


DATE June 13, 2001

BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: Sherman Oaks Castle Park - Changes to Monthly Rental Percentage for Food Service Concession

J. Combs _____	J. Kolb _____
*A. Corrales _____	M. Tamuri _____
J. Duggan _____	M. Matthews _____
H. Fujita _____	



 General Manager

Approved _____ Disapproved _____ Withdrawn _____

RECOMMENDATION:

That the Board authorize a change in monthly rental from 13.5% to 8% under the revokable permit for food service at the Sherman Oaks Castle Park, retroactive to March 1, 2000.

SUMMARY:

The Department of Recreation and Parks has been the operator of the Sherman Oaks Castle Park special facility since 1993. Department staff directly manages the miniature golf operations and maintains and supervises the physical plant; three other major elements of the Castle Park operation, namely food service, arcade games, and a batting cage, are operated by concessionaires under revokable permits issued by the Department. The arcade games and batting cage concessionaires operated at the Castle prior to the Department assumption of operations, but the food service operator, Burrito King, Inc., accepted the food service opportunity under an emergency basis, so that the Castle could re-open in a timely fashion after the Department elected to self-operate and to undertake some repairs and upgrading. Burrito King, Inc., made substantial investments in improvements at that time as well. The Department conducted a Request for Proposal process in 1999 to solicit interested parties for assuming the overall management, as had been the case prior to 1993. The Board did not choose a new operator during that process, however, and directed staff to continue the status quo in the general operating structure and the current concessions at the Castle for a two year period.

A few months after this decision, and in consideration of an approximately two year period ahead of the status quo, Burrito King, Inc., requested a monthly rental adjustment to compensate for escalating expenses in insurance, wages, and product. This proposal was not deemed to be sufficiently justified for action at that time. However, over recent months, several independent events have combined to result in the conclusion that the current monthly rate of 13.5% should be reconsidered. First, staff performed an analysis in connection with a requested increase in batting cage prices at the Castle and shortly thereafter a preliminary study to evaluate the need for an increase in miniature golf prices; both efforts substantiated escalating operating costs and the comparative value of the prices for Castle activities with competing establishments in the San Fernando Valley and surrounding areas. The concessionaire also presented additional documentation of various expense increases and a comparison of food prices at several family entertainment type facilities. Finally, some of the major food service equipment, notably the pizza oven, are past the expected lifespan under the heavy use conditions at the Castle and need to be replaced; this will require significant capital expenditure not typically or appropriately required by the Department or concessionaires under revokable permits.

The recommended rental of 8% monthly is commensurate with required minimum rent stipulated by the Department under Requests for Proposals released in the last four years for facilities with annual grosses over \$200,000 (for example: Los Feliz Cafe, Woodley Golf Restaurant). The reduction in rental to the Department will be offset partially by a planned price increase of about 15%, a decision which is within the concessionaire's discretion under the terms of the permit, so long as prices remain typical in comparison with similar establishments. With annual gross receipts in the range of \$500,000, and taking into account the 15% increase, staff estimates a reduction in annual rental of about \$25,000 or less. The estimated cost of the pizza oven is \$23,500, the cost for which will be expended entirely and immediately by Burrito King, Inc. Staff, therefore, recommends rendering the effective date of the rental reduction retroactive to March 2000, so that the concessionaire can begin recouping the cost of the pizza oven immediately. Again, in consideration of the possibility of a new RFP process in the coming year, ownership of the oven used at the Castle will remain with the concessionaire.

The two year period of status quo closes in the fall of 2001. Department staff and the Castle Park concessionaires can reasonably predict the possibility of a new Request for Proposal process, at which time the terms of monthly rental and other necessary capital investment will be subject of that competitive process. In the meantime, given the record of cooperation and service by the food service concessionaire, the demonstrated increase in costs, and the need for a major equipment purchase now, staff recommends this rent change as a prudent and reasonable business decision.

Prepared by Linda Barth.