



STAFF REPORT ACTION REQUIRED

License Agreement for the Operation of Beverage Services for Cold Drink Vending and Pouring Rights

Date:	September 26, 2011
To:	Government Management Committee
From:	General Manager, Parks, Forestry and Recreation Division Director, Purchasing and Materials Management Division
Wards:	All
Reference Number:	P:\2011\Cluster A\PFR\GM08-101211-AFS#14564

SUMMARY

The purpose of this report is to provide information on the results of Request for Proposal (RFP) 0604-11-0158 for the Operation of Beverage Services for Cold Drink Vending and Pouring Rights as required by the City of Toronto's Parks, Forestry and Recreation (PFR) Division and to request authority to negotiate and enter into a five (5) year license agreement with the recommended proponent, Pepsi Beverage Company (PBC) for the period from November 1, 2011 to October 31, 2016.

RECOMMENDATIONS

The General Manager of Parks, Forestry and Recreation and the Director of Purchasing and Materials Management recommend that

1. Authority be granted to enter into a License Agreement with The Pepsi Beverage Company for a five (5) year period from November 1, 2011 to October 31, 2016;
2. Authority be delegated to the General Manager of Parks, Forestry and Recreation to negotiate and execute a License Agreement with The Pepsi Beverage Company in a form and content, consistent with the Request for Proposal and acceptable to the City Solicitor for a five (5) year period from November 1, 2011 to October 31, 2016 to perform at a satisfactory level; and
3. The appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

FINANCIAL IMPACT

The recommended proponent, PBC will provide reduced cold drink vending revenues to the City over the term of the proposed agreement. Parks, Forestry and Recreation's 2012 Operating Budget submission has accounted for the reduction in rights fees for the 2011 license agreement with PBC with revenue expectation of approximately \$130,000.00.

Agreement	Current Cold Drink Vending Agreement 2011 Budget Year	PBC Proposed Agreement 2012 – 2016 Budget Years
Guaranteed Rights Fee	\$250,000	\$60,000
Estimated Annual Commissions	Approx. \$70,000 (30% Commission on gross sales)	Approx. \$70,000 (18% Commission on gross sales of milk and specific juices plus 30% Commission on gross sales of all other beverages)
Guaranteed Incentive Fees	\$10,000	N/A
Estimated Total Annual Revenue	\$330,000	\$130,000
Estimated Total Revenue for the Term of the Agreement	\$1,650,000	\$650,000

Other financial incentives include a Marketing Fee to be paid by PBC which will allow PFR to upgrade facility equipment and also request funding for special projects up to an amount of \$10,000 annually. PBC will contribute up to \$2,500 of funding to PFR Special Events as well as a \$2,500 Concession Incentive Fee annually. PBC will allocate \$5,000 annually towards PFR's Recycling Program. PBC is projected to contribute to PFR a maximum of \$20,000 annually in other financial incentives or \$100,000 throughout the five (5) year term of the license agreement.

There are no current or additional costs that the City will incur with the implementation of the proposed license agreement. PBC shall be responsible for all operating costs and all other related costs for the operation of the vending machines.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

In 2005 PFR issued RFP 0604-05-0151 for the Operation of Beverage Services for Cold Drink Vending Machines and Pouring Rights. The Pepsi Bottling Group, whose company name later changed to The Pepsi Beverage Company, was the successful proponent and entered into a five (5) year license agreement beginning November 1, 2005 and expired on October 31, 2010.

City Council at its meetings of June 8 and 9, 2010 extended the five (5) year license agreement between the City and PBC for a one year period which will end on October 31, 2011.

At its meetings of April 12 and 13, 2011, Council adopted the recommendations of the Government Management Committee for the Healthy Vending Criteria for the Cold Drink Vending Request for Proposal.

City Council Decision of July 19, 20, 21 and 26, 2005, item EDPC Report 7, Item14
<http://www.toronto.ca/legdocs/2005/agendas/council/cc050719/edp7rpt/cl014.pdf>

City Council Decision of June 8 and 9, 2010
<http://www.toronto.ca/legdocs/mmis/2011/gm/bgrd/backgroundfile-36755.pdf>

City Council Decision of April 12 and 13, 2011
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.GM2.16>

ISSUE BACKGROUND

Council, at its meetings of July 19, 20, 21 and 26, 2005, adopted the report recommending PBC as the successful proponent for the cold drink vending machines and pouring rights RFP. Council also requested that the General Manager of PFR report back to Committee for approval of a 100% healthy cold drink vending criteria for the next RFP.

Parks, Forestry and Recreation reported to the Government Management Committee for approval of the 100% healthy cold drink vending criteria for the Cold Drink Vending and Pouring Rights RFP. Council, at its meetings of June 8 and 9, 2010, extended the license agreement with PBC for an additional year and referred the report back to the Government Management Committee and for the Medical Officer of Health to report back to Committee on the health rationale for offering healthy choices in beverage vending and to allow for industry representation at Committee.

Parks, Forestry and Recreation reported back to the Government Management Committee as required with an information report from the Medical Officer of Health appended to its report seeking approval of the healthy cold drink vending RFP criteria. Council, at its meetings of April 12 and 13, 2011, adopted the recommendations of the Government Management

Committee allowing for the continuance of 50% healthy cold drink vending at PFR facility locations.

Parks, Forestry and Recreation has reduced the operating budget since the 2009 budget year in order to reflect the actual revenue achieved due to the reduction in commissions since 2006.

Budget Year	Annual Revenue Target (\$000's)	Actual Revenue (\$000's)	Revenue Variance (\$000's)	Comments
2006	\$850	\$359	(\$491)	High revenue expectations at beginning of the contract
2007	\$850	\$341	(\$509)	High revenue expectations at beginning of the contract
2008	\$850	\$331	(\$519)	High revenue expectations at beginning of the contract
2009	\$750	\$314	(\$436)	Budget was reduced by \$100k based on lower commissions. Actual revenue decreased as a result of healthy vending.
2010	\$250	\$313	\$63	Budget was reduced by \$500k based on lower actual commissions.
2011	\$230	N/A	N/A	Budget was reduced by another \$20k for 2011 to reflect the impact of healthy vending mix.
2012	\$130	N/A	N/A	Budget was reduced by \$100k in anticipation of a reduction in revenue after the license agreement expired on October 31, 2011. Submitted as part of PFR's 2012 Operating Budget Consideration.

COMMENTS

RFP 0604-11-0158 was issued by the Purchasing and Materials Management Division (PMMD) and was posted on the City's website on July 27, 2011. Three (3) submissions were received from the following firms:

1. Coca-Cola Refreshments Canada
2. Imperial Vending Services Inc.
3. The Pepsi Beverage Company

At the closing date of August 25, 2011, PMMD staff reviewed all the proposal submissions and out of the three (3) submissions, only Imperial Vending Services Inc. (Imperial) and PBC met the mandatory requirements and were considered for evaluation.

The proposal submitted by Coca-Cola Refreshments Canada was declared non-compliant by Legal, which resulted in them being disqualified from the evaluation process.

Staff report for action on cold drink vending and pouring rights

The proposals were evaluated using the evaluation criteria specified in the RFP document and through a comprehensive review and analysis by a Selection Committee which included staff from PFR, Finance and Public Health.

Proponents' scores by criteria, price comparison and a staff analysis of the evaluation results can be provided in an in-camera presentation if requested by Committee Members.

Stage One Evaluation

This stage required a minimum score of 70% (or 42 points) in order for proponents to advance to Stage 2. Proposals were evaluated based on the following criteria and point allocation:

The maximum points available for Stage One were 60 points.

Proponent Profile – 5

Experience and Qualifications – 15

Proposed Staff Team and Resources – 10

Level of Service to the Public – 30

Both PBC and Imperial met the minimum score requirements in Stage One and which resulted in them advancing to Stage Two.

Stage Two Evaluation

Stage Two evaluated the proponent's Financial Proposal and was worth a maximum of 40 points. It was a requirement of the Financial Proposal section that proponents must provide the City with a Guaranteed Exclusive Rights Fee and commission payments based on gross sales as well as other financial benefits (i.e. sponsorship). PBC received the maximum 40 points in this Stage after offering a substantially higher financial proposal than Imperial.

Recommended Proponent

PBC was the highest scoring proponent in both Stages resulting in its selection as the recommended successful proponent.

PBC will employ the services of Eastwood Food Services Limited to provide PFR with vending machines stocked with milk beverages and a specific brand of 100% juices.

Impact of Healthy Vending Criteria

PBC entered into the current agreement in 2005 which required it to provide a minimum of 50% healthy products in PFR vending machines. PBC has since reported a decline in its gross cold drink vending sales of more than 50%. The decline in vending sales effectively meant that proponents of the 2011 RFP would not be offering the City the same rights fees and incentive fees received in the current contract of \$260,000.00 annually.

The healthy cold drink vending requirement has had a declining impact on vending sales since its introduction in 2005. Fifty percent of beverages sold at vending locations must

consist of 100% fruit or vegetable juice, low fat flavoured or unflavoured milk or unflavoured water. With the exception of water, all other healthy beverages represent a maximum of 2% of beverage sales in PFR cold drink vending machines. A further decline in sales can also be expected after the ban on bottled water is introduced commencing January 1, 2012. Water represents approximately 12% of cold drink vending machine sales at PFR locations.

The financial proposal submitted by PBC is consistent with the decline in sales and the further anticipated decline due to the ban on bottled water scheduled to take full effect in 2012.

The Fair Wage Office has reported that PBC indicates that it has reviewed and understands the Fair Wage Policy and Labour Trades requirements and has agreed to fully comply.

Conclusion

It is recommended that The Pepsi Beverage Company be awarded the license agreement for the operation of cold beverage services for cold drink vending and pouring rights at various PFR facility locations. Authority is also requested for the General Manager of Parks Forestry and Recreation to negotiate and execute a license agreement in a form and content consistent with the RFP and acceptable to the City Solicitor for a five (5) year period from November 1, 2011 to October 31, 2016.

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SIGNATURES

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