

CITY OF LOS ANGELES
LOS ANGELES ZOO
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: December 12, 2014

TO: ARTS, PARKS, HEALTH, AGING, AND RIVER COMMITTEE
ATTN: Adam Lid

FROM: JOHN R. LEWIS, General Manager
Zoo Department



Subject: **ZOO DEPARTMENT REPORT BACK REGARDING CONCESSIONS
(C.F. NO. 14-0600-S223)**

SUMMARY

On September 23, 2014, the City Council instructed the Zoo Department to report back in 30 days in regard to a concessions contract and the Zoo's staffing and funding needs required to release a Request for Proposals (RFP) for concessions (C.F. 14-0600-S223). The Zoo Department has prepared this report which includes the history and background on the Zoo's concessions, a description of the current concessions operations and concessions contract, the resources that would be required for the Zoo to release an RFP for concessions and other considerations.

Background

The Los Angeles Zoo opened in Griffith Park on November 28, 1966 under the operations and management of the Department of Recreation and Parks (RAP). An agreement executed between RAP and the Greater Los Angeles Zoo Association (GLAZA) documents that concessions were operated and managed directly by GLAZA and its staff dating back to at least February 1981. This original Concessions Agreement, which remains in effect today, had a term of 25 years with an expiration date of February 11, 2006. In 1997, the Zoo Department (Zoo) was established by ordinance as an independent Council-controlled City Department, at which time the City Council approved a new 25-year Operating Agreement between the City and GLAZA to establish and govern the relationship between the two parties for the primary purpose of providing a high quality Zoo for the residents of the City (C.F. 94-0989-S1). The Operating Agreement, which will expire on September 29, 2022, amended the original 1981 Concessions Agreement and provided for the following:

1. Allowed the Zoo concessions operated by GLAZA to be subcontracted by GLAZA pursuant to an RFP process meeting all City requirements;
2. Amended and extended the term of the original 1981 Concessions Agreement by an additional ten years, with a current expiration date of February 11, 2016; and

3. Included termination language that states that "...City may, at its option and for any reason, terminate the Concessions Agreement upon the giving of 180 days prior written notice to GLAZA."

As a result of an RFP process, on October 1, 1997, GLAZA entered into a Concessions Services Agreement with Volume Services America, a joint venture of Service Systems Associates and Centerplate (Concessionaire) for the operation of concessions at the Zoo. In addition, the Zoo and GLAZA have entered into an annual Memorandum of Understanding (MOU) which further defines the operations of Zoo concessions, and although the most recent MOU expired June 30, 2012, the Zoo and GLAZA have agreed to continue to operate informally under the terms of the prior MOU until a successor MOU is executed in accordance with the recently approved Business and Marketing Plan (C.F. 14-0600-S223).

Zoo Concessions

Zoo concessions currently operated and managed by the Concessionaire are as follows:

- food and beverage
- catering services
- retail merchandise
- trams
- stroller and wheelchair rentals
- vending machines (food and beverage)
- photography concessions
- face caricature artists

Specific food, beverage and retail facilities at the Zoo include the following:

- Reggie's Bistro
- Zoo Grill
- Sweet Treats at Zoo Grill
- La Casita
- Churro Factory
- Gorilla Grill
- Café Pico
- Mahale Café
- Sweet Treats at Mahale Café
- International Mall (Retail)
- Safari Station (Retail)

In addition, the Concessionaire provides various third-party run pop-up food stands including Kettle Korn, Lindees' Old World Almonds and Paradise Island Shaved Ice.

Zoo concessions directly managed by GLAZA include the following:

- penny smashers
- spyglasses
- photo booths
- site rentals
- The Tom Mankiewicz Conservation Carousel

Terms and Conditions of Concessions Agreement

As stipulated in the 1997 Agreement between GLAZA and the Concessionaire, GLAZA yields a total annual commission based on various percentages of each concession component (food and refreshments, retail, special vending, etc.). Of this total annual commission amount, the 1981 Concessions Agreement requires that GLAZA remit ten percent of Gross Commissionable Revenue (Concessionaire's total gross revenue, less catering services requested by the Zoo and GLAZA) to the Zoo. Under the terms of the Concessions MOU, GLAZA retains three percent of Gross Commissionable Revenue as a contract administration fee. The remainder of the total annual commission is deposited into the Zoo Surplus Development Fund (ZSDF) within GLAZA and is restricted to use by the Zoo Director for operations and maintenance needs not funded in the City budget. Beginning with the 2014-15 Fiscal Year, the surplus funds are now budgeted as revenue and a source of funds to the Zoo's Adopted Budget in an effort to reduce the Zoo's reliance on the General Fund.

The following provides a summary of the terms of the Concessions Agreement and various amendments executed between GLAZA and the Concessionaire:

- Original contract effective October 1, 1997 with a ten year term to September 30, 2007, a capital investment of \$1.577 million and a refurbishment fund of \$200,000;
- Amendment No. 1 provided for an additional capital investment of \$2.0 million and a modified commission structure (effective July 1, 2001).
- Amendment No. 2 provided for an additional capital investment of \$1.0 million, provided an Annual Commission Enhancement based on attendance above 1.5 million visitors and extended the term to September 30, 2009 (effective October 1, 2007);
- Amendment No. 3 provided for an additional capital investment of \$1.0 million and extended the term to September 30, 2011 (effective October 1, 2009); and
- Amendment No. 4, executed December 2014, provides for the following:
 - a retroactive extension of the term from October 1, 2011 through February 11, 2016;
 - an additional capital investment of \$2.0 million which includes the payment of possessory interest tax on behalf of GLAZA; and
 - a contribution of \$300,000 over the term of this amendment for marketing, promotional and sponsorship purposes.

Concessions Revenue

The table below depicts the actual annual commissions received by GLAZA and the distribution of commissions for the past three years:

ZOO CONCESSIONS REVENUE			
	FY 2011-12	FY 2012-13	FY 2013-14*
Gross Commissionable Revenue	\$10,323,842	\$9,305,024	\$9,444,047
Total Annual Commissions	\$ 2,061,506	\$1,843,231	\$1,868,911
Annual Commission Enhancement	\$ 38,503	\$ 110,564	\$ 36,677
Distribution of Annual Commissions			
GLAZA – 3% of Commissionable Revenue	\$ 309,716	\$ 279,151	\$ 283,321
Zoo Enterprise Trust Fund (ZETF)**	\$ 1,032,384	\$ 930,502	\$ 944,405
Zoo Surplus Development Fund (ZSDF)	\$ 719,406	\$ 633,578	\$ 641,185
TOTAL	\$ 2,061,506	\$1,843,231	\$1,868,911
ZSDF – Annual Commission Enhancement***	\$ 38,503	\$ 110,564	\$ 36,677
<p><i>*In 2013-14, revenue and commissions do not include site rentals and catering because they are retained by GLAZA in accordance with the Marketing, Public Relations, Site Rentals, and Catering MOU.</i></p> <p><i>** Reflects GLAZA's record of revenue distribution. Actual deposits into the ZETF occur one month in arrears and are recorded by the Department based on date of deposit, so annual revenue amounts are not consistent with GLAZA annual transfers to the Zoo.</i></p> <p><i>***The Annual Commission Enhancement is deposited into the ZSDF to support Zoo operations and maintenance programs.</i></p>			

Zoo Staffing and Resources Required

The Zoo contacted RAP and Los Angeles World Airports (LAWA) concessions management staff to get an in-depth understanding of their experience and the resources required for their respective concessions operations. The results of these discussions revealed that dedicated staffing is required to effectively manage a concessions contract on a day-to-day basis. In addition, the utilization of a consultant is of tremendous benefit to assist in the Request for Qualifications (RFQ) and/or an RFP process to select a new concessions operator.

One-time Costs and Resources

The additional staffing that the Zoo would require in the initial phase of the RFP development and selection process is a Project Assistant (Class Code 1542). This exempt full-time position would be filled for a limited duration, not to exceed one year, to assist the Zoo Administrative Services Division by conducting research, collecting and analyzing data, preparing internal reports and other administrative work related to this project. The salary cost associated with this position is approximately \$46,000 and could be absorbed within the Zoo's budget through salary savings.

Concessions Consultant

A concessions consultant would provide knowledge and expertise in concessions management and ensure that the Zoo would receive the best and most competitive proposals. The Zoo would be seeking to hire an experienced and qualified consultant with expertise in zoos, aquariums or similar-type venues to:

- Assess the current condition of the industry, specifically as it relates to concession operations;
- Provide a report on the industry's best business practices regarding concessions;
- Survey Zoo visitors, GLAZA members and other Zoo stakeholders for input into a new RFP;
- Recommend terms and conditions for a new Concession Agreement;
- Identify potential proposers the Zoo should include in its solicitation for proposals;
- Assist the Zoo with the preparation of an RFP for concessions operations;
- Assist the Zoo with administering the RFP process;
- Assist the Zoo with the evaluation and selection process, including a financial and business analysis of the proposals; and
- Other work as may be necessary.

The additional cost of retaining a consultant to assist the Zoo in the RFP process is estimated to cost \$200,000-\$250,000 and funds are available in the Zoo Enterprise Trust Fund (ZETF) to cover this cost. However, it is important to note that the Zoo receives no direct funding from the General Fund and must rely on the ZETF for ongoing budgetary contributions and to serve as a contingency fund. Utilizing these funds would therefore reduce funding that the Zoo would otherwise have available to offset any potential revenue/budgetary shortfalls.

Ongoing Costs and Resources

The Zoo would also require two additional full-time positions: (1) Senior Management Analyst I and (1) Accounting Clerk II to oversee and manage the resulting Concessions Agreement based on the additional expected workload. These positions would not only be responsible for the management and oversight of the resulting concessions contract, but would allow for the redistribution of work currently being managed by an already minimally staffed Administrative Services Division that has one professional administrative staff and two professional accounting staff. The additional duties would include monitoring the day-to-day concession operations, serve as the direct liaison to the Concessionaire, ensure contract compliance, facilitate coordination of activities and operations with various Zoo divisions as necessary, perform financial audits and reconciliation of revenue transmittals, prepare reports as necessary and similar work related to all of the Zoo's personal services contracts. The direct cost for these two positions is approximately \$150,000 and the related cost is \$66,200 which would be covered by the concessions revenue.

RFP Timeline

The RFP process required to find a new Zoo Concessionaire, including the selection of an expert consultant to assist in this process, is estimated to take approximately 18 months. Since the expiration date of the Concessions Agreement is February 11, 2016, it is not possible that the City process would be concluded prior to this date. As a result, if the Zoo were to proceed, the City would need to amend the Operating Agreement to extend the Concessions Agreement term to a date that would provide sufficient time for the Zoo to administer the entire process, including contract execution.

Conclusion

The Zoo Concessions Program has been provided by the same third-party contractor to GLAZA for over 17 years. During this time, the Concessionaire has been a committed Zoo partner delivering a quality concessions program. However, it is clear that a new competitive process must be administered as soon as possible with the goals of providing the public with the best and highest-quality concession services, along with ensuring that the Zoo receives adequate and appropriate compensation from private businesses allowed to operate on City property. The policy decision that must be made is whether the Zoo Concessions Program should be managed by GLAZA or the Zoo Department.

Fiscal Impact Statement

The cost associated with the Zoo Department administering the RFP process for a zoo concessionaire is approximately \$250,000-\$300,000 in one-time costs and \$216,000 in ongoing costs for staffing. The one-time costs could be absorbed by the Zoo Enterprise Fund with the ongoing costs funded by concessions revenue. As a result, there would be no impact to the General Fund.