



Taxation, Revenue and Utilization of Expenditures (TRUE) Commission

Wes Benwick, Chair
Jason Fischer, Vice Chair
Joe Andrews, Secretary

RESOLUTION 2011-2

A RESOLUTION RECOMMENDING GREATER TRANSPARENCY AND CITY OVERSIGHT OF THE CONTRACT WITH SMG JACKSONVILLE FOR MANAGEMENT OF THE CITY'S PUBLIC ASSEMBLY FACILITIES

WHEREAS, the TRUE Commission is composed of a number of citizens representing community and business interests, all of whom bring a variety of skills and perspectives to the process of reviewing and commenting upon City financial and management issues; and

WHEREAS, the Commission has spent several months reviewing the operation of the contract between the City of Jacksonville and SMG Jacksonville to manage the City's public assembly facilities, including EverBank Field, Jacksonville Veteran's Memorial Arena, the Baseball Grounds of Jacksonville, the Times-Union Center for the Performing Arts, the Jacksonville Equestrian Center, and the Prime Osborn Convention Center; and

WHEREAS, in particular, a committee of the TRUE Commission examined in some depth several issues reported in the local media, including SMG's food service contract with SAVOR, a wholly-owned subsidiary of SMG, SMG's procurement process for general liability insurance, and SMG's event promotion agreement with Live Nation, the successor company to TicketMaster; and

WHEREAS, some of the issues identified in relation to the City's oversight and management of the SMG contract reflect broader themes identified by the TRUE Commission in its review of other City contracts and indicate to the Commission that further work is needed in this area to identify persistent weaknesses and to propose corrective actions; now therefore

BE IT RESOLVED that the TRUE Commission hereby identifies the following concerns and proposes to the City the following corrective actions regarding the SMG public facilities contract:

Concerns

- The budget process for SMG's use of taxpayer money doesn't seem to be given detailed scrutiny and the contract seems only marginally managed by the City, leading to questions about how much latitude SMG is given to make decisions that impact on the City's financial obligations under the contract.
- How much, if any, was the City involved in making decisions about how much insurance SMG would carry on the City's facilities or the level of health insurance the employees would receive?
- The food service contract with SAVOR (a wholly-owned subsidiary of SMG) appears to be a place where abuse could take place because of the way the contract is structured and expenses could be shifted from one entity to the other without the City's knowledge. There needs to be more clarity about, and regulation of, use of corporate affiliates.

- Similar to the Trail Ridge Landfill contract, this appears to be a situation where an original bid contract has been extended and renewed for many years without a competitive re-bid process. Such contract renewals should never exceed 5-7 years without a new competitive process.
- Contractors participating in cost-plus contracts should be subject to the public records law and more transparent disclosure of financial details so the public's interest can be protected.
- It appears there are too few guarantees of what results SMG will produce in return for its annual guaranteed management fee. The company obviously has a financial incentive to meet performance benchmarks and increase its revenue, but what happens if the company chooses to merely collect the base fee and put little or no effort into marketing the properties? Does the City have any recourse to deal with ineffective or non-existent work on SMG's part?

Corrective Actions

- The City should be given greater control over the selection and retention of the local SMG General Manager.
- Contracts of this size should be subject to mandatory re-bid opportunities at least every 7 years.
- Steps should be taken to increase oversight of this contract and a City department should be made more accountable for the budget SMG submits for the City to pay. Perhaps management of this contract should be moved from JEDC to another department such as Recreation and Community Development. The Council Auditor should do an audit at least every other year of both the finances and the contractual performance of SMG.
- Approval by the City Council should be required whenever a company under contract to the City wishes to utilize the services of a related corporate affiliate.
- Use of taxpayer funds in an open-ended, cost-plus agreement such as this one should include specific requirements to adhere to public records laws and the budget should be transparent and available to the public to scrutinize.
- The City contract administrator should utilize the City's subject matter experts (Human Resources, Risk Manager, etc.) to help determine appropriate levels of venue insurance coverage, SMG employee health insurance and retirement benefits, and other expenses incorporated into the contract costs.

Adopted by an 11-0 vote of the Commission this 14th day of July, 2011.

Wes Benwick, Chairman