



## CITY COUNCIL AGENDA REPORT

**Subject: SERVUS PLACE BUSINESS OPPORTUNITY AND  
BUDGET ADJUSTMENTS**

### **Recommendation(s):**

1. That the capital budget of \$280,000 to open a licensed coffee store in Servus Credit Union Place be approved and to be funded by internal borrowing from reserves.
2. That the proposed changes to the Servus Place operating budget for 2011, as outlined in Attachment 1 to the July 4, 2011 Servus Place Business Opportunity and Budget Adjustments report, be approved.
3. That the addition of two full time staff in the Servus Place operating budget be approved.

### **Report Summary:**

Based on previous discussions and approval from Council, Administration has completed negotiations with Starbucks to enter into a license agreement to operate a Starbucks store in Servus Place.

### **Legislative History:**

On May 16<sup>th</sup>, Administration brought forward an outline of the opening costs and operating model and the recommendations that were approved are;

1. That Administration bring forward a capital request for construction and development of a Starbucks coffee store in Servus Place.
2. That Administration proceed with the negotiations to enter into a license agreement with Starbucks.

### **Report:**

Since the opening of Servus Place in September 2006, there has been demand from the community to improve the cost recovery while maintaining high levels of programs and services and affordable access. The traditional revenue sources for the facility are memberships, admissions, facility rental, programs and services and advertising/sponsorship. As the facility reaches some thresholds in these traditional revenue sources, there is a need to explore non-traditional revenue streams to continue offsetting rising fixed costs such as utilities and salaries.

One of the missing elements in the Servus Place food and beverage offering is a good quality coffee shop that serves a variety of coffees and related items. After considerable research into the various options, the decision was made to partner with Starbucks. Consumer demand suggests that the proposed location, currently operated as Skybox Express, has the traffic and demand to make a Starbucks location viable. There is a growing trend of branded coffee shops being opened in large community gathering places including; Terwillegar Recreation Centre, Millennium Place and recently the University of Calgary.

The opportunity to develop a Starbucks store in Servus Place not only meets demand from the almost 2 million annual visitors, it will also contribute positively to the bottom line of the facility.

The Starbucks store requires two full time staff and a complement of casual staff to ensure the operation meets the needs of facility users. These staff would be employed by the City of St. Albert under Servus Place.

Administration has now completed negotiations with Starbucks and both parties are prepared to proceed pending financial approval.

**Link to Council or Corporate Objectives:**

The development of a Starbucks store in Servus Place meets three of the four corporate objectives:

- *Deliver programs and services that meet or exceed our standards*  
Servus Place users expect to have consistent, branded, high quality food and beverage services when they visit the facility.
- *Exercise strong fiscal management*  
The cash flow generated from the operation of this store will be used to offset the operating costs of Servus Place.
- *Ensure our customers are very satisfied*  
Servus Place members and users have become accustomed to a high level of service. Tournament organizers both locally and nationally recognize Servus Place as one of the best multi purpose facilities in the country and the facility is a key to the attraction of major events to St. Albert. Starbucks adds further credibility to Servus Place as an event centre.

**Financial Implications:**

**Capital Costs**

The one-time capital costs to build and prepare the store for opening will be funded by internal borrowing from reserves and will be paid back over 10 years from the operating revenues of the store.

The capital cost budget is \$280,000.

**2011 Operating Costs**

The non-capital store opening costs (staff training, occupancy costs and supplies) will be offset in the Servus Place budget by an increase in the sponsorship revenue budget. This increase in sponsorship revenue is due to unbudgeted additions that have been committed to for 2011. In addition, the revenue and expenses associated with the operation for November and December of 2011 will be adjusted in the Servus Place budget. This will result in a \$1500 positive adjustment to the Servus Place budget for 2011.

Revised 2011 Servus Place Operating Budget		
	Approved Budget	Revised Budget
Revenue	\$7,182,600	\$7,300,700
Expenses	\$8,044,900	\$8,161,500
Net	(\$862,300)	(\$860,800)

**Legal Implications:**

Legal Services has been involved in the negotiation of the Starbucks license to date. Although the opportunity to modify Starbucks' standard form agreement is limited, it is expected that minor concessions/amendments will be made to accommodate certain of our requests, and that the parties will come to an agreement in the near term.

**Attachments:**

1. Servus Place 2011 Budget Adjustments
2. Confidential Administrative Backgrounder
3. Confidential Agenda Report- May 16, 2011

Report Date	<i>July 4, 2011</i>
Originating Department	<i>Servus Place</i>
City Manager Review	<i>Bill Holtby</i>

## Servus Place 2011 Operating Budget Adjustments

	2011 Department Budget	2011 Revised Budget	Variance
Memberships	\$ 2,426,300	\$ 2,426,300	
Admission Fees	1,270,500	1,270,500	
Lesson Fees	834,200	834,200	
Rentals - Facility	1,537,500	1,537,500	
Advertising/Sponsorship	535,200	554,200	\$ 19,000
Sale of Goods (Commission & Vending)	85,200	184,300	\$ 99,100
Miscellaneous Revenue	13,800	13,800	
<b>Total Revenue</b>	<b>\$ 6,702,700</b>	<b>\$ 6,820,800</b>	<b>\$ 118,100</b>
Personnel Costs	\$ 4,386,400	\$ 4,439,700	\$ 53,300
Contracted & General Services	741,400	763,000	\$ 21,600
Utilities	827,700	827,700	
Materials, Goods & Supplies	412,400	454,100	\$ 41,700
Transfer to Reserves	50,000	50,000	
Transfer to Operations - Aquatics	756,800	756,800	
Transfer to Operations - Public Works	732,600	732,600	
<b>Total Expenses</b>	<b>\$ 7,907,300</b>	<b>\$ 8,023,900</b>	<b>\$ 116,600</b>
<b>Operating Surplus (Deficit)</b>	<b>\$ (1,204,600)</b>	<b>\$ (1,203,100)</b>	<b>\$ 1,500</b>
Recovery Rate	85%	85%	
<b>Cost Centre 3171 (from Recreation)</b>			
<b>Total Revenue</b>	<b>\$ 479,900</b>	<b>\$ 479,900</b>	
<b>Total Expenses</b>	<b>137,600</b>	<b>137,600</b>	
<b>Operating Surplus (Deficit)</b>	<b>\$ 342,300</b>	<b>\$ 342,300</b>	
<b>Total Operating Surplus (Deficit)</b>	<b>\$ (862,300)</b>	<b>\$ (860,800)</b>	<b>\$ 1,500</b>