City of Culver City, California

City Council Agenda Item Report

Meeting Date: 11/14/07	Item Number: A-4
AGENDA ITEM: Discussion of Options Regarding the Parks, Recreation and Community Services (PRCS) Department's Beverage Vending Machine Program, Including: 1) Rejection of the Vendtech Company, Inc. Bid for Vending Machine Services and Discontinuance of the Program; 2) Approval of an Agreement with Vendtech Company, Inc. for Vending Machine Services; and 3) Other Alternatives for Continuance of the Program.	
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Fiscal Impact: Yes [X] No []	General Fund: Yes [X] No []
Public Hearing: [] Action Item: [X]	Attachments: [X]
Public Notification: Master Notification List (10/17/07); Parks and Recreation Commission (10/17/07); Vendtech Company, Inc. (10/17/07).	
Department Approval: Bill La Pointe (10/11/07).	City Attorney Approval: Carol Schwab (by H. Iker) (10/31/07)
Fiscal Impact Review: Marlee Chang (by M. Noller) (11/07/07)	City Manager Approval: Jerry B. Fulwood (11/08/07)

RECOMMENDATION:

Staff recommends that City Council discuss options regarding the Parks, Recreation and Community Services (PRCS) Department's Beverage Vending Machine Program (the "Program"), including: 1) rejection of the Vendtech Company, Inc. ("Vendtech") bid for vending machine services and discontinuance of the Program; 2) approval of an agreement with Vendtech for vending machine services; and 3) other alternatives for continuance of the Program.

BACKGROUND:

The Parks and Recreation Commission and the City Council considered and took action regarding the Parks, Recreation and Community Services (PRCS) Department's Beverage Vending Machine Program several times since the program was first discussed in 1999. A table highlighting the program's milestones is provided as Attachment 1.

As noted in Attachment 1, a request for proposals (RFP) for Beverage Vending Machine Services in selected parks and recreation facilities was published in April 2007. A three week deadline was placed on the bidding process. Only one bid, from Vendtech Company, was received by the May 10, 2007 deadline.

At the August 7, 2007 Parks and Recreation Commission meeting, the Commission took action to recommend the City Council reject the Vendtech bid and discontinue the PRCS beverage vending machine program. An excerpt of the minutes of the meeting is provided as Attachment 2.

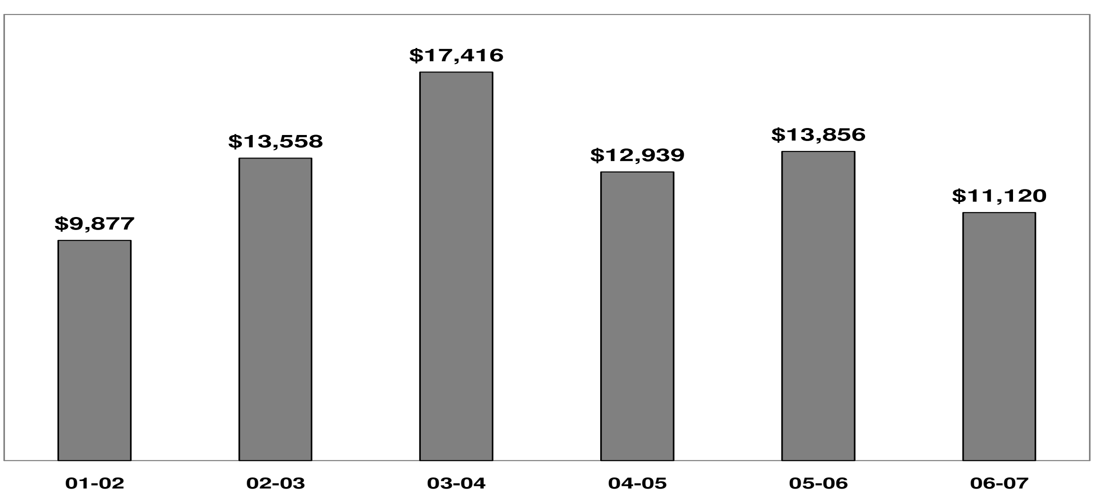
When staff proceeded to move forward with the Commission's recommendation to City Council, the City Manager's Office requested that alternatives to the discontinuation of the program be provided to Council. Specifically, staff was asked to provide Council with information regarding reverting to a "traditional" beverage selection and increasing the beverage pricing. Since these alternatives had not been fully discussed at the August 7, 2007, Parks and Recreation Commission meeting, it was determined that this item should come back to the Commission with this additional information for further discussion and recommendation.

At the September 6, 2007 Parks and Recreation Commission meeting, the Commission made the determination that its August 7th recommendation to City Council to reject the Vendtech bid and discontinue the PRCS beverage vending machine program would stand. An excerpt of the draft minutes of the meeting is provided as Attachment 3.

DISCUSSION

Factors Supporting the Discontinuance of the Program

1 – Poor Performance: The table below shows the income generated by the program over the past several fiscal years (not taking the cost of vending machine operation into account):



It should be noted that these figures are substantially lower than the approximately $52,000 annually (based on the installation of 35 machines) that Coca Cola Bottling Corporation, Inc. had projected when the program was first approved by the City Council in 2001.

2 – Failure to Cover Operating Costs in FY 06-07: A representative of Southern California Edison has provided detailed information regarding the cost of electricity during the 2006-07 fiscal year at various parks and recreation facilities where beverage vending machines were located. A representative of Coca-Cola Bottling Company has stated that one beverage vending machine generally uses an average of 270 kilowatt hours during a one month period. A table showing fiscal year 2006-07 Beverage Vending Machine Program revenues and expenses based on this information is provided as Attachment 4.

The excerpt from Attachment 4 below provides an average summary of commission paid and electricity used for the period before the program was significantly reduced in size and scope (July 2006 – December 2006) compared to the period after this transition (January 2007 – June 2007):

	Number of Machines	**Commission**	**Av cost of electricity per kWh**	**Av cost to operate vending machine**	**Revenue minus cost of electricity**
July-Dec 2006	**24**	**$ 7,554.82**	**$ 0.19**	**$ 7,225.20**	**$ 329.62**
Jan-June 2007	**12**	**$ 3,565.07**	**$ 0.19**	**$ 4,266.00**	**($ 700.93)**

Based on these calculations, the Beverage Vending Machine Program ended fiscal year 2006-07 with a deficit of $371.31 when electrical costs are taken into account.

3 – Vandalism: Recently, there has been increased vandalism. Machines at Tellefson, Syd Kronenthal and El Marino Parks have been broken into. The vending machines were left disabled and in need of repair or replacement by the vendor. The “vandal-proof” cage at Syd Kronenthal Park was jarred loose from its footing and so unstable that it presented a hazard to the public before it was finally removed by the vendor.

4 - Aesthetics: The security cages that surround the vending machines have become an eyesore in the parks. The wind blows leaves and debris into the cages which then remains lodged there causing the area to look dirty and unkempt.

<u>5 – Service Delays</u>: Due to higher priority duties, PRCS staff is not able to continuously monitor the condition of the machines; therefore if the vendor is not vigilant, considerable time may pass before the onset of a problem (such as sold out or out-of-date product) and its resolution, resulting in a loss of potential revenue.

<u>6 – Staff Time</u>: It is estimated that staff spends approximately ten (10) hours per month administering the program. When the program loses money, valuable staff time is being spent on a project that is already being subsidized by the City, resulting in an even greater drain on the Cities resources.

Re-bidding beverage vending machine services with a revised RFP could result in changes to the program that may address financial issues and could also ameliorate issues 2 through 4 noted above; but to what degree has yet to be determined.

<u>*Alternatives for Consideration Should City Council Wish To Continue the Program*</u>

The Council may determine that, as a matter of policy, beverage vending machines should remain in parks within Culver City for the convenience of patrons. Should the City Council wish to consider alternatives to the discontinuation of the Program, alternatives which either reduce program expenditures or increase program income (or some combination of both) are offered for consideration.

<u>1 - Re-Bidding with Revised Specifications</u>**:** The request for proposals (RFP) published on April 19, 2007, stipulated the following: (1) Installation of eleven beverage vending machines at eight outdoor and three indoor park and recreation facilities; (2) Vend “healthier beverage choices only” as defined by the California ”Health Beverage Bill,” SB 965. (3) Beverages must be offered to the public at reasonable prices; (4) Commission rate, to be determined during negotiations, paid to the City of Culver City. (5) Twenty-four hour repair response for malfunctioning machines; (6) Forty-eight hour graffiti response on all machines;

It is assumed that stipulations 5 and 6 are in the best interest of the City and should remain in the RFP. However, Council may want to consider revising stipulations one (1) through four (4).

RFP stipulation one (1) called for the installation of eleven (11) beverage vending machines at eight (8) outdoor and three (3) indoor park and recreation facilities. One of the service providers who choose not to bid the earlier RFP suggested that a program offering just eleven (11) machines is not worth the trouble that it takes for a vendor to go through the bidding process. The table presented earlier shows that the program was at its most productive during fiscal year 2003-04. There were thirty-two (32) machines in service during that time. The RFP could be revised to increase the number of machines back to that level or higher.

RFP stipulation two (2) stated that the service provider must vend “healthier beverage choices only” as defined by the California ”Health Beverage Bill,” SB 965. Council may wish to reconsider its earlier decision to limit the program to “healthier beverage choices only.” At its most productive point, the program offered a “traditional” beverage selection which included carbonated beverages sweetened with sugar or artificial sweeteners.

RFP stipulation three (3) stated that beverages must be offered to the public at reasonable prices. The Council may wish to revise the RFP to state that beverages must be priced at a level which results in the City breaking even or profiting from the program after electricity costs are taken into account.

RFP stipulation four (4) stated that a commission rate, to be determined during negotiations, must be paid to the City of Culver City. The Council may wish to stipulate that any commission formula proposed by the service provider must include a guarantee to cover the City’s operating costs for the program.

<u>2 - Working with Vendtech to Increase the Viability of the Program</u>: The Council may determine that staff should work with Vendtech to increase the viability of the program rather than to re-bid the program. Under Vendtech’s proposal, the commission paid to the City on beverage sales would be computed by the following formula: **suggested sales price minus Vendtech’s internal cost times twenty-five percent**. Using the price lists included in Vendtech’s proposal, anticipated revenue would be as follows

Beverage Type	Size	Suggested Customer Price	Vendor Cost	Net Profit	Profit Per Case	City Commission Per Case
Welch's 100% Juice	12 oz.	0.85	0.57	0.28	6.72	**1.68**
Dasani Water	20 oz.	1.00	0.77	0.23	5.52	**1.38**
Powerade (all flavors)	20 oz.	1.25	0.56	0.69	16.56	**4.14**

It is reasonable to assume that if eleven (11) vending machines are in full operation, a minimum of fifty (50) cases of product per month may be sold if a beverage vending machine program is in place next fiscal year. Based on previous sales, one possible scenario for product sales over time is 14% juice, 26% water, and 60% Powerade. If this were the case, the commission to the City could be projected as

$153.90 per month (an average of $13.99 per machine per month) using the rates above, or a total of $1,846.80 annually.

The annual cost of electricity for one vending machine during fiscal year 2007-08 is estimated as $581.58 (please see Fiscal Analysis section). For eleven machines, the cost of electricity is $6,397.38 annually. This leaves us with a balance of negative $4,550.58 annually ($1,846.80 in annual commission minus $6,397.38 in annual electricity costs) for the Program.

If consumer prices were increased to $2.00 for all beverages, the anticipated revenue would be as follows:

Beverage Type	Size	New Customer Price	Vendor Cost	Net Profit	Profit Per Case	City Commission Per Case
Welch's 100% Juice	12 oz.	2.00	0.57	1.43	34.32	8.58
Dasani Water	20 oz.	2.00	0.77	1.23	29.52	7.38
Powerade (all flavors)	20 oz.	2.00	0.56	1.44	34.56	8.64

Using the same formula for types of beverage sold with these recalculated commission rates, sales of fifty cases per month would then yield $4,982.40 annually. This leaves us with a balance of negative $1,414.98 annually ($4,982.40 in annual commission minus $6,397.38 in annual electricity costs). Since even this increase in pricing does not enable the program to cover the cost of electricity in Fiscal Year 07-08, it is important to look at options for reducing the cost of electricity used to operate the machines.

3 - Steps to Reduce the Cost of Electricity: VendingMiser® incorporates energy-saving technology into a small device that installs either on the wall or on the vending machine. Maintenance savings is generated through reduced running time of vendor components, such as the compressor, using an embedded “Sensor Repeater” to cycle the machine off when not in use. The estimate received for purchasing controls for eleven vending machines (3 indoor and 8 outdoor) is $1,748.73. SCE’s “Express Efficiency Program” offers a $90.00 rebate per control. This would reduce the total cost to $758.73.

According to VendingMiser® Company, the controls reduce the energy consumption of vending machines an average of 46%. If the company’s claims prove true, the annual electricity costs for eleven machines would be reduced from $6,397.38 to $3,454.59. If beverages are priced at $2.00 each, then based on the projections above, the Program would more than cover its operating costs ($4,982.40 in annual commission minus $3,454.59 in annual electricity costs equals $1,527.81).

An SCE representative suggested that removing the light bulb that illuminates the inside of the vending machine could also result in energy savings.

4 - Other Possible Alternatives for the Beverage Vending Machine Program: The same potential service provider mentioned earlier (who did not place a bid) also suggested that the City's program had too many stipulations. Another option for the program is to make an open-ended agreement with a service provider for a period of time that could be thought of as a "trial period" to see how the program fares under that company's direction. In this case, the City would have to be willing to subsidize the program if it did not meet performance goals.

Another option might be that the Council may determine that providing beverages in parks and recreation facilities is an amenity that it wants to provide to its users under any circumstances; even if financial subsidy is required. In this case, the Council could direct the City to subsidize the program without regard to its performance or operating costs.

Several options other than the discontinuance of the program have been presented to the Council in this report. However, Council's final determination regarding the PRCS Beverage Vending Machine Program is not limited by this discussion. Council may have other suggestions regarding the continuance of the program.

Information from Other Cities

A short survey regarding the operation of beverage vending machine programs at park and recreation facilities was emailed to the members of the California Parks and Recreation Society's (CPRS) Administrators list serve and to cities surrounding Culver City during on August 21, 2007. A summary of the responses to this survey is provided as Attachment 5.

FISCAL ANALYSIS:

Any future fiscal impact of the Beverage Vending Machine Program is dependent upon the terms of the contract with the service provider. It will be determined by the City Council whether or not the program must cover the basic cost of electricity to operate the machines.

In calculating projections, the median rate from last year of $0.175 is being used. The average rate of $0.19 may not be appropriate for projections since the Lindberg Park electricity rate is higher than the rate at all other parks. Therefore, using the median rate from last year, the cost of electricity to operate one vending machine in parks and recreation facilities can be estimated as $47.25 monthly (270 kWh times

$0.175 per machine per month). If the rate increases by 5% in 2008 (as estimated by a representative of SCE), the rate will be $49.68 monthly after the first of the year (270 kWh times $0.184). With this adjustment, the cost of electricity for one vending machine during fiscal year 2007-08 is estimated as $581.58 annually. If the VendingMiser® is installed on the machine, this cost could be reduced to $314.05 annually.

Depending on the action taken and/or direction given by the City Council this evening, when it is necessary, further information on the fiscal impact of other alternatives would be provided at the time they are brought back to Council.

ATTACHMENTS:

1. Table Presenting the Milestones of the PRCS Beverage Vending Machine Program.
2. Excerpt of the Minutes of the August 7, 2007 Parks and Recreation Commission Meeting.
3. Excerpt of the Minutes of the September 6, 2007 Parks and Recreation Commission Meeting.
4. Fiscal Year 2006-07 Beverage Vending Machine Revenue and Expense.
5. Summary of Survey Responses Regarding Beverage Vending Machine Programs from Representatives of Other California Cities.

MOTION:

That the City Council:

1. Reject the Vendtech bid and discontinue the Parks, Recreation and Community Services (PRCS) Department's Beverage Vending Machine Program.

or

2. Approve a Professional Services Agreement with Vendtech and continue the Parks, Recreation and Community Services (PRCS) Department's Beverage Vending Machine Program; and

3. Authorize the City Attorney to review/prepare the necessary documents and authorize the City Manager to execute such documents on behalf of the City.

or

4. Consider and take action on one or more of the alternatives to the discontinuation of the Beverage Vending Machine Program which either reduce program expenditures or increase program income (or some combination of both) presented in this report.

or

5. Discuss the item and provide further direction to staff.