



City of Culver City

Staff Report

File #: 24-340, **Version:** 1

Item #: C-8.

CC - CONSENT ITEM: Approval of Amendment to the Agreement with Sustainable Management Services, LLC., to Adjust the Annual Budget and Incentive Fee Calculation for the Management of the Culver City Farmers' Market.

Meeting Date: November 13, 2023

Contact Person/Dept: Elaine Warner/Office of Economic and Cultural Development

Phone Number: (310) 253-5777

Fiscal Impact: Yes No

General Fund: Yes No

Public Notification: (E-Mail) Meetings and Agendas - City Council (11/07/2023) (E-Mail)
Downtown Business Association (11/07/2023)

Department Approval: Jesse Mays, Assistant City Manager (10/23/2023)

RECOMMENDATION

Staff recommends the City Council approve an amendment to the Agreement with Sustainable Management Services, LLC., to adjust the annual budget and incentive fee calculation for the management the Culver City Farmers' Market.

BACKGROUND

Since 1995, the Culver City Farmer's Market has operated continuously on Tuesday afternoons in Downtown Culver City. The Market currently includes approximately 42 individual vendors (subject to seasonal adjustments) and is certified by the California Department of Food and Agriculture. It is located on Main Street between Venice Boulevard to the north and Culver Boulevard to the south with a small portion that extends into the City of Los Angeles.

In 2017, the City awarded Sustainable Management Services, LLC., (SMS) a five-year contract to manage the market operations. In 2022, the City issued a Request for Proposal (RFP) and a second five-year agreement was awarded to SMS until October 2027. Since assuming management the Market, SMS has enhanced the Market's operation with curated vendors and new forms of market currency. SMS introduced the Market's supplemental nutrition programs including Electronic Benefits Transfer (EBT), Special Supplemental Nutrition Program for Women Infants and Children (WIC), CalFresh, Market Match, Farmers Market Nutrition Program and California Nutrition Incentive

Program (CNIP). The administration of the Market Match and other grant programs is provided by SMS and the Model Neighborhood Program which has attracted many EBT shoppers and has made the market more inclusive.

SMS also manages all aspects of the Market's operation, including vendor selection, vendor space assignment, setup and breakdown supervision (including traffic control), maintenance, marketing, social media and promotion, coordination, creating a public seating area, hosting cooking demonstrations and interactive children's activities, conducting seasonal special events, overseeing the community outreach table, security, invoicing, collecting revenue, and other operations/duties required by the Market functions or as assigned by the City.

The Market is a valued economic development program, and amenity to City, attracting individuals from surrounding residential neighborhoods, businesses, and the region at large.

DISCUSSION

Per the current agreement, SMS proposed an annual budget that included market management, market supplies, labor, marketing, permits and reimbursement and grants from outside agencies as noted below. However, in November 2022, The California Employment Development Department (EDD) conducted an audit and made a ruling deeming SMS's independent contractors were required to be considered employees, thus increasing the project market labor and worker's compensation costs by 25%. Additionally, SMS was required to pay EDD approximately \$4,000 in fees to avoid future penalty. These fees were funded by the Market revenues, however, are being reimbursed by SMS to the City on a monthly basis. These additional employee costs were not anticipated in the budget presented and approved in the existing agreement. Additionally, the financial operation of the market has continued to be impacted due to current inflation and on-site/storage equipment theft.

To address these issues, SMS has requested re-consideration of the remainder of their agreement with the following terms.

- Annual budget increase of 8% for the second year of the agreement, and an annual increase per the Consumer Price Index (CPI) for the remaining years of the agreement;
- Increase the current incentive pay rate from 20% of net revenues (after all market expenses and labor have been funded), to 30% of net revenues for the first \$50,000 in cumulative annual net revenues and 45% of annual net revenues over \$50,000.
- Apply the new terms retroactively to October 2023 to coincide with the 2nd year of the five-year agreement.

The SMS agreement is funded entirely through the revenues of the market, and to date, additional City financial supplementation has not been required due to general success and consistency of the market operation.

FISCAL ANALYSIS

In November 2022, an agreement with SMS was approved for an amount of \$627,440, plus 20% net

market revenues to manage the market for five years (Attachment 1). The market operation and SMS’s management fee are funded directly by the revenues of market and net revenues are remitted to the City. The City provides repayment of an incentive fee to SMS directly thereafter.

Based on the budget projections in the current agreement, an 8% increase and an estimated 3% CPI would increase the remaining four-year budget by approximately \$60,000.

Annual Budget Adjustment

	Proposed Budget 2022	(8% increase + 3% CPI estimate)
Year 2	\$127,635	\$14,040
Year 3	\$128,900	\$14,179
Year 4	\$144,500	\$15,895
Year 5	\$144,500	\$15,895
		\$60,009

If the incentive fee (currently projected at \$87,000) is recalculated as requested and the budget adjusted per the above, the total increase is estimated to be \$52,000 over the next four years (\$13,000 annually). As the incentive fee is contingent on the overall revenues of the market, it may fluctuate higher or lower.

	Projected gross revenues 2022 (1)	Adjusted Budget	Projected Net Revenues	Incentive Fee - Tier 1: (30% on first \$50K)	Incentive Fee Tier 2: (45% above \$50k)	Total Projected Incentive Fee
Year 2	\$223,080	\$127,479	\$95,601	\$15,000	\$20,520	\$35,520
Year 3	\$227,542	\$128,727	\$98,815	\$15,000	\$21,967	\$36,967
Year 4	\$232,092	\$143,963	\$88,129	\$15,000	\$17,158	\$32,158
Year 5	\$236,724	\$143,963	\$92,761	\$15,000	\$19,242	\$34,242
						\$138,888

It is important to note that from November 2022 through October 2023, the City received approximately \$60,000 in net revenues from the market for its annual operation beginning in October 2022. This amount is lower than the \$100,000 projected due to work-from-home trends, adverse winter weather, and entertainment-related strikes, however, revenues have been improving in recent months. The incentive fee calculations are dependent on the overall net revenues of the market, and thus serve as inducement to make the market as successful as possible.

The Adopted Budget for Fiscal Year 2023-2024 includes sufficient funding to cover the proposed increase to the incentive fee.

ATTACHMENTS

1. SMS Five-Year Agreement Staff Report (September 19, 2022)

MOTIONS

That the City Council:

1. Approve an amendment to the agreement with Sustainable Management Services, LLC., increasing the management fee not-to-exceed amount by \$60,009 to \$687,449; and adjusting the incentive fee calculation to 30% for first \$50,000 net revenues and 45% of net revenues above \$50,000 and apply new fee structure retroactively to October 2023; and,
2. Authorize the City Attorney to review/prepare the necessary documents; and,
3. Authorize the City Manager to execute such documents on behalf of the City.