

REPORT OF GENERAL MANAGER

NO. 10-240

DATE September 1, 2010

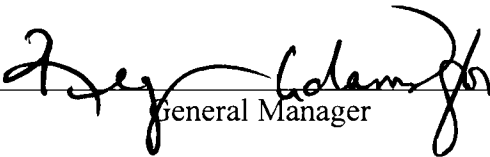
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BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: ELECTRIC GOLF CARTS RENTAL CONCESSION – TERMINATION OF REQUEST FOR PROPOSALS PROCESS; TERMINATION OF CONCESSION CONTRACT NO. 227; AND SELF-OPERATION OF ELECTRIC GOLF CARTS

R. Adams _____
H. Fujita _____
S. Huntley _____
V. Israel _____

*F. Mok now _____
K. Regan _____
M. Shull _____



General Manager

Approved _____

Disapproved _____

Withdrawn _____

RECOMMENDATIONS:

That the Board:

1. Reject all proposals received on July 24, 2007, for the Electric Golf Carts Rental Concession in response to the Request for Proposals (RFP) and direct staff to return all proposal deposits to each proposer;
2. Direct staff to terminate Concession Agreement No. 227 between the City of Los Angeles Department of Recreation and Parks and J. H. Kishi Company; and,
3. Direct staff to self-operate the electric golf cart rental operation.

SUMMARY:

The Electric Golf Carts Rental Concession (Concession) provides golf carts used at the Department of Recreation and Park’s (RAP) 18-hole golf course facilities. There are five electric golf cart rental locations serving seven courses: Sepulveda Golf Complex (Encino/Balboa Golf Courses), Griffith Park Golf Complex (Wilson/Harding Golf Courses), Hansen Dam Golf Course, Rancho Park Golf Course, and Woodley Lakes Golf Course. Each location consists of a cart rental building/storage facility (cart barn). The Concession includes the furnishing of all golf carts needed for the operation of the concession, the staging and distribution of the golf carts to golf patrons, and the maintenance and repair of the golf carts and cart barns.

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The Electric Golf Carts Rental Concession has been operated by J. H. Kishi Company (Kishi) since 1975. The last contract began in 1991 and Kishi has operated on a month-to-month basis since Concession Agreement No. 227 expired in 2003.

Request for Proposals

On April 5, 2007, the Board directed staff to develop and release a Request for Proposals (RFP) for the operation and maintenance of the Electric Golf Carts Rental Concession (Board Report No. 07-87). The RFP was released on April 20, 2007 and five proposals were received on July 27, 2007. On June 4, 2008, the Board approved the award of the Concession to Michael Leslie Productions dba Ready Golf Centers (Ready Golf) in Board Report No. 08-136.

On September 4, 2009, in accordance with Charter Section 245 and Los Angeles Administrative Code Section 10.5(a), the Council voted to disapprove the award of the contract to Ready Golf (Council File No. 09-1671). The Council, by motion, also requested that the Board and the Department award a five (5) year concession agreement to Kishi and develop a transition plan for self-operation of the golf cart function at the end of those five years.

Electric Golf Cart Rental Operation

On March 1, 2010, the Department assumed a key function from Kishi and began collecting the revenue for the golf cart rental at the starter window without an increase in RAP Golf Division staff. Based on four months of accounting information since the Department began the collection of the golf cart rental fees, revenue from the Concession has increased by approximately 11% from the previous year while golf rounds have dropped by almost 6% for the same period.

On July 1, 2010, the RAP Golf Division was reorganized into a full cost recovery unit as part of the Fiscal Year 2010-11 budget approved by the Mayor and Council.

On August 3, 2010, the Office of the City Controller (Controller) released the "Forensic Audit of the Reported Gross Receipts and Related Payments by J. H. Kishi Company" (Audit) and found that Kishi had a poor internal control environment and underreported revenue resulting in underpayment of rent to the City. A full copy of the Audit and a summary of the complete findings were provided to the Board on August 11, 2010.

The Audit found that "Even though RAP took over the collection function in March 2010, Kishi still receives 53% of the cart rental revenues, despite not having to perform a key function of the contract." The audit Recommendation No. 4 states that the Department should "Work to expedite either executing a new contract for the golf cart rental operations or bring the function in-house."

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Options for Board Consideration

Although the Controller recommended two options in the Audit, the Board has several options to consider:

1. As requested by the Council on September 4, 2009 (Council File No. 09-1671) award a five (5) year concession agreement to Margaret Shimizu dba J. H. Kishi Company under the existing RFP process.
2. Find that the award to Michael Leslie Productions dba Ready Golf on June 4, 2008, (Board Report No. 08-136) was awarded in a manner consistent with the City Charter, Los Angeles Administrative Code, and the instructions of the Board of Recreation and Park Commissioners and again forward that finding to the Council for reconsideration of the award;
3. Cancel the RFP as approved by the Board on April 5, 2007 (Board Report No. 07-87), reject the proposals, and return the proposal deposits; and, continue on a month-to-month basis with the incumbent operator (Kishi) with the same terms and conditions until the Board takes further action;
4. Cancel the RFP as approved by the Board on April 5, 2007, reject the proposals, and return the proposal deposits and release a new RFP to award an agreement for the operation of the Electric Golf Carts Rental Concession, and in the interim either: (a) continue on a month-to-month basis with the incumbent operator with the same terms and conditions until a new concession agreement is executed or the RFP process is otherwise terminated and the Board takes additional action to replace the incumbent operator; or, (b) instruct staff to begin self-operation of the Electric Golf Cart Rentals.
5. Instruct staff to begin self-operation, to include acquiring the necessary resources to begin self-operation; and, cancel the RFP as approved by the Board on April 5, 2007, reject the proposals, and return the proposal deposits.

Staff Analysis of Options

Staff has reviewed the options and finds that it is not advantageous to the City to continue with Kishi as the Controller Audit found that Kishi had a poor internal control environment and underreported revenue resulting in underpayment of rent to the City.

It should also be noted that during the Council discussions on September 4, 2009, regarding the award of the concession agreement to Ready Golf, staff informed Council that one of the primary reasons that Ready Golf was recommended for award of the concession agreement was that while Kishi proposed a higher percentage of gross revenue as rent (50%), it did not appear that Kishi would not be able to sustain that amount and remain a viable company.

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The Audit substantiated staff's concern and found that Kishi's principals loaned the company \$429,000 during the three year audit period. During the Audit process, representatives of Kishi explained to staff that the loans were utilized to supplement cash flow shortages. The Audit further found that upon review of Kishi's 2007 and 2008 annual financial statements and income tax returns "...the financial statements show net losses of \$231,455 and \$112,803 for 2008 and 2007, respectively. This would cause one to question why Kishi would seek to continue this contract."

Staff also finds that it is not advantageous to the City to resubmit the award of the concession agreement for Council reconsideration as the award was based on economic conditions and information available at that time. The resubmission of the award of the concession agreement would also contrast with the request by Council to the Board and the Department, which as previously stated in this report, states in part "...develop a transition plan for self-operation of the electric golf cart function..."

Analysis of Self-Operation

The Cost Benefit Analysis prepared in early 2008 as part of the Charter 1022 requirements for the award of the concession agreement showed that Ready Golf would provide an estimated \$14,161,549 to the City and the RAP Golf Division would provide an estimated \$13,937,547; a difference of \$224,002 over the ten-year term of the concession agreement, or \$22,400 per year.

The Cost Benefit Analysis assumed an annual growth of 2.5% for projected golf revenue. Since that time, due to the current economic environment and the decline in the golf industry, RAP has experienced a significant decline in rounds of golf and the projected revenue increases used in the Cost Benefit Analysis have not been realized.

Other factors have also changed since the initial RFP was issued. These include: (1) the RAP Golf Division has assumed a key function of the golf cart rental operation without an increase in staff, thus lowering labor costs for this function; (2) RAP staff have gained further experience in running a portion of the golf cart rental operation; (3) RAP Golf Division has reorganized into a full cost recovery unit; and, (4) due to Board direction, the Department is studying the future of all golf operations and further recommendations will be made when the future strategic direction of Golf operations is determined.

Based on actual revenue collected in Fiscal Year 2009-10 from the golf cart rental operation (\$3,186,402) and annual projected expenditures provided by the RAP Golf Division (\$1,358,819), it is estimated that over a four-year period, self-operation of the electric golf cart rental operation would yield a net return to the City of approximately \$7,296,533.

The "Revenue and Expenditure Plan for the Self-Operation of the Electric Golf Cart Operation" prepared by the RAP Golf Division is included as Attachment A and compares the projected net return to the City with that of the Ready Golf proposal and the current Kishi concession agreement.

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Recommendation

Staff recommends that the electric golf cart rental operation be brought in-house, as recommended by Council and the Controller as an option, and that the Board instruct the RAP Golf Division to begin self-operation.

This recommendation is made due to the following: (1) the Controller audit findings that Kishi had a poor internal control environment and underreported revenue resulting in underpayment of rent to the City; (2) the reorganization of the RAP Golf Division into a full cost recovery unit; (3) the collection of the golf cart fees at the golf starter window without increasing staff; (4) the additional revenue collected since the RAP Golf Division began the collection of the golf cart fees; (5) the RAP Golf Division plan to self-operate the electric golf cart rental operation which would provide a higher net return to the City than either the Ready Golf proposal or the current agreement with Kishi; and, (6) the study of RAP's golf future operations and direction.

In accordance with Los Angeles City Charter Section 371(c) and as stated in Section VI.G of the Request for Proposals for the Electric Golf Carts Rental Concession released on April 20, 2007, ("The City shall reserve the right to reject any and all bids or proposals and to waive any informality in the bid or proposal when to do so would be to the advantage of the City"), it is also recommended that the Board terminate the RFP process, reject the proposals submitted in response to the RFP, and direct staff to return all proposal deposits to each proposer.

Upon approval of this board report, the General Manager will instruct staff to transition the electric golf cart operation from the current operator (Kishi) to the RAP Golf Division and prepare a letter to Kishi in accordance with Section 4 ("Term") of Concession Agreement No. 227, which states, in part, "At the conclusion of the term of this Agreement, the parties may mutually agree to extend all terms and conditions on a month to month basis terminable by either party by giving 30 days prior notice in writing of such termination."

FISCAL IMPACT STATEMENT:

There is no impact to the RAP General Fund as all revenue from the concession is deposited in the Golf Special Fund. The RAP Golf Division is expected to generate an estimated \$1,824,133 annually in revenue, after expenses are considered. These funds will be used to supplement RAP operations.

This report was prepared by Robert N. Morales, Senior Management Analyst II, Finance Division, Administrative Resources Section.

**Department of Recreation and Parks (RAP)
Golf Division
Revenue and Expenditure Plan for the Self-Operation of the Electric Golf Cart Rental Operation**

	Four-Year Net Return To City Comparison		
RAP Golf Division Annual Expenditure Plan	RAP Golf Division	Ready Golf (39% of Gross Revenue - As Proposed)	J. H. Kishi (47% of Gross Revenue - Current Concession Agreement)
FY 2009-10 Actual Revenue From Electric Golf Cart Rentals ⁽¹⁾	\$ 3,186,402	\$ 12,745,608	\$ 12,745,608
Estimated Annual Expenditures (RAP Golf Division)			
Labor (Including CAP Rate)	\$ 505,659 (See Page 3)	\$ 2,022,635	
Golf Carts Four-Year Lease	424,320 (See Page 4)	1,697,280	
Golf Cart Maintenance Agreement Expense ⁽²⁾	97,500	390,000	
Insurance (additional) ⁽³⁾	120,000	480,000	
Utilities	97,740 (See Page 5)	390,960	
Operations and Maintenance Supplies	42,000 (See Page 5)	168,000	
Office and Administrative Supplies	7,800 (See Page 5)	31,200	
Refurbishments and Maintenance	50,000 (See Page 5)	200,000	
Clarifiers and Ventilation Improvements (4 year amortization) ⁽⁴⁾	17,250 (See Page 6)	69,000	
Total RAP Golf Division Annual Expenses:	<u>\$ 1,362,269</u>		
NET RETURN TO CITY:	\$ 1,824,133	\$ 4,970,787	\$ 5,990,436
Operating Income As a Percentage of Gross Revenue	57%		

Notes / Assumptions:

- Revenue based on actual FY 2009-10 gross revenue as reported by J. H. Kishi Company (July 2009 through February 2010) and collected by the RAP Golf Division (March 2010 through June 2010). Revenue projection for four-year comparison based on actual FY 2009-10 gross revenue and a flat-line (no increase or decrease) assumption for the four-year period.
- Additional golf cart maintenance agreement above standard maintenance provided in the lease agreement.
- Additional insurance above standard City self-insurance program. Estimate based on submitted proposals. Actual tentative estimates provided are less than estimate used.
- Improvements to the golf cart cart barns required as part of the RFP approved by the Board on April 5, 2007.

**Department of Recreation and Parks
Golf Division
Electric Golf Carts Rental Operation
Actual Revenue Collected in FY 2009-10**

July 2009	\$	318,018
August 2009		332,833
September 2009		300,524
October 2009		258,002
November 2009		248,145
December 2009		191,482
January 2010		178,306
February 2010		166,304
March 2010		280,530
April 2010		270,743
May 2010		337,623
June 2010		<u>303,892</u>
Total Revenue (FY 2009-10)	\$	<u><u>3,186,402</u></u>

**Department of Recreation and Parks
Golf Division
Electric Golf Carts Rental Operation
Labor Expenses (Including CAP Rate)**

Average Number of Hours Between Sunrise and Sunset	12.5
Additional 1/2 Hour Before Sunrise	0.5
Additional 1/2 Hour After Sunset	0.5
Average Golf Cart Barn Operation Hours Per Day	13.5
Number of Facilities	5
Average Daily Cart Barn Shift Hours for All Facilities	67.5
Number of Days	365
Total Number of *SPA II Hours Per Year for All Facilities	24,637.5
Part Time Employees To Operate Cart Barns	25
Part Time Hours Per Year Per Employee	1,040
Total Number of SPA II Hours Per Year for All Facilities	26,000
Hourly Rate	\$ 13.05
Estimated Labor Expense	\$ 339,300
CAP Rate (CAP 31)	49.03%
Estimated Labor Expense Including CAP Rate	\$ 505,659

Note: Labor costs are based on the number of hours (26,000) necessary to staff the operation. The RAP Golf Division may require a higher number of part-time position authorities in order to ensure the required number of hours are met. This is due to historical experience with part-time employees unable to work the full allotment of hours provided for various reasons (e.g., school schedules, transportation schedules, etc.).

**Department of Recreation and Parks
 Golf Division
 Electric Golf Carts Rental Operation
 Golf Cart Lease Expense**

	<u>3 Year Lease</u>	<u>4 Year Lease</u>
Monthly Lease Rate Per Cart	\$ 77.13	\$ 64.44
Sales Tax (9.75%)	<u>\$ 7.52</u>	<u>\$ 6.28</u>
Total Monthly Lease Cost Per Cart	\$ 84.65	\$ 70.72
Number of Golf Carts	500	500
Total Monthly Cost	<u>\$ 42,325.00</u>	<u>\$ 35,360.00</u>
 Total Annual Golf Cart Fleet Lease:	 <u>\$ 507,900.00</u>	 <u>\$ 424,320.00</u>

It is recommended that a four-year lease option be utilized as the costs are more advantageous.

**Department of Recreation and Parks
Golf Division
Electric Golf Carts Rental Operation
Estimated Department Expenses From Golf Cart Rental Operations**

Expense Item	Basis of Estimate	Amount
Utilities	Estimated based on current concessionaire's utility payments to City of \$8,145 per month	\$ 97,740
Maintenance Supplies	Estimated based on general maintenance experience as well as maintenance experience at the Harbor Park Golf Course. Estimated amount of \$3,500 per month for all facilities.	\$ 42,000
Office and Administrative	Estimated based on general office management experience at \$650 per month.	\$ 7,800
Refurbishments and Maintenance	\$50,000 will be set aside annually for on-going refurbishments, improvements and maintenance of concession facilities.	\$ 50,000
TOTAL:		\$ 197,540

**Department of Recreation and Parks
Golf Division
Electric Golf Carts Rental Operation
Capital Improvements**

	Estimated Cost
Clarifier - Hansen Dam	\$ 27,000
Clarifier - Griffith Park	27,000
Ventilation System - Hansen Dam	15,000
Total Cost of Capital Improvements	\$ 69,000
Depreciation Period (Years)	4
Annual Depreciation Amount (Over 4 Years)	\$ 17,250