

**Presenter's Liaison Committee
War Memorial Board of Trustees**

STAFF REPORT

Renewal of Agreement with Global Gourmet (Avatar Foods)

April 11, 2024

SUMMARY

Avatar Foods dba Global Gourmet Catering (GGC) is seeking to exercise their right to renew their contract to provide Concession and Catering services in the War Memorial buildings. Their current agreement expires on January 31, 2025.

The original term of the contract was from August 1, 2010, to July 31, 2023.

Due to losses incurred during the shutdown period of the pandemic, GGC requested an extension of the original terms of contract by 18 months. This request was approved by the full Board on July 14, 2022, with the contract term amended to expire on January 31, 2025.

On August 10, 2023, GGC appeared before the full Board to express their intent to renew the agreement for a second five-year term.

War Memorial staff and GGC staff have been meeting for the past several months to review successes with the current agreement and to identify areas of potential refinement and improvement. In addition, senior members of the Opera, Ballet, and Symphony have provided feedback to staff on GGC's performance as well as areas in need of improvement. These perspectives have all been considered in proposing revised contract terms.

Staff is recommending the Board of Trustees approve a renewal of the contract, incorporating the changes outlined in this document.

ABOUT GLOBAL GOURMET CATERING

Founded in 1999, Global Gourmet Catering (GGC) has become one of San Francisco's premier catering and concession providers, executing over 650 catering and concession events annually. Global Gourmet is a women and minority owned business, employing well over 1,000 Bay Area residents. GGC's concession division was formed in 2009 when two of their largest corporate clients, Another Planet Entertainment and Live Nation, identified a lack of quality in concession food and services at their venues. They accepted their challenge to fill this void and developed distinctive high caliber products and services that resulted in greater profits for venue partners and an increased level of patron satisfaction. Global Gourmet is now the exclusive in-house food and beverage provider for the Masonic San Francisco, the Mountain Winery in Saratoga, and the esteemed War Memorial Performing Arts Center venues (Davies Symphony Hall, the San Francisco Opera House, the Veterans Building, and Zellerbach Hall).

SUMMARY OF RECOMMENDED CHANGES TO AGREEMENT

Changes to Funding Food and Beverage Capital Improvements

The original agreement defines two ways that GGC is to contribute to the maintenance and improvements of our food and beverage capacities.

CERF: The Concessions Equipment Replacement Fund (CERF) is described in the current contract as a payment made by GGC to the War Memorial each month to “fund replacement, major repair, and refurbishment of, or improvements to, food and beverage service equipment, furnishings and facilities, as agreed upon by the parties.” The CERF payment is made each month by GGC to the War Memorial and is currently calculated as .75% of monthly gross receipts. CERF funds have been used to fund such improvements as replacing an ice machine, repairing an oven, and upgrading our concession point of sale system hardware. **By the end of the current agreement, it is estimated GGC will have contributed \$191,370 total to the CERF Fund.**

CAPEX: GGC contractually committed to expend \$375,000 of their own funds, over the life of the initial contract term, on capital expenditures (CAPEX) to support improvements to the War Memorial premises. This commitment is separate from CERF contributions or expenditures War Memorial and GGC agreed that any potential CAPEX spends are to be approved by War Memorial staff prior to contracting work or making purchases. CAPEX investments have included new tables for Prelude, design services to add to food service capacity at Davies, and re-upholstering of furniture in the Opera House. **By the end of the current agreement, it is estimated that GGC will have expended a total of \$134,963 in capital improvements, falling approximately \$240,000 short of the target.** The shortfall is directly related to a significant loss of revenue during the lengthy pandemic closure, and the ensuing months when patrons were less comfortable eating or drinking with masking orders in effect. In addition, GGC was subject to a new State tax that was not contemplated in our contract called Possessory Interest, which resulted in an unplanned charge of \$218,943, further eroding net operating income. As a result, while revenue is finally on an upward trajectory, it is estimated GGC will have achieved only 65% of its originally projected revenue over the life of this first contract.

War Memorial Staff and GGC have together done a comprehensive analysis and are recommending the following changes for the new term of the contract:

- 1) **Treasure all CERF and CAPEX at the War Memorial and require GGC to send War Memorial monthly contributions to both.** Currently, only CERF is treasured by War Memorial. CAPEX relies on GGC expending funds, as they identify projects to spend them on. With this change, the War Memorial banks both funds and can be assured of regular and predictable contributions.

- 2) **Combine CERF and CAPEX funds into a single FOOD & BEVERAGE IMPROVEMENT FUND (F&BFUND).** We have found that in practice, there is almost no meaningful difference between the kinds of expenditures that can be handled by either CERF or CAPEX. All expenditures are above the threshold requiring them to be treated as capital improvements. There is also not an easy way to distinguish between an upgrade or improvement to something vs a replacement or something entirely new.
- 3) **Calculate contributions to the F&BFUND as a % of monthly gross receipts and require GGC to send funds to the War Memorial at the end of each month.** A % of gross receipts that flexes with downsides and upsides of revenue is practical and keeps both GGC and War Memorial aligned. Based on a conservative revenue plan for the second 5-year contract period, staff and GGC recommend that the F&BFUND contributions rate be set **at 6% of gross receipts.** With a conservative revenue estimate, this would yield a F&BFund contribution of **\$706,397.** This amount is significantly higher than the War Memorial would have received under the current CAPEX/CERF calculation methodology.

Transitioning to the New Agreement:

For a clean and timely transition to the next contract period, the following actions are recommended:

- 1) **Formally relieve GGC of its obligation to deliver on the remainder of their current CAPEX obligation (\$240,000).** War Memorial staff and GGC have spent much time doing a detailed analysis of their financial performance and profitability over the course of the contract. Staff appreciates that GGC has endured significant impacts to their revenue from the pandemic while also sustaining unplanned expenses such as the new State possessory interest tax and a change to union paid-time-off accrual. As a result, GGC was marginally profitable, and staff believes they have contributed the most that they can against their original CAPEX commitment. In return for this forgiveness, GGC agrees to pay 6% of gross receipts, with no upper limit, beginning in the renewal contract period, which will yield substantially more investment during the second contract than the first.
- 2) **Terminate the current agreement one month early- effective December 31, 2024- and begin the new contract on January 1, 2025.** GGC requests this small change to better align with their fiscal year and the City's 6-month calendar.

Supporting Resident Company Events and Experiences

Increasingly, all three resident companies are seeking ways to provide patrons with experiences that combine a performance with a special food and beverage “experience” before, during, or after the performance. Examples of these kinds of experiences range from extending regular concession hours, to concessions with a themed specialty food or cocktails, to heavily customized experiential events, such as:

- Mere Mortals (SFB). Regular concessions re-opened for a dance party after the evening performances and stayed open until Midnight.
- Dos Mujeres (SFB). Concessions re-opened after all performances and served specialty tequila drinks and 3 kinds of fresh food options such as churros and chips and guacamole.
- Soundbox (SFS). Curated food and beverage offerings inside Zellerbach offered before and during a 3-hr experimental performance.
- Encounter (SFO). Annually, an entire evening of food and specialty drink options are programmed throughout the Opera House, after an abbreviated opera performance.

War Memorial staff and GGC leadership appreciate the importance of supporting these kinds of experiences. We also recognize that GGC takes on a degree of risk when they purchase special supplies or make food that has not been a regular part of the patron experience. Currently, different types of events also trigger varying rates of commission to the War Memorial. To help both GGC and the resident companies keep their costs and risks reasonable, staff recommends the following changes:

- 1) **Create a 3rd category of War Memorial Commissions for Resident Company Events and Activations that keeps commissions at the same % as regular concessions operations.** This change preserves War Memorial's ability to charge higher commissions for outside events, while facilitating the resident companies' ability to host more experiences at the lower concession commission rate. Staff believes the War Memorial is likely to make more revenue on commissions with this strategy than we do currently, as events/experiences will be more financially sustainable and therefore increase in numbers.
- 2) **Clarify that the two (2) annual outside caterer exemptions allotted to each resident company cover all activations/sub-events for the same event, no matter how many spaces or buildings are used.** This change allows the Resident Companies to save costs by engaging a single cater for their large-scale fundraiser dinners or events. In the past, we required multiple exemptions for a single event if it spanned two spaces (example Davies Symphony Hall and Zellerbach).
- 3) **Events held on the grounds of the War Memorial will now be included in GGC's contract.** Post Covid, we anticipate more events and experiences will be held outside. We want to ensure GGC participates in these activations. At the same time, when a special event needs outdoor space - such as Lake Louise for the Symphony Gala – the Resident Company can rest assured it can be included in the same exemption as the rest of the event held inside the buildings, should they wish to use an outside caterer.