

TORONTO STAFF REPORT

December 17, 2001

To: Economic Development and Parks Committee

From: Shirley Hoy, Acting Chief Financial Officer
Joe Halstead, Commissioner Economic Development, Culture and Tourism

Subject: Request for Proposal # 0613-01-0203 for the Operation of Concession Services for the Parks and Recreation Division
Various Wards

Purpose:

The purpose of this report is to recommend the award of the Request For Proposal (RFP) for the operation of concessions services for the Parks and Recreation Division of the Economic Development Culture and Tourism Department. The agreement will commence May 1st, 2002 for a five year term expiring April 30th, 2007, with the option for renewal for a further five year term, at the request of the Department Head in conjunction with the Purchasing Agent.

Financial Implications and Impact Statement:

Along with improved service levels, more diverse and healthy food choices, and significant capital investment, improved financial return and improvements in net revenue are one of the considerations of this RFP. Based on the submissions being recommended, the proponents' projected annual rent payable to the City from concessions is estimated to be \$140,585. The projected net revenues over a five year period is estimated at \$702,925 and \$1.4 Million over ten years. Further improvements can be expected as the public sees the improved standards of product offered and level of service resulting in increased sales and additional net revenues. In addition, the proponents will be making a capital investment of approximately \$ 1.4 Million, during 2002 and 2003.

Recommendations:

It is recommended that:

- (1) the Proposals submitted by Mr. Vending/Country Style, the highest scoring proponent, and Java Express, the second highest scoring proponent, being the proposals receiving the

highest overall score, be accepted for the five year period; ending April, 30 2007 with the City's option for renewal for a further five year term,

- (2) the Commissioner Economic Development, Culture and Tourism be directed to negotiate and execute contracts in a form and content, consistent with the RFP and acceptable to the City Solicitor with the successful proponents;
- (3) staff continue to work with CUPE Local 79 to mitigate impacts on part-time and temporary staff who are members of the Recreation workers unit of Local 79 who are affected by these contracts; and,
- (4) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Background:

Prior to amalgamation, the six local municipalities and the former Metro had different models of operation for the snack bar concessions in the Parks and Recreation Division. At the current time, the snack bar concessions are City-operated in the former Scarborough, York and Etobicoke and are contracted out to private operators in all other districts.

In compliance with the Council direction received as a part of the 2001 budget process, the snack bar concessions in the former municipalities of Scarborough, York, and Etobicoke have been offered to the private sector to operate under the general conditions of Request for Proposal # 0613-01-0203.

Comments:

Issues In Current Concessions Operations

Staff have previously reported to Council, at its meeting on February 29, 2000, on the operation of the concessions within the Parks and the Recreation Division and the related issues that are facing the City of Toronto Concessions. These include:

- (a) Core vs. Non Core Business: The operation of concessions within our facilities is considered a non-core business and although it affects the experience of our customers, it is a component of the operation requiring City oversight, but not direct operation. It is considered an operation that is more specialized and requires the expertise and capital investment to provide a strong revenue return.
- (b) Branded Concepts: The trend in food service operations is towards branded concepts that have strong visibility and recognition from the public, and clear statements of relative quality and value with consistent pricing. In general, branded concepts improve sales levels significantly and the introduction of new food products and different branded concepts is prudent and consistent with the overall trend in concessions and food services operations.

(c) **Capital Investment:** In general, the City of Toronto concessions are “stale” operations that require significant capital investment in terms of food equipment, furnishings, inventory management systems, and a major upgrade in “look” and “décor” in order to drive sales and provide strong financial results. Projected capital investment requirements for the East and West concession operations is well in excess of \$ 1 Million.

The RFP Process

With Council authority received during the 2001 Budget process a comprehensive RFP was developed by the Parks and Recreation Division in conjunction with the Purchasing and Materials Management Division. The RFP was posted on the City of Toronto Internet web site and advertised in the Globe & Mail newspaper on July 31, 2001. Twenty-seven firms expressed interest, fifteen attended the Bidders information sessions, and eight firms responded. A committee comprised of staff from Parks and Recreation and the Purchasing and Material Management Division evaluated the proposals to ensure all criteria were met. Public Health staff also provided input with regard to proposed healthy menu alternatives. Six firms passed the evaluation process and the two highest scoring proponents are being recommended for award.

The successful proponents will obtain rights to undertake a business enterprise at several of the locations with certain conditions and terms. In exchange for granting these rights, the Division will receive from the successful proponents both a capital investment and remuneration in the form of base rent and percentage rent.

Previous Council Information Requests

In February 2000, staff sought input from Council on the recommendations of a comprehensive food services plan prepared following amalgamation that provided a strategic direction to move towards outsourced operations using branded concepts. Council requested further information on the following issues:

- (i) **Other Municipal Practices:** As indicated in the Food Service Review and Master Plan report prepared by FHG International, the general trend in food service and concession operations is moving towards outsourced, branded concepts which have high established standards of menu offerings, cleanliness, food quality and high brand recognition in the marketplace. Municipalities such as the City of Vaughan, King Township, Town of Markham and the City of Hamilton have all moved towards outsourced branded concepts with great success. The former City of North York and former Metro outsourced their concessions pre-amalgamation. Staff believe that an outsourced operation using branded concepts is the best practice in concession operations.
- (ii) **User Group Consultation:** Staff were asked to consult with facility users on ethnic food preferences, perceived quality of existing operations and overall satisfaction level. Two focus groups and a series of telephone interviews with selected user groups were held in August and September 2001. Generally, there is a variety of ethnic food choices currently available and additional ethnic foods choices would be an improvement over

existing service levels. Traditional fare found in typical City facilities such as hot dogs, popcorn, chips, pop, donuts, hot chocolate and coffee are a part of the “arena experience” and should be retained within the menus, but new and more diverse offerings should also be included. Offerings of additional “healthy food” choices such as fresh fruit, fresh sandwiches and baked goods should also be expanded.

- (iii) **Youth Employment Initiatives:** The Division is one of the largest employers of youth in the City of Toronto in a range of activities. Our employment opportunities are centred around the operation and provision of a range of recreational and leadership programs and we employ over 9000 temporary and part time staff within the recreation workers unit encompassing approximately 1700 FTEs. Through this initiative, staff are proposing to outsource approximately 23 FTE positions associated with the concession operations affecting up to 125 individuals the majority of whom work between four and seven hours per week. As part of the RFP, the Department required that each company agree to consider existing staff for continued employment and maintain staffing levels. This will be further discussed in the negotiation process and the Department will continue to engage CUPE 79 leadership in the process.
- (iv) **Large corporations vs. small entrepreneur based operations:** Some members of Council were also concerned that large multinational food service companies would take over these operations and there would not be the opportunity for smaller, Toronto based entrepreneurs to compete for these opportunities. Although some larger companies picked up the RFP information and attended the information sessions, all of the bid proponents being recommended are small companies with operating experience within the GTA. Some have identified affiliated branded concepts, but are independently owned and operated by the individual proponents.
- (v) **Analysis of In-house vs. Out-sourcing:** In preparation for the RFP Process, staff developed a business plan to turn around the existing in-house concession operation towards achieving industry-standard profit levels of 10%-15% on gross sales. The current in-house concession operated on a near-break-even basis, and as previously stated in this report, require extensive capital investment. In particular, it is estimated that over \$1 Million in capital investment is required in food service equipment, merchandising and display equipment, inventory management and point-of-sale accounting systems, furnishings and other infrastructure upgrades. With this investment, it is estimated that \$150,000 per year would be achieved on a sustainable basis. However, for this to occur, the City must make the capital investment required and take on the operational and financial risk associated with these operations. Therefore, the move to outsourced operations is best practice and will result in improved financial performance, lower financial risk, and capital cost avoidance. (Attachment No. 1)

Human Resource Implications

The affected part-time and temporary Staff in the East and West Districts became members of CUPE Local 79 following amalgamation, and are part of the Recreation workers unit. CUPE Local 79 has been involved in these discussions since February of 2000 when the strategic

directions report was developed. Subsequent formal notification to CUPE Local 79 of the intent to outsource this operation was provided pursuant to the Collective Agreement on June 8, 2001. A follow up meeting to discuss the proposals was held with the leadership of Local 79 on July 16, 2001.

As previously stated in this report, the RFP included the requirement to accommodate existing staff wherever possible and all proponents in the interview process expressed a strong desire to retain these staff at the subject locations. Further, many of these staff provide other services to the City of Toronto and will be retained as part of the part-time staff complement. The City has stated that we intend to abide by all of the requirements of the Collective Agreement and fully engage the leadership of CUPE Local 79 in the transition process.

The Recommended Proponents

Of the 27 locations listed in the RFP, nineteen are now being recommended to be awarded to the two highest scoring proponents, eight locations are not being recommended and are subject to alternate arrangements. Two firms are being recommended as follows:

Mr. Vending/Country Style: This proponent scored the highest overall in the evaluation process and is being recommended for nine locations. The concept will include significant capital investment of \$664,000 and will be centred around the Country Style brand which has been in Canada since 1963. In addition to its signature coffee brands, fresh sandwiches, baked goods and Pizza Pizza slices will be offered. This concept is currently in place in the City of Vaughan facilities and has been extremely well received by the public. The recommended locations are: Agincourt, Birchmount Complex, Scarborough Centennial, Malvern, McGregor Park, Mid-Scarborough, Scarborough Village, Heron Park and Etobicoke Olympium.

Java Express: This proposal scored the second highest overall in the evaluation process and is being recommended for ten locations. The concept will include significant capital investment of \$775,500 and will be centred around high quality coffee, baked goods, fresh sandwiches and Pizza slices by Pizzaville. This concept is currently in place in King Township facilities and is successful. The recommended locations are: Commander, L'Amoreaux Sports Complex, Stephen Leacock, Chris Tonks Arena, Lambton Arena, Centennial Park Ski Chalet, Centennial Park Stadium, Centennial Park Arena, Central Arena and Pine Point Arena.

Conclusions:

This report requests authority to negotiate and execute contracts for the operation of the concessions to Mr. Vending/Country Style, and Java Express, to the satisfaction of the Commissioner Economic Development, Culture and Tourism and the City Solicitor.

Based on the existing operation of our food concessions, the fact that it is a non-core service of the division, the need for substantial capital investment, the desire to move to branded concepts, the mitigation of potential financial risks, and the improved financial returns, the strategic direction to move to externally operated concessions is prudent and necessary. The proponents being recommended are all small entrepreneurs and have a track record of expertise to improve the customer service, make capital investments and operate a financially viable operation.

It is our expectation that the impacted staff will migrate to the various private sector operators with minimal impact on their compensation or other working conditions. Many of the affected staff will continue to provide other services to the Parks and Recreation Division and maintain their employment with the City. The existing collective agreement with CUPE Local 79 will be respected in all cases.

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List of Attachments:

Attachment No. 1: Revenue and Capital Requirements for City-operated concessions.