

REPORT OF GENERAL MANAGER

NO. 05-201

DATE July 13, 2005

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BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: SHERMAN OAKS CASTLE PARK - REQUESTS FOR PROPOSALS FOR THE BATTING CAGE, ARCADE, AND FOOD SERVICE CONCESSIONS

H. Fujita _____
J. Kolb _____
R. Jensen _____
S. Huntley _____

F. Mok _____
K. Regan _____
J. Combs _____


General Manager

Approved _____

Disapproved _____

Withdrawn _____

RECOMMENDATION:

That the Board:

1. Approve the Sherman Oaks Castle Park (SOCP) Batting Cage Concession Request for Proposals (RFP) for a ten-year concession agreement, with one five-year renewal option exercisable at the City's sole discretion, substantially in the form on file in the Board Office, subject to review and approval of the City Attorney as to form; and,
2. Approve the SOCP Arcade Concession RFP for a ten-year concession agreement, with one five-year renewal option exercisable at the City's sole discretion, substantially in the form on file in the Board Office, subject to review and approval of the City Attorney as to form; and,
3. Approve the SOCP Food Service Concession RFP for a ten-year concession agreement, with one five-year renewal option exercisable at the City's sole discretion, substantially in the form on file in the Board Office, subject to review and approval of the City Attorney as to form; and,
4. Direct the Board Secretary to transmit the RFPs to the City Attorney for review and approval as to form; and,
5. Direct staff, subsequent to City Attorney review and approval as to form, to advertise the RFPs and conduct the RFP evaluation process for the subject concessions.

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SUMMARY:

The Sherman Oaks Castle Park (SOCP) is located in the Sepulveda Basin, on Sepulveda Boulevard near the 101 freeway, on land leased to the Department by the United States Army Corps of Engineers. Developed in 1974 by Golfland Limited II under a fifteen year lease with the City, SOCP is a family entertainment center featuring three miniature golf courses operated by the City, and an arcade, food service, and batting cage operated as individual concessions. In 1982, Golfland was offered to the public market as Castle Entertainment, Inc., but ultimately filed for bankruptcy in 1984. The lease was then assumed by Malibu Grand Prix Corporation (Malibu); and in 1989, the lease expired and Malibu continued on a month-to-month basis. On March 8, 1993, the Board instructed staff to terminate the original agreement and give Malibu a 30-day notice of termination (Board Report No. 90-93). Staff subsequently developed a plan to self-operate the miniature golf portion and provide the overall management of the facility, while subcontracting the arcade, food service, and batting cage concessions to independent entities under individual 90-day revocable concession permits. This was contemplated as an interim arrangement while a new RFP, to obtain a single operator for the entire SOCP, could be developed and released (Board Report No. 140-93). Three interim concession permits were issued in April of 1993.

On May 22, 1998, an RFP was released and yielded proposals from Burrito King, Inc., the current food service operator, who proposed to subcontract the arcade and batting cage concessions, and from the Department's Valley Region staff. All proposals were rejected by the Board (Board Report No. 330-99). Release of a new RFP was delayed by subsequent litigation challenging the rejection of the proposals, which litigation was ultimately concluded in late 2002 without any action effecting future RFPs at this location.

While awaiting the final disposition of the lawsuit, staff utilized the services of as-needed economic contractor Business Valuation Services (BVS) to study the SOCP and evaluate alternative methods of operation. BVS analyzed the SOCP's expenses and revenues, interviewed the management of each attraction (including Department staff), and provided an overall assessment of the SOCP in relation to the relevant market in the San Fernando Valley. In their August 1, 2002, report to the Department, BVS provided the results of their study and reviewed five possible operating scenarios for the SOCP, noting the disadvantages of four and recommending one as the best. The scenario of outsourcing the miniature golf operation as an additional concession would result in lost profits, which have consistently risen under the current City management and which help pay for overhead costs. The scenario of having the SOCP operated by an outside master concessionaire was found to be disadvantageous based on the history of the Department's demonstrated ability to grow the operation and by the history of few responses to past RFPs. The scenario of self-operating all the attractions is inconsistent with the Department's strategy of providing opportunities for private entities to participate in providing services to the public. Finally, the scenario of adding additional attractions, as proposed in previous years, would increase risk and make it difficult to estimate any financial rewards.

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According to BVS, to reach the highest financial return to the City and best levels of customer service to the public, the best configuration is the current operation in which the Department provides the overall management of the facility and operates the miniature golf while the food, arcade, and batting cage components are operated as individual concessions. BVS found that the SOCP's attractions are achieving above average profitability; therefore, the City is able to maximize financial return while shifting such risks as capital investment, liability, and new product and service implementation to private operators and away from the taxpayers. Moreover, based on staff's experience, optimal service to the public is achieved by finding experts, through the City's RFP process, in fields relevant to each concession. For example, experts in the arcade industry are in the best position to find, install, and market the arcade's technology-rich, trend-sensitive games, which are subject to quick turnover. Staff concurs with BVS's findings and recommends proceeding with the RFP process as described herein.

Descriptions of Concessions and 2004 Revenue:

Batting Cage:

The first concession a visitor sees when entering the SOCP is the 7,400 square-foot, nine-stall batting cage concession where machines dispense balls from softball speed to 80-mph fastballs; and bats, helmets, and other related items are made available by the operator. Customers pay a per-pitched ball rate similar to a golf driving range.

Arcade:

The arcade concession features all the latest state-of-the-art arcade games providing entertainment for all ages. The games are continually rotated and updated to meet the demands of the SOCP arcade patrons. The operator provides all tokens and token machines, an ATM, redemption tickets, and redemption prizes. Currently, Department staff operates the redemption counter; however, under the new agreement, the operator will be required to staff the redemption counter, thus reducing labor costs to the taxpayers.

Food:

The snack bar style food concession offers traditional fast food such as hamburgers, french fries, pizza, pretzels, churros, etc., and provides both indoor and outdoor eating areas. The operator also provides food for parties hosted at the SOCP. Currently, the City provides dry goods used in parties, such as paper goods, utensils, cake cutters, and delivers food and beverages to parties; however, under the new agreement, the operator will be required to provide these items, as well as deliver food and beverages to the parties, thus reducing overhead labor costs to the taxpayers.

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SOCP Revenues and General Fund Income in 2004

	Gross Revenue	% Rent	Adjusted General Fund Income
Concessions:			
Arcade	\$1,397,595	50%	\$634,343
Batting Cages	\$566,398	37.5%	\$183,861
Food	\$480,889	8%	\$15,911
Sub-Total:	\$2,444,882	----	\$834,115
Miniature Golf:	\$1,263,766	----	\$631,883
SOCP Total:	\$3,708,648	----	\$1,465,998

Staff believes the timing is favorable to yield competitive proposals for operation of these concessions. Additionally, long-term concession agreements will allow needed upgrades to the facility in the form of capital improvements. Staff, therefore, recommends the release of RFPs for these concessions.

Significant Proposal and Contractual Provisions Common to All Three Agreements

1. Standard Conditions: All provisions of the Department's Standard Conditions and Regulations for the Operation of Concessions ("Standard Conditions," revised November 10, 2003) shall apply to the agreements.
2. Term: Each agreement will be for a term of ten (10) years, renewable for up to an additional five (5) years exercisable at the City's sole discretion.
3. Contract and Financial Terms: As typical with our concessions, the Department will enter into "Percentage of Gross Revenue" agreements, whereby the Department has no financial responsibility or liability for the day-to-day concession operations but will share in the gross revenues by receiving a percentage of the revenues the concessionaires will pay to the City as rent. No minimum rental percentage is being required for the food service and arcade concessions, but the minimum percentage rent on the bathing cage will be 38% of gross revenue.
4. Proposal Deposit: All proposals must include a Ten Thousand Dollar (\$10,000) Proposal Deposit in the form of a Cashier's Check, payable to the City of Los Angeles.
5. Hours of Operation: The concessions will open daily during the following hours (subject to change seasonally): Monday through Thursday, 10 a.m. to 11 p.m.; Friday, 10 a.m. to midnight; Saturday, 9 a.m. to midnight; Sunday, 9 a.m. to 11 p.m.
6. Utility Fees: The selected Concessionaires will pay utilities directly to the utility companies. It is expected that individual utility meters for each of the concessions will be installed prior

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to execution of the agreements, in which case each meter(s) will be the responsibility of the respective Concessionaire.

Significant Proposal and Contractual Provisions Distinct to Each Concession

1. **Batting Cages:** Required capital improvements include installation of shading to cover the spectator area and refurbishment of the ticket/sales booth; construction of a new on-site office (or installation of a pre-fabricated office) will be optional. The operator will be required to invest a minimum of Ten Thousand Dollars (\$10,000) in capital improvements in each five-year period during the life of the agreement. The operator will be required to maintain a performance deposit of Fifty-Two Thousand Dollars (\$52,000) for the duration of the agreement. Minimum rent on the batting cage will be 38%.
2. **Arcade:** Required capital improvements include painting the interior walls and interior common areas, purchasing and installing new carpet and ceiling tiles, and remodeling the redemption counter area. The operator will be required to invest a minimum of Sixty Thousand Dollars (\$60,000) in capital improvements. The operator will be required to maintain a performance deposit of One Hundred Sixty Thousand Dollars (\$160,000) for the duration of the agreement.
3. **Food:** Required capital improvements include renovation of the indoor dining area including new flooring and furniture, replacement of the kitchen floor, and installation of new signage including new menu boards and an indoor "Castle Café" neon sign. The operator will be required to invest a minimum of Sixty Thousand Dollars (\$60,000) in capital improvements. The operator will be required to maintain a performance deposit of Thirteen Thousand Dollars (\$13,000) for the duration of the agreement.

The RFP documents consist of two books: Book 1 is the RFP which contains general information about the SOCP, proposal requirements, instructions, and exhibits; Book 2 contains the Standard Conditions and required compliance documents. The books will be available on the Department's website and will also be distributed at a pre-proposal conference. The anticipated time of completion for the RFP processes and award of the agreements is approximately six months.

Evaluation Process

For each concession, Department staff will review all proposals to determine completeness and submission of all compliance documents. Responsive proposals will be evaluated by staff; evaluation panels may be selected for their expertise in the arcade, food service, or batting cage industries; concessions management; and/or other related experience. Consistent with the Department's established RFP evaluation process, proposals will be ranked in each of the following criteria. The Department reserves the right to request additional information to clarify proposals.

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RFP Evaluation Criteria:

- Qualifications and experience of proposer applicable to the respective concession business
- Proven performance and quality of current comparable operations
- Vision for concession, including business plan and marketing
- Capital improvements; in terms of appropriateness, reflection of entrepreneurship, monetary value
- Reasonable, viable financial return to the City in the form of proposed rental terms and capital investment
- Financial viability to operate all aspects of the concession as proposed, as supported by the proposer's pro forma, financial statements, and other financial information

All proposals will be evaluated solely on the basis of the criteria listed above and the ranking of any outside expert review panel will serve solely to assist the Department in evaluating the merits and viability of each proposer. The General Manager will independently formulate a recommendation, setting forth the reasons therefor in a Board Report.

The Department's Environmental Management staff has determined that the subject project will consist of the award of concession agreements for the continued operation and minor alterations of existing public structures and facilities involving negligible or no expansion of use. Therefore, the project is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Article III, Section 1, Class 1 (1, 14) of the City CEQA Guidelines.

FINANCIAL IMPACT STATEMENT:

These concessions have operated since 1993 under the terms and conditions of their current 90-day revocable concession permits. While some of the terms and conditions of the new agreements will vary from the current permits resulting in some reduction of operating costs to the City, it is not expected that rental terms under the new agreements will vary significantly from the current terms. Therefore, based on data from the preceding five years, staff is confident that these concessions will contribute over \$800,000 to the Department's General Fund each year.

Report prepared by Anthony Sanchez and Andre Starr, Administrative Resources Division.