

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

0220-05243-0001

Date: August 3, 2018

To: The Council
Attn: Arts, Entertainment, Parks, and River CommitteeFrom: Richard H. Llewellyn, Jr., City Administrative Officer
Sharon M. Tso, Chief Legislative AnalystSubject: **REPORT ON REQUEST FOR PROPOSALS FOR CONCESSIONS AT THE ZOO (C.F. 14-0600-s223)****RECOMMENDATIONS****That the Council:**

1. Extend the current Concessions Agreement between the City and the Greater Los Angeles Zoo Association (GLAZA) for an additional six months to February 17, 2019, with a six-month renewal option, to allow time for the issuance of the Concessions Request for Proposals (RFP), revision of the draft concessions services agreement and the selection of the proposed vendor, subject to Council approval;
2. Instruct the Offices of the Chief Legislative Analyst (CLA) and the City Administrative Officer (CAO) to continue discussions with GLAZA and the Zoo Department (Zoo) in order to achieve a final Request for Proposals document and transmit that document to Council for consideration within 45 days;
3. Instruct GLAZA and request the City Attorney to redraft the proposed concessions services agreement to better clarify the financial and revenue sharing proposals and submit that item to Council within 30 days for approval in order to make the documents available for review during the Request for Proposal Process; and
4. Instruct the Zoo and GLAZA to negotiate a new concessions agreement to replace the 1981 concessions agreement between GLAZA and Recreation and Parks to reflect a new revenue sharing model and increase revenue allocations to the Zoo which may result from the responses to the RFP. This new concessions agreement will supersede any prior agreements.

FISCAL IMPACT STATEMENT

There is no projected General Fund impact from the recommendations contained within this report. The recommendations included in this report are consistent with the City's Financial Policies, as on-going expenditures will be fully supported by on-going revenues. The revenues generated from concessions in 2017-18 totaled approximately \$12 million and \$1.8 million in commissions was paid to the Zoo Enterprise Trust Fund under the terms of the 1981 Concessions Agreement.

BACKGROUND

In July 2016, the Offices of the City Administrative Officer (CAO) and the Chief Legislative Analyst (CLA) submitted a report to the Arts Entertainment Parks and River Committee with a framework and timeline required to release a Request for Proposals (RFP) for concessions at the Los Angeles Zoo and Botanical Gardens (Zoo) (C.F. 14-0600-s223). At that time, it was estimated that the RFP process would take 12-18 months to complete.

The report recommended that the Greater Los Angeles Zoo Association (GLAZA) and the Zoo Department (Zoo) provide greater City participation in the concessions RFP process by requiring GLAZA to follow all City contracting procedures. The Zoo and GLAZA were further instructed to transmit the draft RFP and the draft concessions services agreement to the City Council for review and approval. Additionally, GLAZA and the Zoo were directed to provide a status report on the development of the RFP to the Arts Entertainment Parks and River Committee every 90 days. Finally, the Zoo Department was instructed to ensure that the new concessions services agreement would result in the distribution of a larger share of commission revenue from concessions to the Zoo.

On February 21, 2017, the City Council adopted the Arts, Entertainment Parks and River Committee Report (C.F.14-0600-S223) which instructed the Zoo and the GLAZA to draft an RFP and scope of work for the concessions consultant by April 2017. These documents are to be presented in conjunction with the next status report deadline and to provide a copy to the CAO and the CLA for review. The report further instructed the CAO and the CLA to report to the Council with a review of the draft RFP and concessions services agreement and provide an assessment of the compliance with Council instructions.

STATUS OF THE CONCESSION RFP AND DRAFT CONCESSIONS SERVICES AGREEMENT

The Zoo transmitted GLAZA's draft RFP and Concession Services Agreement to the CAO, CLA and City Attorney in June 2017 for review and comment. The initial review of both documents identified areas of concern including:

- Requests for annual sponsorship donations to GLAZA from the selected proposer;
- The Capital Plan language and requirement to pay funds directly to GLAZA;
- The draft Concessions Services Agreement contained requirements not specifically mentioned in the RFP;
- Requirements in the Draft Concessions Services Agreement which appeared to obligate the City to fulfill certain requirements to the contractor; and
- Lack of clarity concerning the proper use of the City's intellectual property and Zoo trademarks.

The CAO, CLA and City Attorney subsequently met with the Zoo and GLAZA on multiple occasions to discuss the draft documents and recommended revisions. The goal of these meetings was to develop a proposal document that would meet the City's requirements and potentially allow the GLAZA RFP process to move forward. The following changes were suggested:

- Elimination of requirements for supplemental contributions from the Concessionaire to GLAZA;
- Strengthening of the Capital Investment language;
- Elimination of the Draft Concessions Services Agreement as an attachment;
- Clarification of Good Food Purchasing Policy Language; and
- Revisions to the language concerning the Zoo's Vision Plan Process.

GLAZA accepted most of the revisions proposed by the City and transmitted a final draft on July 30, 2018. There remains, however, a need for additional discussion concerning the Capital Investment, Sponsorship Rights and the Revenue Sharing sections of the draft RFP. The draft document also needs to be reformatted and the exhibits renumbered. Information concerning the existing commission rates and percentages should also be included as an attachment.

Additionally, the City Attorney recommends that the draft Concessions Services Agreement not be included as an attachment to the RFP because it requires substantial revision in order to provide greater clarity concerning the roles and responsibilities of the parties, and the financial relationships between GLAZA and proposed concessionaire. The draft agreement submitted by GLAZA closely resembles the original 1997 Concessions Service Agreement and requires a significant update to reflect the changes included in the draft RFP.

As a result of the discussions between the City and GLAZA, additional time is required to finalize the draft RFP. It is recommended that the existing Concessions Agreement be extended by six months to allow for completion of the necessary revisions. The CAO and CLA should continue meeting with GLAZA to resolve the outstanding issues and transmit a draft RFP to Council for consideration within 45 days. During the same time frame, the City Attorney and GLAZA should redraft the Concessions Services Agreement and transmit for review.

CONCESSIONS AGREEMENT BETWEEN THE CITY AND GLAZA

The original twenty-five year Concessions Agreement (AGREEMENT) between the Department of Recreation and Parks and GLAZA was executed in 1981 and authorized GLAZA to maintain and operate all concessions operations at the Zoo. In 1997, the City created the Zoo Department and approved a new 25-year Operating Agreement between the City and GLAZA. Additionally the term of the original 1981 AGREEMENT was extended by ten years through 2016 and was further modified to allow GLAZA to contract for the operations of concessions services after issuing an RFP to select a concessionaire. The RFP was required to conform to all City contracting procedures. The existing AGREEMENT between the Zoo and GLAZA has been extended until August 31, 2018. An additional extension of at least a six months extension is necessary to allow the RFP process to move forward.

GLAZA entered into a Concessions Services agreement with Volume Services America, a joint venture of Center Plate and Service Systems Associates (Concessionaire), in September 1997, to provide all food, catering, and merchandising sales as well as other patron-supported services such as stroller rentals. This 21-year agreement has been amended eight times to continue concessions services by the Concessionaire at the Zoo. A summary of these agreements is included in Attachment I.

The revenue sharing agreements between GLAZA and the City have not been adjusted since the agreement was executed in 1981. In accordance with the terms of the AGREEMENT, GLAZA currently remits to the Zoo ten percent of Gross Commissionable Revenue. The total Gross Commissionable Revenue consists of all revenues received by the Concessionaire from the sale of services to visitors, with the exception of any sales from in-house catering services. GLAZA retains three percent of the total gross receipts for contract administration purposes. Any surplus revenue above this arrangement and the commissionable percentage rates are deposited into the Zoo Surplus Development Fund (ZSDF) for operations and maintenance needs as determined by the Zoo Director. The commission structure contained in the Concessions Services Agreement between GLAZA and the concessionaire was adjusted in 2001 to provide a tiered structure of commission payments based on specific revenue targets. This adjustment did not impact the percentages remitted to the Zoo by GLAZA under the terms of the 1981 AGREEMENT.

Since 2014-15, approximately \$600,000 from the ZSDF has served as a source of funds to the Zoo's Budget. Attachment II reflects the actual commission revenue received by the Zoo and GLAZA since 2011-12. In order for the Zoo to receive more than the current ten percent of Gross Commissionable Revenue, the 1981 AGREEMENT would require complete renegotiation and replacement.

We recommend that the City and GLAZA begin discussions to replace the 1981 AGREEMENT and any subsequent MOUs concurrent with the RFP process. This will allow for the creation of a more transparent agreement which will address all of the distribution of commission revenue, sponsorship monies and any capital improvement contribution. This agreement should be completed in sufficient time for consideration in conjunction with the award of a new concessions contract.

RHL: SMT: MTS: RM: 08190006

Attachments

ATTACHMENT I

ACTUAL ANNUAL COMMISSION REVENUE

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (Prelim)
TOTAL COMMISSIONABLE REVENUE	\$ 10,168,092	\$ 9,168,740	\$ 9,304,753	\$ 10,215,115	\$ 11,247,260	\$ 11,860,328	\$ 12,051,545
ACTUAL COMMISSION EARNED	\$ 1,995,684	\$ 1,780,224	\$ 1,825,006	\$ 2,066,878	\$ 2,338,526	\$ 2,472,199	\$ 2,569,350
DISTRIBUTION OF ACTUAL COMMISSION							
GLAZA							
3% of Total Commissionable Revenue	\$ 305,042	\$ 275,063	\$ 279,226	\$ 306,455	\$ 337,117	\$ 355,810	\$ 361,545
Catering Commission Retained by GLAZA	\$ -	\$ -	\$ 15,647	\$ 33,597	\$ 47,958	\$ 43,132	\$ 65,236
Zoo Enterprise Trust Fund							
10% of Total Commissionable Revenue	\$ 1,016,808	\$ 916,875	\$ 930,477	\$ 1,021,510	\$ 1,123,720	\$ 1,186,033	\$ 1,205,156
Transfer from Zoo Surplus Development Fund	\$ -	\$ -	\$ -	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Zoo Surplus Development Fund							
Balance of Actual Commission Earned	\$ 673,834	\$ 585,274	\$ 599,377	\$ 105,316	\$ 225,707	\$ 287,224	\$ 337,414
Miscellaneous Adjustment	\$ -	\$ 3,012	\$ 278	\$ -	\$ 4,024		
TOTAL DISTRIBUTION	\$ 1,995,684	\$ 1,780,224	\$ 1,825,005	\$ 2,066,878	\$ 2,338,526	\$ 2,472,199	\$ 2,569,350
Annual Commission Enhancement	\$ 38,503	\$ 110,534	\$ -	\$ 197,167	\$ 144,992	\$ 69,404	TBD
TOTAL CONCESSIONS REVENUE	\$ 2,034,187	\$ 1,890,758	\$ 1,825,005	\$ 2,264,045	\$ 2,483,518	\$ 2,541,603	TBD

ATTACHMENT II

Concessions Services Agreement Terms

Agreement	Terms
Original Agreement 1997	<ul style="list-style-type: none"> • Commission Structure established as follows (all based on gross receipts): <ul style="list-style-type: none"> ○ Food & Beverage – 23% ○ Catering Services – 16.5% ○ Vending Machines – 32% ○ Merchandise – 18.5% ○ Trams – 10% ○ Stroller & Wheelchair Rentals – 30% <p>Capital Investment of \$1.577 Million</p>
First Amendment	<ul style="list-style-type: none"> • Additional capital investment of \$2 million • Modified commission payments from concessionaire to GLAZA by creating tiers based on revenue targets
Second Amendment	<ul style="list-style-type: none"> • Additional capital investment of \$1 million • Annual Commission Enhancement • Extend the term to September 30, 2009
Third Amendment	<ul style="list-style-type: none"> • Additional capital investment of \$1 million • Extend term to September 30, 2011
Fourth Amendment	<ul style="list-style-type: none"> • Extend term to February 11, 2016 • Additional capital investment of \$2 million, including the payment of possessory interest tax on behalf of GLAZA • Contribution of \$300,000 over the term of the amendment for marketing, promotional and sponsorship purposes
Fifth Amendment	<ul style="list-style-type: none"> • Additional capital investment of \$500,000, including the payment of possessory interest tax on behalf of GLAZA • Annual pro-rated sponsorship of GLAZA of \$200,000 • Extend term to August 31, 2016 with three 6-month automatic renewals
Sixth Amendment	<ul style="list-style-type: none"> • Concessionaire agrees to reduce its residual investment by 30 percent, resulting in a reduction of 30 percent, should GLAZA become responsible for reimbursement of the residual investment • Concessionaire will invest up to \$80,000 for capital improvements prior to August 31, 2017 (2016-17 Investment). Title to purchases made with the 2016-17 Investment will revert to GLAZA on August 31, 2017.
Seventh Amendment	<ul style="list-style-type: none"> • Concessionaire agrees to invest up to \$80,000 for capital improvements prior to February 28, 2018 (2017-18 investment) Title to purchases made with 2017-18 Investment will revert to GLAZA on February 28, 2018 • Tram fees will be increased from \$4.00 to \$5.00 and commissions will be raised from 5% to 15%.
Eighth Amendment	<ul style="list-style-type: none"> • Concessionaire agrees to invest up to \$80,000 for capital improvements prior to August 31, 2018 (8th Agreement Investment) Title on purchases shall revert to GLAZA on August 31, 2018