

County of Santa Clara
Facilities And Fleet Department
Intragovernmental Support Services
Property Management



FAF 061609 Budget

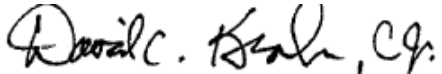
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Manager of Real Estate Assets

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Manager, Intragovernmental Support
Services

DATE: June 16, 2009

TO: Board of Supervisors

FROM: 
David C. Kronberg
Interim Facilities & Fleet Director

SUBJECT: Cafeteria Contract Amendments and Marketing Program

RECOMMENDED ACTION

Consider recommendations relating to all four County Cafes.

Possible action:

- a. Approve transfer of \$100,000 in funds from Cafeteria and Vending Trust Fund to Facilities and Fleet Department (BU 263 cc 2306) in the FY 2010 approved budget.
- b. Approve Delegation of Authority to Director of Facilities and Fleet, or designee to negotiate, execute, amend, and if necessary terminate, current contract with California Dining Services for cafeteria operations, following approval by County Counsel as to form and legality, and approval by the Office of the County Executive. Delegation of

authority shall expire on December 30, 2010

FISCAL IMPLICATIONS

All four remaining County Cafes (Charcot, Julian, Hedding and Berger) continue to operate at a financial loss. Staff recommends approval of these actions to allow the department flexibility in responding to the continuing operating losses experienced by the cafeteria vendor.

Recommended Action (a) - Authorization to transfer funds in FY 2010 Approved Budget

The recommended action will transfer \$100,000 in Cafeteria and Vending Trust funds to BU 263, cost center 2306 and will provide authority to staff to utilize funds while simultaneously entering into contract negotiations to reduce cafeteria operating expenses. As of July 1, 2009, \$27,197 will remain in the Cafeteria and Vending Trust Fund after the \$100,000 transfer.

Recommended Action (b) - Approve Delegation of Authority to negotiate, execute, amend, and if necessary terminate, current contract with California Dining Services

There is no fiscal impact to the General Fund for entering into negotiations with the vendor. If additional funds are required, staff will utilize a portion of the funds transferred in recommended action a.

CONTRACT HISTORY

The Facilities and Fleet Department awarded the Food Service Management Contract to California Dining Services (CDS) under delegated authority on December 6, 2007. The Contract commenced on January 1, 2008 and will end on December 31, 2010. Two additional one year terms are possible under the contract. This contract required CDS to support all five County cafes.

On March 24, 2009, the Board approved delegation of authority to amend the current food service management contract to provide small subsidies to four cafes and close one. Staff analysis showed that the Junction Cafe could not generate enough sales due to low participation. FAF closed Junction Cafe on March 31, 2009. The contract was amended to reflect this closure.

REASONS FOR RECOMMENDATION

Recommended Action (a) - Authorization to transfer \$100,000 in Cafeteria and Vending Trust funds in FY 2010 Approved Budget

The current projections indicate that California Dining Services contracted cafeteria operations will experience a cumulative loss of \$105,212 for calendar year 2009. This represents a slight improvement from 2008 when the operator experienced losses of approximately \$122,000 prior to any subsidy. These losses are not sustainable through the end of the contract term in December 2010. There are three strategies to cover these losses: 1) continuing to support operations with transfers from the Cafeteria and Vending Trust fund, 2) increasing gross sales, or 3) reducing expenses. Staff intend to enter into contract negotiations with the intent of focusing on increasing gross sales and reducing the cost of operations. The recommended actions will assist the California Dining Service in continuing operations possibly through to the end of the existing contract in December 2010.

Recommended Action (b) - Authority to negotiate and amend contract to restructure and terminate if necessary

The intent of entering into negotiations with California Dining Services is to reduce operating costs, management and overhead expenses, and determine if other cost savings could be achieved through consolidation of the cafeteria operators. The contract will be modified to allow use of less expensive recyclable paper products.

In calendar year 2009 management costs increased \$11,500 to \$192,000 from the prior year. FAF requests the authority to enter into negotiations to reduce management expenses associated with the contract through consolidation of cafeteria operations under fewer providers or through other means.

Even with the implementation of the above recommended actions, it is still possible that the cafeteria contractor will not be able to continue operations. The department needs authority to restructure the current contract or terminate the contract to address this potential outcome. If contract services are terminated, staff will work to seamlessly transition to a new cafeteria contractor to ensure cafeterias remain open. If a new operator is required, staff will return to the Board for approval of the new contract.

Exploration of Options for Future Contract

There are various options that exist for the County going forward into the next cafeteria contract. Each of these options addresses an issue that administration believes is contributing to the losses experienced by California Dining Services. Although food and labor costs are the primary drivers contributing to losses, the franchise structure of the contract and the expansion from two to five (now four) cafeterias has increased the cost of operations. Restructuring the contract to encourage an owner-operator model instead of the franchise model may reduce management and overhead expenses and provide greater marketing expertise. Alternatively, the County could consider operations through a hospitality management program at a local college or university. Finally, the contract could allow independent operators for the four cafeterias. In each option, marketing expertise needs to be one of the requirements for selection of any new vendor.

Staff will work with the cafeteria vendor to implement recommended actions a and b and will continue to explore options for a seamless transition to a new operator, if necessary.

BACKGROUND

At the Board of Supervisors meeting held on March 24, 2009, staff was directed to provide a solution to the Cafeteria operational losses during the Budget Hearings and provide further information on a marketing plan.

CONSEQUENCES OF NEGATIVE ACTION

If these recommended changes are not made to support all four cafeterias, it will not be possible for the food service provider to continue with their operations. This could cause the discontinuation of food services to County employees and the general public visiting County facilities.

STEPS FOLLOWING APPROVAL

Provide KEYBOARD notification upon processing to Bill Drake, Ellen De La Cruz and Chanthavy Sivongxay at FAF Property Management

ATTACHMENTS

- California Dining Services Operating Statement