TORONTO STAFF REPORT

June 16, 2005

To:	Economic Development and Parks Committee
From:	Treasurer General Manager, Parks, Forestry & Recreation
Subject:	Operation of Beverage Services for Cold Drink Vending Machines & Pouring Rights (All Wards) Request For Proposal (RFP) 0604-05-0151

Purpose:

The purpose of this report is to advise on the results of Request for Proposal (RFP) for the operation of beverage services for cold drink vending machines and pouring rights within the Parks, Forestry & Recreation facility locations, and to request authority to negotiate and enter into a five (5) year License Agreement for the period from November 1, 2005 to October 31, 2010 with a three (3) year renewal option, for the period November 1, 2010 to October 31, 2013 with the recommended proponent.

Financial Implications and Impact Statement:

The RFP terms included continued service levels, healthier beverage choices and pouring rights and financial considerations. Based on the submission being recommended the proponent will provide guaranteed payments to the City totalling $1,350,000 for exclusive rights to vend cold drinks over the five-year term for the period from November 1, 2005 to October 31, 2010. In addition the proponent will pay the City an annual commission on all sales with the projected net revenues over the five-year term estimated at $1,098,000 which is reflective of the incumbent's past performance operating at the same locations. The total estimated revenue for the five-year term is $2,448,000. The proponent will also provide non-cash community benefits over the five-year term for the period from November 1, 2005 to October 31, 2010 for a youth soccer program, community and special events and a recycling program estimated at $1,150,000.

Exercising the optional three-year license extension from November 1, 2010 to October 31, 2013 would provide additional guaranteed exclusivity payments to the City of $780,000. plus estimated commissions totalling $658,800. The total estimated revenue for the three (3) year option is $1,438,800. The non-cash benefits would be $690,000 for the three optional years. The total estimated revenues to the City for the five (5) year term plus optional three (3) year extension for the period from November 1, 2005 to October 31, 2013 is $3,886,800. plus non-cash community non-cash community benefits totalling $1,840,000.

There is no additional cost that the City of Toronto will incur with the implementation of the proposed License Agreement and there are no anticipated future costs with the implementation of the proposed License Agreement. The recommended proponent shall be responsible for all operating costs and any other related costs for the operation of the vending machines.

Recommendations:

It is recommended that:

(1) the Proposal submitted by The Pepsi Bottling Group is accepted from November 1, 2005 to October 31, 2010 with guaranteed and projected revenues to the City over the five (5) year period estimated at $2,448,000. In addition the proponent will also provide non-cash community benefits over the five (5) year term from November 1, 2005 to October 31, 2010 for the youth soccer program, community and special events and a recycling program estimated at up to $1,150,000.

(2) authority be delegated to the General Manager of Parks, Forestry & Recreation to negotiate and execute a License Agreement with The Pepsi Bottling Group in form and content, consistent with the RFP and acceptable to the City Solicitor for the period from November 1, 2005 to October 31, 2010 and be delegated to exercise the three (3) year option License Agreement with The Pepsi Bottling Group, under the same terms conditions, provided that the operation of beverage services were performed at a satisfactory level; and in the form and content, consistent with the RFP and acceptable to the City Solicitor for the period from November 1, 2010 to October 31, 2013; and

(3) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

Background:

In June 2000, the City issued a RFP to enter into a license agreement for the operation of beverage services for cold drink vending machines and pouring rights within Parks and Recreation facility locations. The successful proponent of this RFP entered into a five-year license agreement with the City effective November 1, 2000. That license agreement expires October 31, 2005.

To ensure continuity of service, a RFP was issued in January 2005 through the Purchasing and Materials Management Division for this service that is scheduled to start on November 1, 2005.

The current five (5) year License Agreement has provided the City $1,500,000 for the exclusive rights to vend cold drinks. Commissions over the past four (4) years have averaged $166,850 per annum and are projected to yield a total of $834,253 by the end of the five (5) year term. The incumbent has also provided non-cash community benefits of $500,000 over the five year term.

The RFP provided for the operation of beverage services for cold drink vending machines and pouring rights. Proponents were requested to examine opportunities to be recognized as the Official Soft Drink Supplier to the City of Toronto Parks, Forestry & Recreation facility locations and to form a profitable partnership alliance with the City. Additional opportunities included community event participation and City initiatives on healthier beverage choices and recycling.

<u>Comments</u>:

Fifteen (15) firms on the City's Bidders list were invited to submit Proposals and the RFP was advertised on the City's Intranet Website. Five (5) submissions were received and opened on March 4, 2005 at the public opening for the operation of beverage services for cold drink vending machines and pouring rights within Parks, Forestry & Recreation facility locations.

The five (5) submissions being received on March 4, 2005 were from the following companies:

(1) Coca-Cola Bottling Ltd.
(2) Coffee Delight Coffee Service
(3) S.I.R. Investments
(4) Mr. Vending Inc.
(5) The Pepsi Bottling Group

Using the evaluation criteria specified in the RFP, an Evaluation Team comprised of staff from the Parks, Forestry & Recreation, Public Health and Corporate Finance followed the prescribed three stage evaluation process - (1) review for mandatory information to be provided, (2) scoring of 'technical requirements' and financial aspects, and (3) an interview. The first stage was a pass/fail stage based on whether mandatory requirements. The RFP, as Item no. 7, Section 6.1, required proponents to provide two references from a financial institution and recent financial statements from within the last five years. The proposal by Coffee Delight provided only one financial institution reference and also failed to provide recent financial statements within the last five years. Therefore, Coffee Delight where subsequently disqualified from further evaluation

The RFP, as Item no. 2, Section 3.2 Financial, required proponents to provide a no Exclusivity Fee. As well, it, as Item no. 2, Section 3.3 Operation (Re: Addendum No. 1), required funding and resource contributions to the City recycling programs and initiatives. S.I.R. Investments did not provide the fee nor mention any contributions.

Therefore, S.I.R. Investments where subsequently disqualified from further evaluation.

Stage two involved a detailed evaluation of proposals based on the proponents qualifications and experience, level of service to the public and financial aspects including all net revenues and other financial benefits to the City scored out of 100 points. Evaluation criteria were changed from the previous RFP to reflect the City of Toronto's commitment to ensuring that healthier beverage choices are available in Parks and Recreation facilities. Staff working with Toronto Public Health established criteria for identifying healthier beverages based primarily on the

October 2004 document "Dieticians of Canada–Recommendations for School Food and Nutrition for the Ontario Ministry of Education". Healthier beverages were identified as water, 100% juice or milk and milk products that are low–fat or non-fat. (2% M.F. or less) Subsequently, a minimum of 50% of cold drinks vended must be dedicated to healthier beverages.

Proponents were required to achieve a minimum of 75 percent to progress to the third stage of the evaluation, which consisted of interviews. Mr. Vendings' proposal failed to achieve the 75 percent criteria necessary to obtain an interview.

The two (2) remaining proponents, The Pepsi Bottling Group and Coca-Cola Bottling Ltd, met the 75 percent threshold and interviews were held with both proponents. The results of the three stage evaluation process is that the Pepsi Bottling Group is the highest scoring proponent and is being recommended by the Evaluation Team as the recommended proponent. The Pepsi Bottling Group possesses the necessary knowledge, operational experience and financial resources to form a strong partnership with the City of Toronto.

The Pepsi proposal included terms for the exclusive sale of beverages through vending machines at the specified facility locations. Pepsi proposes to sell its products from vending machines in plastic bottles ranging in sizes from 473 mL to 591 mL. and at a price of $2 to $2.25 per bottle. Pepsi would also be the exclusive beverage supplier to any third-party concessions situated in the same facility locations, and Pepsi has stipulated that these concessionaires be prohibited from selling beverages in smaller 355 ml cans. In return for such exclusivity status and the restriction on the sale of canned product, Pepsi proposes guaranteed payments to the City Toronto in the amount of $1,350,000 over the five year term.

In addition to the guaranteed payments, Pepsi will pay the City a commission of 30% of the revenues from the vending sales. Sales projections provided by Pepsi are consistent with past sales performance from vending machines at the facility locations. Projected commission payments to the City over the five year term are estimated to be $1,098,000.

Notwithstanding the projected sales noted above, Pepsi intends to foster sales growth from the vending operations, and has provided for a volume incentive program whereby, if annual vending sales reach certain plateaus, Pepsi will make an additional payment to the City for that year. The additional payment would be based on certain levels of product sold per year, with progressively larger payments ranging from $10,000 to $50,000.

Apart from the cash payments to the City as noted above, Pepsi will donate or provide resources valued at $230,000 per year, or a total of $1,150,000 over the five year term, for various community benefit programs. The programs consist of the following: annual youth soccer program, annual marketing, special events and recycling programs.

Pepsi has also agreed to comply with the City's requirements to provide 50% of the product in the form of healthy beverages. In this regard each vending location will offer 50% of the available product in the form of water, 100% juice and low/non-fat milk, in addition to other soft drinks.

Under the City's option to renew the contract for an additional three years, as specified in the RFP, Pepsi would make the same annual guaranteed payments and commission on sales. The potential value of those payments for such a three-year term would be $780,000 and $658,800 respectively. Pepsi would also contribute community benefits in the same manner, with a value of $690,000 over the three-years.

The Fair Wage reported that the recommended firm has indicated that it has reviewed and understands the Fair Wage Policy and Labour Trades requirements and has agreed to comply fully.

Conclusions:

This report requests authority for the Parks, Forestry & Recreation Division to recommend the award of the contract to the highest scoring proponent, the Pepsi Bottling Group and for the General Manager of Parks, Forestry & Recreation to negotiate and execute a License Agreement in the form and content consistent to the RFP and acceptable to the City's Solicitor for the period November 1, 2005 to October 31, 2010 with the option to renew with the authority delegated to the General Manager of Parks, Forestry and Recreation for the period November 1, 2010 to October 31, 2013.

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