



TORONTO STAFF REPORT

June 19, 2003

To: Economic Development and Parks Committee

From: Joe Halstead, Commissioner Economic Development, Culture and Tourism

Subject: Concession Services in High Park and Western Beaches – Additional Capital Improvements and Amendments to Contracts Between the City and 505707 Ontario Ltd. Operating as The Grenadier Group
Parkdale-High-Park - Ward 13 & 14

Purpose:

To facilitate additional capital investment in washroom, concession and support facilities in High Park and the Western Beaches, and to improve financial conditions for the City of Toronto, by recommending the current agreement between the City and 505707 Ontario Ltd./Grenadier Group to operate the Grenadier Restaurant, Snack Bars in High Park, and the Western Beaches snack bars including the Sunnyside Cafe be amended as outlined in the report.

Financial Implications and Impact Statement :

505707 Ontario Ltd., the “Operator”, will make an additional capital investment of a minimum of \$1.5 million to replace the former Number 3 concession and add public washroom and support facilities in High Park, and improvements to the washrooms, concessions and support facilities on the Western Beaches, which are assets owned by the City. The Operator is responsible for paying all capital and operating costs, utilities and property taxes associated with these concessions. The exercising of the two five-year options of the Grenadier Restaurant contract will give the City and the concessionaire long term financial stability, and ensure common operating standards and consistent expiry dates of all of the concession facilities within High Park and the Western Beaches.

The present rent structure for the Western Beaches is 30 percent of gross sales, and 8 percent of alcohol sales with no minimum payments, which is payable in February of the following year. The average rent over the last five years is \$157,678 per annum on gross revenues that have ranged from \$414,000 to \$616,000. The recommended rent structure consists of a base rent of \$130,000 payable during the year of the operation in quarterly payments plus percentage rent of 15 percent of gross sales, food and alcohol, over \$500,000 to be paid in February of the following year. With the completion of long term construction and additional capital improvements in the concessions, it is anticipated that the sales volume will significantly

increase and the return to the City on base rent and percentage rent will also improve. This incentive clause will provide a benefit to both the City and to the Operator. The specific adjustments to the contracts and financials are outlined in a chart in the comments section of the report.

The Chief Financial Officer and Treasurer has reviewed and is in concurrence with the financial impact statement.

Recommendations:

It is recommended that:

- (1) approval be granted to amend the existing lease agreements with 505707 Ontario Ltd./The Grenadier Group, to provide for the construction of replacement concession buildings within High Park and Western Beaches with a minimum project cost of \$ 1.5 Million, to include public washrooms at no expense to the City of Toronto on a term to expire no later than May 9, 2016, all to the satisfaction of the Commissioner of Economic Development, Culture and Tourism and the City Solicitor;
- (2) the City of Toronto exercise its existing option provisions on the Grenadier Restaurant agreement by extending the agreement to May 9, 2016;
- (3) that a community meeting be convened by the local Councillor to provide input into the design and placement of the new concession and washroom facility within High Park; and
- (4) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

The City of Toronto has had a longstanding relationship with the Operator for over 20 years. These three agreements are for the operation of concession facilities including Sunnyside Café in the Western Beaches, and the Grenadier Restaurant, operating a full service family oriented restaurant without a liquor licence, in High Park and three snack bars and mobile vending within High Park. It should be noted that the terms of the City of Toronto acquisition of High Park prevent these concessions located within High Park from acquiring a liquor license. The three separate agreements are described as follows:

High Park Grenadier Restaurant

In April 1982, the former City of Toronto approved an assignment of an existing contract issued in 1978 and held by the Grenadier Restaurant Inc. to the Operator.

In May 1996, the former City of Toronto issued a Request for Proposal for the Grenadier Restaurant which called for a ten-year term until 2006 with an option for the City to renew the

contract for two successive five-year terms to expire in 2016, on conditions to be agreed between the Operator and the City.

In November 1996, the former City of Toronto Board of Management adopted a report, which recommended the proposal from the Operator for the operation of The Grenadier Restaurant under the conditions and term described in the Request for Proposal. The agreement was subject to the Operator substantially completing the renovations as submitted in their Request for Proposal. These capital renovations were completed in 1998 at a cost of over \$830,000.

Snack Bars/Mobile Vending in High Park

In January 1992, a Request for Proposal was issued and awarded to the Operator at the former Toronto City Council meeting on March 23, 1992. The contract was awarded on a seasonal basis from April 1 to October 31 for the years 1992 and 1993, and the contract was subsequently extended until 1996 to have the same expiry date as the Grenadier Restaurant.

In July 1995, the contract was extended for an additional ten years to May 9, 2006. Various conditions were applied to this extension including the renovations on two of the three snack bars totally at the Operator's expense. In keeping with the agreement, significant capital upgrades have been completed to two of the three concession locations within High Park. The third concession was demolished by the City in September, 2002, for reasons outlined below.

The Western Beaches and Sunnyside Café

In January 1992, the former City of Toronto issued a Request for Proposal for the operation of the snack bars and the development of café facility at the Sunnyside Bathing Pavilion. After a selection process, the City awarded the contract to 505707 Ontario Limited. The City of Toronto Tender Committee approved this contract on August 6, 1992. The rent was agreed at 30 percent of annual gross sales plus 8 percent of gross amount of sale of alcoholic beverages.

The Western Beaches and Sunnyside Contract was extended by the former City of Toronto Council at their meeting of November 27, 1995, for a further four years to October 31, 2005 to enable the Operator to recover the cost of construction of the new Sunnyside Café. The rent conditions continued from the 1992 agreement. The new café opened in July, 1996.

Comments:

The justification for the extension and changes to these agreements is based on additional capital investment, adjustments for significant disruptions to these facilities over the last five years, and more favourable financial terms for the City in terms of establishing a minimum rent level, timing of payments and avoidance of operating costs associated with the provision of public washroom facilities located in these parks.

In High Park, the Operator will reconstruct and expand the former Number 3 snack bar. This concession, located by the South East Family Recreation Area of High Park, was demolished because of the roadway realignment and local improvements as outlined in Report No. 7, Clause No. 28, entitled "1873 Bloor Street West Ravine Report", of the Humber-York Community

Council as adopted by the City of Toronto Council at its meeting held May 21, 22, and 23, 2002. The cost of constructing the new concession is estimated at \$500,000, which will provide a concession facility and permanent washrooms that will be operated by the Operator for the use of all park users. The extension of the contract will enable the Operator to recoup their capital investment over the next 13 years.

This site is adjacent to the Jamie Bell Adventure Playground, an area that is heavily used and remote from other concession and washroom facilities in the park. The need for permanent washroom facilities in this area is critical and the principals of the Operator have engaged an architectural firm, who are prepared to work closely with the local Councillor, City staff and the High Park Advisory Committee.

The Operator completed their renovations at the Grenadier Restaurant at a cost of over \$580,000 and the City granted a ten year contract until May 9, 2006 with two five-year option terms until May 9, 2016. The Operator is asking that the existing option provisions of this contract be now exercised by the City to enable them to recover their initial investment and have long-term financial stability. This would bring all of the concession facilities within High Park to a new uniformly high standard and would standardize the leasing terms to expire in May, 2016.

At the Western Beaches, the Operator invested over \$800,000 in the construction and renovations to the Sunnyside Café and are proposing to invest another \$1,000,000 in infrastructure and capital spending on washroom upgrades and improvements to the Royal Burger concession and other facilities in the Western Beaches. This extension will give them a further opportunity to recover these capital costs. Due to the disruption of the operation by the extended construction period of the new Western Beaches Water Tunnel project, the profitability and revenue of the concessions in Western Beaches have also been negatively affected.

Capital Investment Summary:

One of the conditions of the extension of these contracts is the completion of the capital work and the funding of this work by the Operator on the concession and related washroom facilities, to the satisfaction of the Commissioner of Economic Development, Culture and Tourism. The value of the capital improvements within High Park and the Western Beaches must be a minimum project value of \$ 1.5 million by the end of 2005. On the basis of the new capital investment, the provision of much needed new washroom and support facilities at no cost to the City, and the difficulties associated with the closure of the High Park Pool for the last three summers and the significant operational disruptions over the last five years, it is fair and reasonable to provide long term tenure to the Operator to enable full recovery of their substantial capital investment.

The summary of previous and future capital investment within these facilities is outlined below:

Completion Date	Location	Previous Capital Investment	Future Capital Investment
July, 1996	Sunnyside Café	\$ 800,000	
May, 1997	Black Oaks Snack Bar	\$ 250,000	
May 1998	Grenadier Restaurant	\$ 580,000	
2004	High Park Concession# 3 including washrooms		\$ 500,000
2005	Western Beaches Concessions and Washrooms		\$ 1,000,000
2011	Grenadier Restaurant – Upgrades to existing structure		\$ 250,000
Total Investments		\$ 1,630,000	\$ 1,750,000
Grand Total of Capital Investments		\$ 3,380,000	

Proposed Term and Revenue Changes:

The Operator will continue to be responsible for all operating, utility and property taxes associated with these operations.

The current rent structure to the City of Toronto provides ongoing revenue from these contracts of approximately \$273,000 per year. The two High Park contracts provide for rent review process every three years.

The existing rent structure under the Western Beaches contract will be changed. The existing rent of 30 percent of gross sales and 8 percent on alcohol sales is not sustainable and provides limited incentives to the operator to increase sales levels. Staff are proposing a move to a combination of a minimum rent of \$130,000 and 15percent of gross sales (both food and alcohol) above \$500,000. This will provide an annual guaranteed rent to the City, and provide substantial incentive to improve sales levels following additional capital investments being completed. This revenue proposal is reflective of the current market, in place at other concession locations, and more prudent for both the City and the Operator.

The impacts of these changes are summarized as follows:

Agreement	Current Rent Structure	Current Expiry	Proposed Rent Structure	Proposed Expiry	Minimum Capital Requirement
High Park Concessions	\$ 40,000/year for the next 3 years	May 9, 2006	\$ 67,000/year to be reviewed every 3 years	May 9, 2016	\$ 500,000 by December 2005
Western Beaches Concessions and Sunnyside Cafe	30% of gross food sales plus 8% liquor sales, an average of \$ 157,000/ year	October 31, 2005	\$ 130,000 minimum rent on the sales up to \$500,000 Over \$500,000, 15% of gross sales of food and liquor. Estimated revenue of \$ 167,000 per year	May 9, 2016	\$ 1,000,000 by December 2005
Grenadier Restaurant in High Park	\$ 75,600/year	May 9, 2016	\$ 75,600/year to be reviewed in May, 2006, 2 nd review in May, 2011	May 9, 2016	\$ 250,000 by May 2016

Conclusions:

Based on a number of factors, staff are recommending these changes to the contracts to stimulate new capital investment and to facilitate improvements to these City-owned assets. These factors include the new investment in needed concession and washroom facilities at the sole expense of the Operator, the recent capital investment to the other food and concession facilities within High Park and the Western Beaches and the City's long term relationship with the Operator. In addition, the recent operational difficulties that they have experienced including the fact that the High Park Pool has been closed for the last three seasons, the disruption due to the Western Beaches Storage Tunnel project, long term construction at the Sunnyside pavilion and the 2002 labour disruption, have affected the sales and revenue of the Operator. With the new investment in the new concessions and washrooms, the total investment by the Operator will exceed \$3.38 million since 1997.

In order to ensure consistency in the operation of the concessions in High Park, there needs to be a sole Operator operating in High Park, ideally with a common expiry dates and operating conditions. This approach is fair, reasonable and will achieve all of the City's objectives related to the provision of concessions within High Park and the Western Beaches.

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