

REPORT OF GENERAL MANAGER

NO. 05-64

DATE March 2, 2005

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BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: SHERMAN OAKS CASTLE - INCREASE OF PORTION OF CONCESSIONAIRE RENT RETAINED TO OFFSET SHARED EXPENSES

J. Combs _____
F. Mok _____
K. Regan [Signature]
R. Jensen _____

J. Kolb _____
K. Chan _____
H. Fujita _____

[Signature]
General Manager

Approved _____

Disapproved _____

Withdrawn _____

RECOMMENDATION:

That the Board approve an increase in the portion of monthly concession remittances deposited to the Sherman Oaks Castle Municipal Recreation Account (Department 88, Fund 301, Account MG1) to offset operating costs, effective with the February rental payments due by March 15, 2005.

SUMMARY:

The Department of Recreation and Parks began self-operation of the Sherman Oaks Castle in 1993. At that time, with the exit of former Castle concessionaire, Malibu, Inc., the Department embarked on an experiment in entrepreneurship that was structured with the Department as general manager of the facility and operator of miniature golf, while separate, private concessionaires were placed on agreements to provide specialized services in arcade games, a batting cage, and food service. Since assuming operations, the Department has adhered to the principal that operation of the Castle must be an integrated entertainment experience, seamless from the public perspective relative to whether one or multiple entities are operating various elements of the facility. To that end, the Department uses our own staff to handle the birthday party business, we provide staff to do redemptions for the arcade prizes, and we advance the costs for facility maintenance, security, advertising, equipment, supplies, repairs, and improvements at the Castle. The concessionaires' share of these costs have been recouped through retention of a portion of the rent they pay.

The cost of operating the Castle is funded from the revenue of the Castle's miniature golf component, of which 50% is deposited to the Municipal Recreation Account (MRP) Account MG1, and 50% to the Department's General Fund. In 2004, over \$580,000.00 in miniature golf revenue which was deposited to the General Fund.

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PAGE 2 NO 05-64

At the meeting of November 28, 2001, the Board approved a small surcharge on existing concessionaire rental payments to offset a portion of the shared, overall operations costs of the Castle (Report 01-420). In discussions with the Office of the City Controller in 1995, the Department had identified a flat monthly fee to deduct from the monthly remittances of concessionaire to offset a proportional share of the operating expenses. Specifically, the Accounting Section had totaled a monthly average operating cost of \$12,000, and recommended the following spread based on proportions of total revenue earned at the facility.

CURRENT SPREAD BASED ON \$12,000 PER MONTH SHARED COSTS

Golf	\$4,200 or 35%
Arcade	\$4,200 or 35%
Batting Cage	\$1,800 or 15%
Food	\$1,800 or 15%

Cost of supplies and equipment have escalated over the last decade with inflation, and costs of labor have increased, in some cases exceeding inflationary pressures. For example, the average cost of contract security was \$7,000 in the 1995 calculation of shared expenses, and for 2005 it will average \$10,000 under newly approved General Services Department security contracts. Also, with the encouragement and participation of the concessionaires, the Department has been more aggressive in advertising, using local cable television for example, and have completed a series of high profile improvements such as doubling the restroom capacity. For 2005, we estimate the shared monthly cost to be:

Custodial Supplies:	\$ 1,317
Security:	10,000
Advertising:	1,938
Equipment:	1,155
Repairs/Maintenance:	3,083
Redemption Staff:	2,166
Restroom Construction:	1,347 (10-year straight-line amortization of \$161,652)
TOTAL:	\$21,006

PROPOSED SPREAD BASED ON \$21,005 MONTHLY COST

Golf	\$7,352 or 35%
Arcade	\$7,352 or 35% (Average rent per month: \$61,200)
Batting Cage	\$3,151 or 15% (Average rent per month: \$16,800)
Food	\$3,151 or 15% (Average rent per month: \$ 3,300)

This fixed surcharge will have no direct impact on the concessionaires. It will ensure that the Castle is independent from need for General Fund subsidy, although it will result in a net monthly decrease of \$5,268.60 in General Fund revenue. Staff is currently finalizing new Requests for Proposals for all three concession elements at the Castle, which we feel may yield increased rent possibilities by offering longer contract terms (concessionaires currently operate month-to-month).