

ENERGY AND ENVIRONMENT COMMITTEE REPORT relative to proposed Amendment No. 4 to Agreement No. 47969 with Sodexo America, LLC (Sodexo) to continue food service operations.

Recommendation for Council action:

DISAPPROVE the Board of Water and Power Commissioners' (Board) action of December 17, 2013, Resolution No. 014-124, authorizing the execution of Amendment No. 4 to Agreement No. 47969 with Sodexo to extend the contract term by 15 months, expiring in April 2015, and increase the contract amount by \$561,750 for a total not to exceed \$1,544,069 for food service operations in the John Ferraro Office Building (JFB) including the cafeteria, convenience store, and vending machines.

Fiscal Impact Statement: The City Administrative Officer (CAO) reports that approval of the Amendment No. 4 to Agreement No. 47969 will result in an increased expenditure authority of \$561,750 from the LADWP's Water and Power Revenue Funds. The proposed Agreement complies with the LADWP's adopted Financial Policies. Approval of the proposed Amendment will not impact the City's General Fund.

Community Impact Statement: None submitted.

TIME LIMIT ITEM - FEBRUARY 24, 2014

(LAST DAY FOR COUNCIL ACTION - FEBRUARY 21, 2014)

Summary:

On February 5, 2014, your Committee considered a December 18, 2013 Board and December 10, 2013 CAO reports and Resolution No. 014-124 relative to proposed Amendment No. 4 to Agreement No. 47969 with Sodexo to continue food service operations in the JFB including the cafeteria, convenience store, and vending machines. According to the CAO, currently, the existing Agreement expires in January 2014 with expenditure authority up to \$982,319. Approval of the proposed Amendment No. 4 to the Agreement will: 1) extend the current contract by 15 months resulting in a total term of 4 years and 9 months, expiring in April 2015; and 2) increase the expenditure authority by \$561,750 for a total of \$1,544,069.

The LADWP states that the JFB cafeteria and vending machines support approximately 3,500 employees that work in the building. Expiration of the existing food service agreement will result in the closure of the JFB cafeteria along with the removal of the vending machines in January 2014. Purchase activity in the JFB cafeteria as reported by the LADWP for the year to date ending in October 2013 shows 277,020 transactions with average of \$3.72 per transaction. The LADWP asserts that approval of this proposed amendment will allow adequate time to research and develop a business plan and new request for proposal (RFP) while maintaining convenient food services for the employees located in the JFB. Notwithstanding the convenience to employees of the JFB cafeteria, the LADWP credits the revitalization of Downtown Los Angeles for an increased number of food options within convenient walking distance and available by public transportation. Thus, it could also be reasoned that operation of the JFB cafeteria is only one of several options available for DWP employees to find convenient food options near the JFB.

The original Agreement was approved on August 3, 2010 with a term of 36 months and expenditure

authority not to exceed \$750,000 to provide catering for promotional and employee events; however, the catering purchases were optional and there were no guaranteed financial obligations offered to Sodexo. Subsequently, on May 17, 2011, Sodexo notified the LADWP that under the terms of the contract, it was providing 120-day notice of termination, effective September 16, 2011, citing non-profitable operations resulting in losses to Sodexo totaling \$298,843 during the prior 19-month period. Factors cited as affecting the food service operations at JFB include, but are not limited to: a reduction in LADWP catering by LADWP and external entities that contract with Sodexo; higher costs of food and fuel; suspension of public access to the cafeteria; reduction in LADWP staffing; the general economic downturn; and improved availability of convenient food options accessible by walking or public transportation.

To encourage Sodexo to rescind the notice of termination and continue providing food services in the JFB, the Board approved a series of amendments to benefit Sodexo by eliminating rent and gross purchase commission expenses. Additionally, the LADWP modified the optional catering purchase authority into supplemental-guaranteed payments for catering and emergency food services totaling up to \$42,000 per month (\$504,000 annually) to offset Sodexo's catering revenue shortages. From November 2011 through October 2013, actual purchases for catering and emergency food services total approximately \$26,549 while supplemental-guaranteed payments to Sodexo total approximately \$755,000.

During the Board meeting on June 4, 2013, Commissioners were distressed by the request to extend this agreement from 36 months to 42 months (Amendment No. 3) citing various concerns about Sodexo including the significant supplemental guaranteed purchase commitment from the LADWP and lack of rent or utilities payment to the LADWP. Board members inquired about expediting the bid process and encouraged the LADWP to complete the RFP and award a new contract as soon as possible. The LADWP responded that staffing shortages in procurement have affected the LADWP's ability to issue a RFP in a timely manner. However, approval of Amendment No. 3 was expected to provide sufficient time to issue a new RFP and award a new contract to replace the existing contract. Board members approved Amendment No. 3 with the expressed interest that a new contract would soon be awarded.

Amendment No.3 was approved pursuant to Los Angeles Administrative Code 10.5 and did not require City Council approval, according to the City Attorney. The LADWP did advertise a RFP starting on May 13, 2013 with bids due no later than June 20, 2013. Numerous companies were contacted about the RFP and only two responses were received. Both responses were qualified although the LADWP states the bidders were not major contractors within the industry. Notwithstanding the previously expressed interests of the DWP Board, the Department determined its best interests were to not accept the bids, delay the award of a new food service contract, and revise and again issue a new RFP. Also, the LADWP would request that the Board and Council approve of Amendment No. 4 to continue the existing contract with Sodexo.

After further consideration and having provided an opportunity for public comment, the Committee moved to recommend disapproval of Amendment No. 4 as detailed in the above recommendations. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

ENERGY AND ENVIRONMENT COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
FUENTES:	YES
BLUMENFIELD:	YES
LABONGE:	YES
HUIZAR:	YES
KORETZ:	ABSENT

-NOT OFFICIAL UNTIL COUNCIL ACTS-