. VenuWorks

VenuWorks has been managing arenas and other public assembly facilities for a number of years and is currently managing 17 facilities in 10 cities. They focus on 10,000 – 12,000 seat facilities and smaller. They have a depth of experience with their senior management staff (as shown in the proposal) and have significant experience with the opening of arenas of this size in urban areas. The interview team presented by VenuWorks included a proposed General Manager, who they refer to as an Executive Director. The title reflects the thought that the person is intended to integrate in the governance structure of the owner. The Executive Director is expected to be the face of the arena to the public, when appropriate, and to the governing officials. The individual presented had a focus on marketing and booking acts.

The corporate staff was also impressive. VenuWorks asserted that the support provided by staff of the company to each individual facility was much more intensive than other

companies would provide. They discussed the frequency of corporate reviews of local Executive Directors, including financial management, operations and client relations matters.

To book events, VenuWorks relies on both the local management team and two corporate talent buyers. The Committee felt that the corporate staff had substantial experience and was an active part of the support structure for local management.

The Committee had several concerns. First, they did not hear VenuWorks speak of its experience running an arena with a Division I NCAA presence. The company addressed this issue during a second interview by describing the experience of the various individuals in operating such a facility although none of the current facilities have that situation. Second, the Committee was concerned about the coordination of hockey and basketball and this was also addressed.

A significant question was presented about the prospect for conflict between one company managing The Centre and a second company managing the new arena. VenuWorks responded to this question on several levels. First, they described their experience in similar situations in other cities where SMG is operating another facility. Second, they described the realities of the marketplace and the differences between the two facilities as dictating which facility would draw which events. In essence, the differences between The Centre and the arena will be such that most events booked at The Centre would not be appropriate or feasible at the arena, and vice versa. Third, they emphasized that their goal was to do what was right for the community and they expected, particularly at the operating level, that the two companies would be cooperative.

VenuWorks also emphasized the market being a major force in the ability of the facility operator to draw events to the new arena. Evansville is a good market, well known to promoters. They asserted that their staff had relationships with all of the promoters currently coming to Evansville and those representing the acts which we hope to attract. After reviewing past activity at Roberts, they identified an opportunity for certain other types of shows to play in the new arena.

VenuWorks emphasized its desire to work with local vendors for food and supplies. It also expressed a commitment to the MBE/WBE goals and objectives.

The Committee asked for one final statement of why VenuWorks would be the best selection. VenuWorks replied that the new arena would be one of its premier buildings, and would get the appropriate attention of their corporate staff. We would be their most important client, not one of hundreds.

C. SMG

SMG is the world's largest manager of publicly-owned entertainment facilities, with about 220 facilities under contract, including four (4) in Evansville.

The SMG presentation discussed their corporate capabilities. They brought eight (8) people to the interview, including Todd Denk, and six others who would not be based in Evansville. They proposed one individual who would be transferred to Evansville to be responsible for management of the new arena. When this individual was originally identified as a candidate for General Manager during early discussions, SMG asserted that Evansville “could not afford him.” He was also discussed as being an “on-call resource” for the opening of the arena. Because his experience is in building operations, this offer was thought to be helpful but somewhat duplicative of the services to be provided by the BA. The concern was that someone with more of a marketing focus and personality was needed.

The corporate experiences cited by SMG were significant, but its presentation left some Committee members asking where these capabilities had been during the past few years.

When SMG was asked to make a self-assessment of their operation at Roberts Stadium, they indicated that they did an excellent job and that any issue was directly related to the condition of the building. The Committee was troubled that SMG did not mention any maintenance issues previously identified by the BA staff, nor did they mention any issues with the marketing of either the events or of sponsorship opportunities within the building.

The Committee asked SMG to provide their views on how they would respond if they were not selected and therefore needed to work with another company as they operated The Centre. The response, which was not well received, was that SMG would focus on satisfying its client, the County, and that would be its focus. While understandable, most Committee members thought that some acknowledgment of the potential for working towards common goals and objectives would have been the preferred attitude.

In summary, the Committee concluded that SMG was a highly successful and skilled company, but that their long-term focus on the success of the new arena was a concern. One Committee member commented that he never expected to see most of “those people” in the interview ever again even if SMG were awarded the contract. They also concluded that the proffered candidate for the position of General Manager was unacceptable.

SMG Experiences

It is not possible to consider the selection of a management company without a hard look at the performance of the incumbent. Indeed, in most procurement processes of this type, the incumbent company will go to great lengths to illustrate the advantages of continuing its contract without the disruption that any change is likely to cause.

In this case, it is very significant to mention several issues based upon the City’s recent experiences with SMG at Roberts Stadium. First, the City’s decision to utilize the BA to provide maintenance and management of employees was driven by the failure of SMG to focus on the proactive management of the facility and the employees. SMG did little to schedule work in order to reduce overtime expenses. Maintenance of the building systems at Roberts Stadium and The Victory was also sorely lacking. The BA reports that air filters had not been cleaned for quite some time. Chairs, toilets and drinking fountains were also simply taken out of service

rather than repaired. Unrepaired HVAC units are thought to have contributed to problems with sound equipment at The Victory.

Second, as a result of competitive procurement processes and different approaches to accomplishing certain aspects of the work, the BA has been able to reduce operating expenses in excess of our original projections. Savings against the SMG budget for the period of May – December 2010 include: \$223,500 in employee costs, \$78,000 in building maintenance costs and \$60,000 in HVAC service contracts. Similar savings are seen in snow plowing contracts. In this context, it is also significant to note that VenuWorks is proposing to operate the new arena with 20% fewer FTE employees than SMG, another significant cost savings.

Third, rather than embrace the cost savings efforts of the BA, some SMG employees have actively resisted them. This resistance has been brought to the attention of senior SMG Evansville management with little initial effect. As part of an outside audit of operations, one Evansville manager reported to the auditor that he refused to cooperate with the BA in Roberts Stadium. Only when the auditor advised the employee that his continued employment was in jeopardy did he reconsider. Significantly, the local management structure has been revised with the SMG Regional Manager also now serving as the Evansville General Manager.

In summary, the City has been working to develop a contract for the operation of the new arena with financial incentives focused on its role in a revived downtown and with personnel experienced in opening, marketing and operating such venues. The City wants a company and individuals dedicated to making this work, not to explaining problems, and needs someone focused on Evansville and our success.

The City solicited proposals. A non-partisan group of community leaders conducted extensive interviews. The Committee unanimously recommended that the City award the contract to VenuWorks. The Committee worked hard to understand both the upsides and pitfalls of its choices and I support the results of the Committee's work.

I hope City Council will recognize the unanimous recommendation of this non-partisan Committee and avoid politicizing the subsequent actions of the Redevelopment Commission as it reviews that recommendation at its regularly scheduled meeting on Tuesday.

Please call me if you would like to discuss this matter in further detail.