City of Culver City, California

City Council Agenda Item Report

Meeting Date: 8/14/06	Item Number: A-5
AGENDA ITEM: Approval of an Amendment to the Contract with Coca-Cola Bottling Company of Los Angeles for the Provision of Beverage Vending Machine Services at Parks and Recreation Facilities to: 1) Extend Its Terms for an Additional One-Year Period and; 2) Add the Stipulation that Only "Healthier Beverage Choices" as defined in SB 965 will be Offered.	
Contact Person/Dept.: Bill La Pointe, PRCS Director	Phone Number: (310) 253-6655
Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [X]	Attachments: [X]
Public Notification: Master Notification List (8/10/06); Parks and Recreation Commission (8/10/06) Coca-Cola Bottling Company of Los Angeles (8/10/06); Culver City Unified School District (8/10/06).	
Department Approval: Bill La Pointe (08/02/06)	City Manager Approval: Jerry B. Fulwood (08/09/2006)
City Controller Approval: Marlee Chang (08/09/2006)	

RECOMMENDATION:

Staff and the members of the Parks and Recreation Commission recommend the City Council approve an amendment to the contract with Coca-Cola Bottling Company of Los Angeles for the provision of beverage vending machine services at parks and recreation facilities to: 1) extend its terms for an additional one-year period and; 2) add the stipulation that only "healthier beverage choices" as defined by SB 965 will be offered.

BACKGROUND:

During fiscal year 1999-2000, the City Council directed staff to identify an initial "demonstration" project for implementing a sponsorship program. As a result of this process, the City entered into a five-year agreement with Coca-Cola Bottling Company of Los Angeles to provide beverage vending services at Culver City park and recreation facilities (Attachment 1). The termination date of the agreement was July 31, 2006. The program is currently operating under the status quo until action is taken by Council.

The agreement with Coca-Cola included the following services to be provided:
(1) Installation and electrical work to establish approximately 30 machines in City parks; (2) Twenty-four hour repair response for malfunctioning machines; (3) Forty-eight hour graffiti response on all machines; (4) a list price of $1.25 for 20-ounce soft drinks and 16-ounce Minute Maid 100% juices; and, (5) a 45% commission rate to the City of Culver City based on sales of $12.15 per case of beverages.

In the winter of 2001, Coca-Cola began installing beverage vending machines in City parks at the sole expense of Coca-Cola. Twenty-nine beverage vending machines were initially installed at various parks within the City. The total number of beverage vending machines has fluctuated somewhat during the past five years, mainly due to the modification of some vending machine sites to accommodate vandal-resistant cages and the removal of machines during capital improvements at various park and recreation facilities. The average number of beverage vending machines that have been in operation throughout the contract period is 28 machines. There are currently 26 vending machines in the following locations:

PARK	# OF MACHINES
BLANCO PARK	2
CULVER CITY PARK	4
CULVER WEST ALEXANDER PARK	2
EL MARINO PARK	3
FOX HILLS PARK	2
TELLEFSON PARK	2
SYD KRONENTHAL PARK	2
LINDBERG PARK	2
VETERANS PARK COMPLEX	7
TOTAL	**26**

The City's association with Coca-Cola Bottling Company was conceived as an "experiment" that it was hoped would both generate revenue and provide a service to park and recreation facility users. As Attachment 2 indicates, net profits after utility costs were projected to be $36,996.51 annually (based on 35 vending machines each selling eight beverages daily).

DISCUSSION:

Program Performance

The combined gross revenue from the Coca-Cola beverage vending machine program since its inception in October 2001 through June 2006 is **$67,646**. Quarterly commission revenue for the fiscal years during which the beverage vending machine program was in full operation is presented in the table below:

	2002-03	2003-04	2004-05	2005-06
Jul-Sep	$4,755	$6,201	$5,341	$4,419
Oct-Dec	$2,342	$3,630	$2,354	$3,625
Jan-Mar	$1,685	$1,451	$1,673	$2,558
Apr-Jun	$4,777	$6,134	$3,571	$3,254
total	**$13,558**	**$17,416**	**$12,939**	**$13,856**

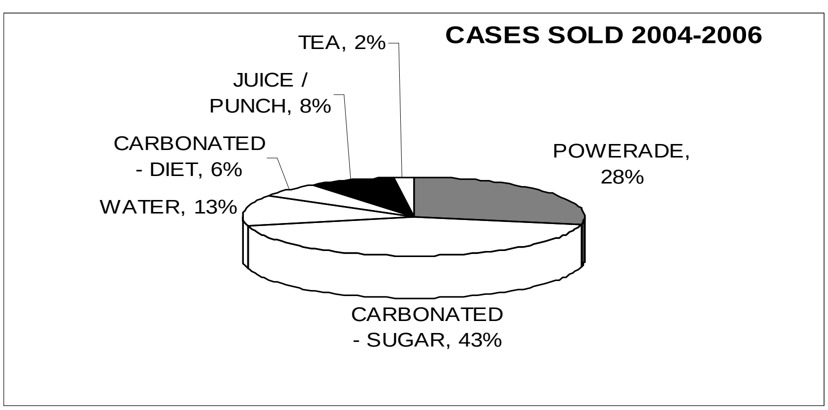
The vending machines are not metered individually for electricity usage. Using information from representatives of Coca-Cola Bottling Company and Southern California Edison, the following is a reasonably accurate estimate of electricity costs:

- Each vending machine, operating 24 hours a day, uses **270 kWh/month**.
- The average number of vending machines in operation was **28 machines**.
- The average cost per kWh is **$0.097** (assuming a General Service – 2 rate).

270 kWh/month x $0.097 kWh x 28 machines = **$ $733.32/month average cost of electricity.** Factoring in a 5% average error of the estimate (since we do not have precise utility information) cumulative electricity costs could run anywhere from $697 to $770 monthly, or $8,364 to $9,240 annually. The average annual vending beverage machine gross revenue (calculated using the figures from the table above) is $14,443. Therefore, taking electricity costs into account, the average net annual vending machine revenue ranges from **$5,230 to $6,709** (for 28 machines).

There has been some speculation that there could be an increase of up to 17% in the cost of electricity during fiscal year 2006-07. If this potential increase is factored into the above equation, electricity costs for 28 machines could range from $9,776 to $10,811 annually. Average annual net vending machine revenue would then be $3,642 to $4,667 (for 28 machines).

The index that Coca-Cola uses to track purchasing trends is based on the number of cases needed to restock each vending machine or "cases sold." The graph below presents the percentage of cases sold during the period 2004 through 2006 grouped by product.



Policy Considerations

The chart above demonstrates that 49% of the cases of beverages sold over the past two years have been carbonated beverages (sweetened with sugar – 43%; artificially sweetened – 6%). An update of the Coca-Cola Vending Machine program was given at the February 1, 2005 meeting of the Parks and Recreation Commission. At that meeting, concern was expressed about offering healthier choices for children other than carbonated beverages (attachment 3). It is opined that sugar-infused carbonated beverages may put individuals at higher risk for certain heath problems. A fact sheet published by the California Center for Public Heath Advocacy states that, "Soda Consumption Puts Children at Risk for Obesity, Diabetes, Osteoporosis and Cavities" (Attachment 4).

The National Recreation and Park Association (NRPA) believes that park and recreation agencies have the potential to greatly impact the nutrition choices of youth, and, therefore, their health. In January 2006, the NRPA conducted a survey of its members regarding their agency's use of vending machines. Approximately sixty-five percent (65%) of the park and recreation professionals who responded to the survey stated that they were interested in improving the vending machine options provided by their departments by providing more healthy choices.

This trend is consistent with recent legislation that has focused on the issue of childhood obesity. For example, the California Childhood Obesity Prevention Act of 2003 banned carbonated beverages in vending machines located at elementary, middle and junior high schools. Beginning July 2004, vending machines could contain only milk, water and 100% fruit juice. SB 965 (Escutia), the Health Beverage Bill, was signed by Governor Schwarzenegger on September 15, 2005. This legislation expanded the language that described the type of beverages that can be sold on school campuses (grades kindergarten through twelfth) throughout the school day. SB 965 guidelines promote healthier choices and, although the City is not required to do so, staff and the members of the Parks and Recreation Commission recommend that Council consider applying such guidelines to beverage vending machines in parks and recreation facilities within Culver City. Specifically, these guidelines require that beverages sold to the public in vending machines must be:

- Fruit-based and vegetable-based drinks that are at least 50% juice without added sweeteners
- Drinking water without added sweeteners
- Milk products including 2%, 1%, nonfat, soy, rice and other similar non-dairy milk
- An electrolyte replacement beverage that contains no more than 42 grams of added sweetener per 20-ounce serving

As a matter of policy, staff and the Parks and Recreation Commission believe that the Parks and Recreation Department should be providing products that will encourage the health and well-being of our community.

Parks and Recreation Commission Action

The issue of extending the Coca-Cola contract for a one-year period and offering healthier beverage choices only was discussed by the Parks and Recreation Commission at the August 1, 2006 meeting. During public comment on the item, Ms. Marla Wolkowitz, a member of the Culver City Unified School District (CCUSD) Board, spoke as a private citizen to inform the Commission that she was in agreement with the provision to offer "healthier choices only" in beverage machines located in parks and recreation facilities within Culver City. She stated that the School Board recently adopted a similar, although somewhat more stringent, policy with regard to the choice of beverages sold in vending machines on CCUSD school campuses. She also stated that the City should consider working together with the school district so that the standards for beverages offered in vending machines at schools and in park and recreation facilities are consistent.

The Commission took action (5-0) to recommend that the City Council approve an amendment to the contract with Coca-Cola Bottling Company of Los Angeles for the provision of beverage vending machine services at parks and recreation facilities to: 1) extend its terms for an additional one-year period and; 2) add the stipulation that only "healthier beverage choices" as defined by SB 965 will be offered (note: a draft of the minutes of the August 1, 2006 Commission meeting was not available for attachment at the time this report was submitted).

The Commission was advised that staff will look into the following issues with regard to beverage vending machines in parks: (1) partnering with the School District in developing and implementing a consistent "healthier beverage choices only" vending machine policy; and (2) exploring the possibility of changing the pricing for the beverages in the vending machines from $1.25 to $1.00 in hopes of increasing the volume of sales.

FISCAL ANALYSIS:

A Coca-Cola representative has informed the City that sales for some clients who have chosen to offer "healthier choices only" have been reduced by approximately two-thirds. On the other hand, an article posted on the National Recreation and Park Association website (www.nrpa.org) states that convenience plays a large part in consumer buying trends and that some school districts have not experienced the dramatic reduction in sales that was predicted upon implementation of "healthier choices only" policies (attachment 5). Any potential loss of revenue must be offset by other sources of revenue or a reduction in services. The Parks, Recreation and Community Services Department will explore new ways to generate revenue while developing its comprehensive plan, which was funded in fiscal year 2006-07 and through the City's Comprehensive Financial Plan (2006-07).

An immediate way to improve the overall financial performance of the vending machine program might be to remove those vending machines that have not performed well enough to cover utility costs. Based on the figures presented above, an individual vending machine must generate approximately $330/year just to cover utility costs. Looking at the machines individually, the eight (8) vending machines at the following locations did not generate enough revenue to cover utility costs during fiscal year 2005-06:

LOCATION	MACHINE TYPE
PADDLE TENNIS COURT AT VETS	Coca-Cola
VETS MUTIPURPOSE ROOM	Coca-Cola
VETS MUTIPURPOSE ROOM	Dasani
KRONENTHAL PARK	PowerAde
BLANCO PARK	Coca-Cola
BLANCO PARK	PowerAde
CULVER CITY PARK (mid-level)	Coca-Cola
TELLEFSON PARK	PowerAde

ATTACHMENTS:

1. Coca-Cola Bottling Company of Los Angeles. Contract No. 2001-175.
2. July 9, 2001 Culver City Council Agenda Item Number H-4.
3. Excerpt of the minutes of the February 1, 2005 meeting of the Parks and Recreation Commission.
4. "Soda Consumption Puts Children at Risk for Obesity, Diabetes, Osteoporosis and Cavities," a fact sheet published by the *California Center for Public Heath Advocacy*.
5. "Beverages in Schools," an article posted on the *National Recreation and Park Association* website.

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MOTION:

That the Council:

1. Approve an amendment to the Contract with Coca-Cola Bottling Company of Los Angeles for the provision of beverage vending machine services at parks and recreation facilities to: 1) extend its terms for an additional one-year period and; 2) add the stipulation that only "Healthier Beverage Choices" as defined in SB 965 will be offered.

2. Authorize the City Attorney's Office to prepare the Amendment to the contract and authorize the City Manager to execute the Amendment.

or

3. Provide direction to staff as deemed appropriate.