

REPORT OF GENERAL MANAGER

NO. 05-33

DATE February 2, 2005

CD 6

BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: ENCINO-BALBOA GOLF COURSE (SEPULVEDA GOLF COMPLEX) -
AWARD OF THE OPERATION OF THE FOOD SERVICE CONCESSION

H. Fujita _____

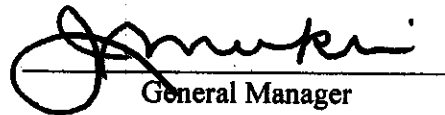
F. Mok _____

J. Kolb _____

J. Combs _____

*G. Stigile _____

K. Chan _____


General Manager

Approved _____

Disapproved _____

Withdrawn _____

RECOMMENDATION:

That the Board:

1. Award the Food Service Concession at the Encino-Balboa Golf Course (Sepulveda Golf Complex) to Monterey Concessions Group, Inc.;
2. Waive the late submission by Monterey of the nondiscrimination declaration and ethnic composition of workforce form as an informality pursuant to Charter Section 371;
3. Approve the proposed 5-year concession agreement, substantially in the forms on file in the Board Office, for the operation of the Encino-Balboa Golf Course (Sepulveda Golf Complex) Food Service Concession, subject to approval of the Mayor, City Council, United States Army, Corps of Engineers, and approval of the City Attorney as to form;
4. Direct the Board Secretary to transmit the proposed agreement to the Mayor in accordance with Executive Directive No. 16, and concurrently to the United States Army, Corps of Engineers, and to the City Attorney for review as to form; and,
5. Authorize the Board President and Secretary to execute the agreement upon receipt of necessary approvals.

SUMMARY:

On April 7, 2004, the Board approved the release of a Request for Proposals (RFP) for a new five-year agreement to operate the Sepulveda Golf Complex Food Service Concession. (Board Report No. 04-86). The current fifteen year concession contract expired on July 27, 2003, and has continued on

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a month-to-month basis, pending completion of the RFP process and execution of a new Agreement. In response to the RFP, proposals were received on July 13, 2004 from the following three firms:

- Encino Glen, Inc. ("Encino") – The current Encino-Balboa Food Service Concessionaire
- ZGolf Food and Beverage Services, LLC. ("ZGolf") – Experienced golf food service operators
- Monterey Concessions Group ("Monterey") – Current Griffith Park Golf Food Service Concessionaire

A preliminary review of the proposals conducted by Staff indicated that the three proposers demonstrated varying expertise in several aspects of golf food service. Although each demonstrated strengths in various areas, the challenge was to select an operator with the best combination of expertise and financial ability to successfully operate this concession and to implement proposed capital improvements. The criteria for selecting the best proposer, as stated in the RFP were:

- Qualifications and Experience
- Proven Performance and Quality of Current Comparable Operations
- Vision for Concession, Including Business Plan and Marketing
- Menu Pricing and other Customer Service Elements
- Documented Financial Ability to Perform as Proposed
- Capital Improvements: Appropriateness, reflection of entrepreneurship, monetary value
- Rental Terms Offered

To determine the best overall proposal for recommendation of award, and in accordance with the evaluation process described in the RFP, staff's overall assessment focused on evaluating the proposals according to key criteria considered the most important for a successful operation at this particular facility. Staff applied knowledge of the physical location, clientele, operating history of the venue and the concessionaires, along with calculations of rent projections. Where possible, staff visited comparable food service establishments currently operated by proposers and interviewed trade and financial references where appropriate to evaluate the ability to successfully operate a golf course food service concession. At the conclusion of the evaluation process, Staff recommends Monterey as the best proposer for this concession as they ranked first in six of the seven rating criteria. A narrative review of the categories and corresponding ranking of the proposals follow.

Qualifications and Experience

All three proposers possess extensive experience in the food service industry, and two are current Department golf food service concessionaires. Although Encino has been the current food concessionaire at the Encino-Balboa Golf Complex for over twenty years, the partners of both Monterey and ZGolf possess in excess of thirty-five years of experience, for each proposer, in the restaurant, hospitality and banquet business. ZGolf, a family owned business, currently operates the food service at two golf courses and Monterey is the current operator of the Department's food concession at the Wilson-Harding Clubhouse. Monterey was ranked a close first in qualifications and experience as the partners together have a total of over fifty years of comparable food service experience.

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Proven Performance/Quality of Current Comparable Operations

Ranking under this category was much closer as all three proposers have demonstrated successful performance in the operation of comparable operations. As the current and successful operator of this concession for over twenty years, staff ranked Encino first in this category. ZGolf and Monterey were closely matched under proven performance of current and comparable operations. Monterey was ranked second based on wealth of experience and having demonstrated their ability to perform in their three-year tenure at Wilson Harding Clubhouse. They have exceeded expectations in improvements, in the variety and quality of food selection, and they have increased revenues by twenty-five percent since taking over two years ago.

Vision for Concession Including Business Plan and Marketing

In evaluating proposals in this category, staff considered the proposer's vision and operational plans for the restaurant and snack shops, since these are the primary points of service for the golfer. Although revenues from banquets have historically been critical to the financial success of this concession, all three proposers demonstrated similar levels of resources and successful history in the development and operation of banquet business.

Monterey was ranked first as their vision and operational plans demonstrated the strongest sensitivity to the needs of the golfer. They envision one's visit to the golf course as a "total experience" that may include food, drink, and socializing. Their proposal focused on improving the selection and availability of to-go merchandise in the dining room; designing a menu tied to the specific customer base of the golf course; installing aesthetic improvements that complement the building's architecture; and the timely completion of the proposed capital improvements, including renovations of the snack stands, with a minimal disruption of service.

ZGolf and Encino ranked second and third, respectively. ZGolf proposed converting the restaurant from the current "coffee shop" to a "grill." ZGolf also focused on quick service elements for the golfer and offered comparable improvements but with a much greater time frame for implementation than Monterey. Encino's vision for the new concession focused more on increasing catering and banquet opportunities and the proposed assignment of the operation of the snack stand at the driving range to the golf professional which would create a discontinuity in food services at the location.

Menu, Prices and Other Customer Service Elements

Monterey was rated the highest in this category as they offered the most innovative approach to menu design and customer service compared with the menus from the other proposals. They proposed a menu design that is attractive and dynamic and features high quality products at prices comparable to their operation at the Griffith Clubhouse. A sampling of menu pricing for similar restaurant items among the three proposers revealed that Monterey's selections and pricing were the best value for the golfer.

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Documented Financial Ability to Perform as Proposed

Monterey was ranked first in the category as they provided the most detailed account of the financial status of the partnership. The principals have combined net assets exceeding \$3.5 million with annual income exceeding \$650,000. Monterey stated that capital improvements will be funded through existing savings, precluding the need for borrowing. The partnership also holds reserve lines of credit.

The president of ZGolf submitted a personal balance sheet indicating a net worth of about \$3 million, with his main business concern worth \$1 million. ZGolf was ranked second in this category. Encino-Glen stated that they have sufficient savings or a bank line of credit to perform the capital improvements and ranked third. No supporting documentation was submitted by the proposer.

Capital Improvements Proposed (Appropriateness, Entrepreneurship, Monetary Value)

Capital improvements were a required proposal item which covered the remodeling, refurbishment, replacement and/or upgrades of various elements of the dining room, bar, banquet and snack stands, as spelled out in the Request For Proposal. The minimum requirement for this item was \$75,000 for the term of the permit, which includes a \$20,000 reimbursement to the City for the replacement of the HVAC system in the restaurant and bar area.

ZGolf proposed an upgrade of the dining room and bar to a sports bar and grill look, an upgrade of the furniture and lighting, and adding televisions behind the bar and in the dining room. In the banquet room, ZGolf proposed new flooring and chairs, new paint and light fixtures, new signage and an upgrade of the deck area. Halfway houses would get new paint, ceiling treatments, new signage, menu boards, and a new sandwich prep bar. ZGolf's proposed capital improvement budget options were tied to the amount of rent paid. One option would invest \$125,000 in capital improvements with a corresponding rental rate between 5% and 7%. The second option included a higher capital improvement expenditure of approximately \$170,000 with lower rental rates of 3% for year one increasing to 7% by year four, with a \$100,000 minimum. ZGolf stated that most of the improvements would be completed within the first nine months of the agreement, and all would be performed by the end of year two. They proposed an additional \$50,000 in capital improvements upon the execution of the five year option extension of the agreement.

Monterey offered to complete \$140,000 in similar capital improvements during the first ninety days of the agreement. Improvements include: upgraded flooring and upholstery in the dining room and bar areas; refurbished dining room counter tops and tables; new clubhouse painting, new chairs; refurbish snack stand interiors, add new signage, install food to-go systems and displays, and other miscellaneous improvements. Monterey offered an additional \$60,000 in improvements at the renewal of a second five-year agreement period.

Encino proposed minimal improvements totaling \$120,850 which include improvements for new bar lighting and carpeting, new paint in the bar, banquet room and coffee shop, resurface coffee shop counters, new televisions for the bar and coffee shop, new paint and refurbishing of the snack stands,

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and \$25,000 for a catering van for off-site catering.

All three proposers met the minimum required capital improvement investment. Monterey and ZGolf's improvements were similar and appropriate for the facility. Monterey's improvements totaled \$200,000.00 over the life of the agreement with a rental return of 8%, whereas, ZGolf's improvement options were as high as \$220,000, but with a much lower rental scale from 3% to 7%. Monterey ranked first overall as they proposed the most appropriate improvements, completed in a much shorter period which minimizes any impact to the golfer and provides the best return to the City.

Rental Terms Offered

Monterey offered the highest rental terms of the three proposers: 8.0% in food and beverage sales (coffee shop and snack stands), 10.5% from bar sales, and 10.0% for banquet and vending sales. Monterey has projected an annual growth rate of 7.5% and a return to the City of \$680,760 over the first five years.

ZGolf proposed two different rental options which were tied to the amount of capital investments. Both options offered the same rent percentage applied to all sales categories, with one option providing rental rates between 3% and 8% over five years, with the rate rising 1% per year. The alternate option provided a rental percentage between 5% and 9.5% over the initial five years of the permit but was tied to the lower capital improvement investment. ZGolf projected a growth rate of 4.8% on bar and grill sales and 15.9% on banquets and a five year return to the City of \$532,027 and \$439,462 corresponding to the proposed capital investment options.

Encino proposed graduated rent rates between 3% and 7% at various milestones from \$1.2 million to \$1.5 million, when the rate would increase to 7%. Encino projected sales in excess of \$2 million by year three of the agreement which corresponds to a growth rate of 41%. Their projected five year return to the City is \$629,000.

To further compare the proposals in this category, staff compared rental terms offered by determining the total amount of rent that would be paid over the five year term of the agreement, based the revenue history from the operation over the last five years. The results are as follows:

Monterey	\$664,597
Encino-Glen	\$526,262
ZGolf	\$458,679 (with larger capital investment option #1)
	\$561,926 (with smaller capital investment option #2)

Based on the proposed returns to the City and projections based on revenue history, staff concludes that Monterey's proposed rental terms and projections were the best overall, are attainable, and are consistent with the City's other golf food service concessions.

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Proposers were required to submit as part of their proposal package an Affirmative Action Plan, to which all proposers complied. Included among the forms requested, in addition to the Plan, was a nondiscrimination declaration and a table in which proposers were to fill in the ethnic composition of their workforce, for informational purposes. Monterey, along with some other proposers, did not submit these forms with their proposal because they were not included on the website where all RFP forms were posted, but have since submitted them to the Department's concessions office. Staff has consulted the City Attorney who has advised that this late submission is a waivable informality pursuant to Charter Section 371. First, it does not allow the proposer to change any competitive terms of the proposal. Second, it does not allow the proposer to use the additional time to comply with the requirements; that is, the ethnic composition of the work force at the time the proposal was submitted is not enhanced by the late submission of this form. The purpose of these documents are to gather statistical information and to acknowledge the nondiscrimination requirement contained in City law, and does not have any bearing on choosing the best proposer for this concession. Therefore, staff is recommending that the Board waive as an informality Monterey's late submission of the nondiscrimination declaration and ethnic composition of workforce form.

Conclusion

Staff considered that the best operator for this operation should be the one ranking highest in the most categories. Accordingly, Monterey received the highest ranking in six of seven selection criteria and staff concluded that Monterey is the best candidate to operate this concession and recommends them for award.

The Sepulveda Golf Complex is located in the Sepulveda Flood Control Basin and therefore the proposed Concession Agreement is subject to all terms and conditions of Recreational Lease No. DACW09-1-67-11 between the City and the United States Army, Corps of Engineers.

Report prepared by Michael Honan, Administrative Resources Division.