

REPORT OF GENERAL MANAGER

NO. 05-88

DATE April 6, 2005

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BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: GRIFFITH PARK TRAIN RIDE – FIFTEEN YEAR CONCESSION AGREEMENT WHICH ALLOWS ACQUISITION THROUGH RENT AMORTIZATION OF IMPROVEMENTS AND FINDING THAT IT IS NOT FEASIBLE OR PRACTICAL TO CONDUCT A COMPETITIVE BID PROCESS

H. Fujita _____
J. Kolb _____
K. Chan _____
B. Jensen _____

F. Mok _____
*K. Regan [Signature]
J. Combs _____

[Signature]
General Manager

Approved _____

Disapproved _____

Withdrawn _____

RECOMMENDATION:

That the Board:

1. Approve a fifteen-year concession agreement with the current concessionaire, GP Rah Enterprises, LLC, substantially in the form on file in the Board Office, for the continued operation of the Griffith Park Miniature Train Ride Concession, subject to approval of the Mayor and City Council, and approval of the City Attorney as to form;
2. Approve the City's acquisition of all concession-related train ride equipment and improvements at the end of the term through rent reduced to 4.25% of gross receipts from all standard train ride gross receipts;
3. Find, in accordance with Charter Section 371, that the use of competitive bidding would be undesirable and impractical because concessionaire owns the concession improvements and will not consent to their use by another concessionaire, and building new improvements is expensive and would not interest prospective concessionaires;
4. Direct the Board Secretary to transmit the proposed agreement to the Mayor in accordance with Executive Directive No. 16, and concurrently to the City Attorney for review as to form; and,
5. Authorize the Board President and Secretary to execute the agreement upon receipt of necessary approvals.

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SUMMARY:

In 1947, the first miniature train ride was built in Griffith Park near the Los Feliz/Riverside Drive entrance to the park. Located adjacent to the park's pony ride concession, which opened in 1946, by the mid-1950s the train ride concession was a booming attraction, though in 1956 and 1957 it was closed due to construction of the Golden State Freeway. The attraction also closed for 10 months in 1962 to 1963 when a change of concessionaires necessitated removal of the previous operator's equipment, and time for the new operator to set up and make improvements extended for nearly a year.

Today, a visit to the Los Feliz concession reveals operation by Don and Margaret Gustavson – owners of GP Rah Enterprises, LLC, featuring three beautiful locomotives that are rotated into service, each having a nostalgic look and appeal but which are fueled by propane. GP Rah proactively converted the locomotives from gasoline in 1994 to improve air quality. Matching and/or wooden gondola passenger cars, approximately one mile of 18 gauge track, and 7/8 mile of perimeter fence are incorporated. Improvements include the scale station (ticket office) which was modeled after the train station at Disneyland and built in the 1960s; concrete loading platform and wood cover balanced on a center row to protect the double track; decorative scale water tank/tower; engine shed/barn containing three tracks, a maintenance pit, storage and a small machine shop, concrete floor, 200-amp electrical and water; decorative small building used for storage; employee building which is a break room and rest room; tunnel which is decorative but also serves as an enclosed securable storage area for equipment during non-operating hours; and a wood-on-concrete bridge which is a functional crossing for the track built in the 1960s but retrofitted in 1991 with supplemental steel framework. Repair and maintenance tools and equipment as well as spare parts are also included. This long list of locomotives, passenger cars, structures, and related operating items are all owned by GP Rah.

Under the same concession agreement, miniature train ride service is also provided by GP Rah at the Travel Town Museum. This location features two attractive locomotives and passenger coaches running on 16 gauge track. These items along with a repairable locomotive, the ticket booth, shop tools, and equipment are also owned by GP Rah although at this location the track is owned by the City.

In 2004, the gross receipts for Los Feliz standard train rides were \$672,127 and \$301,794 at Travel Town. Rent paid was 10% and 5% respectively. Other gross receipts generated from this concession in 2004 were \$77,510 for SR2 simulator rides (10% rent) and \$86,360 from gift stand sales and the holiday train ride visits to Santa (10% rent, each). The current fee for standard train rides from this concession is \$2.00 for adults and children. Tickets for seniors and group discounts (20 minimum) are \$1.50. The SR2 simulator shares the same rate structure. This pricing reflects the last increase for both train and simulator rides as approved by the Board on September 4, 2002, under Board Report 02-322.

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The contract for the Griffith Park Miniature Train Ride concession operation expired in 1994 after the full agreement term of 10 years was completed and has since continued on 60-day revocable status with the current operator. A competitive bid through a Request for Proposal was circulated in late 1996. The Department received no bids. Based on follow-up discussion with those who had attended the proposer conference and other research, staff determined that the reasons for lack of proposers were:

- ▶ Up front capital investment of \$300,000 to \$500,000 required of proposers, either in purchasing or replicating the improvements owned by the concessionaire for other proposers, or on other improvements for the current operator because he needed to offer \$500,000 in improvements as well to level the playing field
- ▶ Equipment investment of \$100,000 or more for trains and cars
- ▶ Cash bonus of \$100,000 required by the Department (to increase City revenue)
- ▶ Maintenance requirements for the entire Los Feliz area of Griffith Park

Some revisions to the 1996 Request for Proposal document were identified, with the aim of re-advertising a more attractive RFP; however, the primary deterrent to receiving proposals, the up front capital cost and related constraints, was not solved. Hopes were further dashed by a change in 1999 in the Living Wage Ordinance, making this concession subject to those provisions, along with the Service Contract Worker Retention Ordinance and the Equal Benefits Ordinance. The application of these ordinances further compromised the financial viability for any firm interested but concerned about the steep capital investment. Another potential problem could be a need for another one-year or longer closure if major removal and rebuilding became required. Based on these circumstances, staff would expect an open proposal to receive no submissions.

On January 5, 2000, the Board approved assignment of the concession agreement for the operation and maintenance of the Los Feliz and Travel Town Railroads from GP Recreations, Inc. to Donald E. and Margaret Gustavson as sole proprietors. Mr. Gustavson was the current president of GP Recreations, Inc., as noted in the Board Report (00-03). The change of operators stemmed from the mandatory requirements of the Living Wage Ordinance, the resulting downsize of the business staff, and the change of partnership within GP Recreations, Inc. The assignment of the concession agreement ensured continued service of this traditional family attraction. Mr. and Mrs. Gustavson have since formed GP Rah Enterprises, LLC, the current concessionaire.

By letter of February 19, 2002, GP Rah, operating under the expired contract, acknowledged the challenges facing the Department in processing an RFP for this concession operation. GP Rah owns virtually all of the improvements and equipment essential to this type of operation (only the train track at the Travel Town location is City-owned). These major assets, combined with GP Rah's successful operating experience, good citizenship within the park, and compliancy with the Living Wage Ordinance make it impractical to bid because other proposers cannot be competitive. As

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such, along with personal reasons, long-term goals, and business foresight, the owners of GP Rah proposed negotiation of an agreement by which the Department could ultimately become owners of all or a portion of the improvements and equipment used for these concession operations.

Because all improvements and all equipment used at both operations are owned by GP Rah, staff had previously considered the possibility of seeking a sole source contract, similar to the situation with the Griffith Park Merry-Go-Round (the operators own the Merry-Go-Round). The Board must find as required by the City Charter, that it is in the best interest of the City to contract with the owner, and that it is not practical to go out for bid. This finding is based on the failed previous RFP, the capital investment challenges including the possible shut down, the few potential bidders in the Southern California area, and the cost to the City of conducting a proposal process. However, instead of continuing a sole source arrangement, staff proposes making a one-time agreement that amortizes the purchase of the improvements so that for future competitive proposal processes, the exorbitant investment capitol will no longer be an issue.

For the reasons stated above, Concession staff initiated negotiations with GP Rah Enterprises, LLC, to analyze the benefits and to test the viability of the findings. The first step was to assess the true value of the required equipment and improvements. Attachment A details the appraisal process, whereas the following two tables summarize the assessment values of the subject equipment and improvements:

Table #1 - Equipment - GP Rah's assumed value and David Norton's Appraisal.

Requested by:		Admin Staff.
Appraiser or Estimated by:	GP Rah Ent.	Norton Auctioneers – David Norton
Note:	Concessionaire's assumed value	Professional Appraisal
Equipment: Locomotives, passenger coaches, track, signals, misc. equipment, shop tools.	\$300,000 to \$600,000	
Total	\$450,000	\$177,500

Table #2 - Improvements - GP Rah's assumed value, both of Piatelli's appraisals, the concessionaire's two estimates from subcontractors for duplication, and Citywide Construction's estimates for duplication.

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Requested by:		Admin Staff	Admin Staff	GP Rah Ent.	GP Rah Ent.	Admin Staff
Appraiser or Estimated by:	GP Rah Ent.	Piatelli	Piatelli	CMA Construction	Hoffman & Associates	Citywide Construction
Note:	Concessionaire's assumed value	Mkt value in place	Forced Liquidation			
Improvements:						
Station / Ticket Office		\$16,376	\$12,282	\$50,000	\$51,400	
Loading Platform and Cover	\$250,000	\$28,017	\$21,913	\$45,000	\$42,000	
Workshop / Barn	to	\$33,559	\$25,169	\$110,000	\$135,000	
Emp.BreakRoom/RestRm		\$9,139	\$6,854	\$15,000	\$14,500	
Storage Building	\$500,000	\$6,363	\$4,772	\$7,500	\$9,500	
Tunnel		\$11,615	\$8,711	\$55,000	\$73,100	
Bridge		\$11,641	\$8,731	\$95,000	\$86,000	
Water Tower		\$5,822	\$4,366	\$20,000	\$30,300	
Ticket Booth at TT		\$2,337	\$1,753			
Chain Link Fencing		\$42,264	\$31,698	\$60,000	\$66,000	not included
Town Façade		\$1,000				
Wrought Iron Fencing				\$10,000	\$16,000	included
Proj.Mgmt,overhead,profit (Gen.Contractors Fee)				\$70,000	\$79,900	not included
Total	\$350,000	\$168,133	\$126,249	\$537,500	\$603,700	\$425,000

Staff believes the \$425,000 replacement estimate from Citywide Construction for structures and improvements at this concession and the \$177,500 appraisal from Norton for the train ride related equipment to be realistic. This total of \$602,500 is substantially lower than GP Rah's original assumed value of \$800,000 for improvements and equipment stated in their letter of February 19, 2002.

GP Rah has stated that their historic financial growth trend is 4% per year. Staff has calculated continued operation for 15 years, at various growth trends – 4%, 2%, 1%, and at zero percent (0%) change. With each of these growth trends, comparisons were made regarding the amount of rent the City would receive using the different rental percentages – the current rates of 10% for Los Feliz standard train rides and 5% for Travel Town standard train rides versus 4.25% for standard train rides at both of the locations, which is one possible reduced rent percentage agreeable to City and operator GP Rah. Rent percentages for their profit centers (i.e. simulators, parties, train rides to Santa) would remain at 10%.

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A 15 year study, with various growth trend percentages, including the net effect on rent received from standard train rides over 15 years with proposed rental reduction to 4.25% is as follows:

At 4% growth	At 2% growth	At 1% growth	No growth / status quo
\$851,947	\$721,637	\$665,122	\$613,661

In each scenario, even with zero growth, the net effect on rent received by the City over 15 years with the proposed rental reduction would yield at or above \$602,500 – lower than requested, but an acceptable figure that GP Rah would accept for the concession improvements and equipment.

Though not listed in the improvements, other significant improvements/equipment are included in the transfer of property to the City at conclusion of the 15 year term. This includes the old town façade, SR2 simulator ride building/enclosure, the souvenir/gift stand, and the caretaker residence/trailer. These structures and trailer reside at the Los Feliz concession location.

To ensure that the improvements and equipment are maintained to the satisfaction of the General Manager, an additional 1% must be paid on the total standard train ride gross receipts to be set aside as a reserve. Said funds will be used for “life-extending” repairs and refurbishments only (not for routine repair/maintenance), or for replacement. The reserve shall be cumulative and carry-over from year-to-year during the term of the contract. Annual reporting, each January, will be made by GP Rah detailing the prior-year’s expenditures from the fund and propose expenditures in the coming year for review and the General Manager’s approval. In the event of emergencies, GP Rah may submit written requests to the General Manager for specific unanticipated use of the fund. The General Manager may also request the use of the fund on a specific repair, refurbishment, or replacement.

It behooves GP Rah to continue their first rate operations during the 15 year term because higher growth rates effectively increase their compensation for the equipment and improvements. The City would also benefit in higher rent received annually along with the prominence and goodwill that would be inherent in this operation at the end of the term, when the Department would take ownership of the equipment and improvements. Future staff would then perform an analysis resulting in recommendation to the Board for self operation of the train ride concession or implementation of an RFP for operation of the concession. In the case of an RFP, expectations to receive numerous proposals would be high since the high investment to purchase and/or duplicate the necessary equipment and improvements would no longer be a factor to the prospective operators.

GP Rah is committed, in this new contract, to comply with all current City policies including the Living Wage Ordinance, Equal Benefits Ordinance, and direct payment of utilities.

The Department’s Environmental Management staff has determined that the subject project will consist of the issuance of a concession agreement for the continued operations and/or minor

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alterations of existing public structures and facilities involving negligible or no expansion of use. Therefore, the project is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Article III, Section 1, Class 1 (1, 14) of the City CEQA Guidelines.

Report prepared by Stanley Woo, Management Analyst II, Administrative Resources Division.

ATTACHMENT A

APPRAISAL PROCESS OF TRAIN RIDE EQUIPMENT AND IMPROVEMENTS

Staff documented the complete inventory of equipment and improvements, and subsequently sought professional appraisals of the cumulative items. The study included six miniature locomotives and 18 passenger coaches along with approximately 8,000 feet of riding and side track, a tunnel, bridge, loading platform, buildings, and other improvements. The equipment and improvements reside at two locations in Griffith Park – Los Feliz adjacent and Travel Town Museum.

Due to the uniqueness of the appraisal items, two separate professional appraisals were conducted to ensure accuracy. One appraiser, David Norton, is an auctioneer and appraiser of amusement type rides who was engaged to perform an appraisal of the miniature trains and appurtenances – a very specialized type of equipment. The other appraiser performed the study on the ride-related structures and perimeter fence. These structures are less specialized, and staff found the best value and qualifications in Piatelli Company of Beverly Hills, appraiser Christopher Shaun.

In November 2002, David Norton completed his appraisal of the miniature locomotives, passenger cars, and shop tools and equipment at both Travel Town and Los Feliz, along with the track and signals at Los Feliz. The appraised value was \$177,500.00. Mr. Norton's "desk top appraisal" was based on photographs from staff and narratives submitted by GP Rah, Enterprises, LLC, - also reviewed by staff. The individual values reported by Norton were made in view of actual comparable sales, age, condition, location, availability, new acquisition costs, and other value-affecting conditions.

In a separate study also conducted in November 2002, Christopher Shaun of Piatelli Company personally inspected and appraised the train ride related structures and appurtenances which include the Los Feliz station, employee break room/restroom, storage room, workshop/barn, loading platform, bridge, water tower, fencing, tunnel, and Travel Town ticket booth. Piatelli provided both high and low-end appraisal values. The high-end appraisal, \$168,133.00, was considered the "Market Value – In Place (Fair Market Value)" based on the most probable price the seller would receive, affording equity to both parties, neither being under any compulsion to buy or sell, and both parties fully aware of all relevant facts. Said equipment is as installed for intended utilization. The low end appraisal was \$126,249.00 and represents a "Forced Liquidation Value (Auction)" from a properly advertised and conducted public auction sale, held under forced sale conditions. Certain conclusions were taken into consideration: physical location, difficulty of removal, physical condition, adaptability, specialization, marketability, overall appearance, and psychological appeal. The ability of the asset group to draw sufficient prospective buyers to insure competitive offers is also considered. All assets are to be sold on a piecemeal basis 'as is' with purchasers responsible for removal of assets at their own risk and expense.

Appraisal Process of Train Ride Equipment and Improvements

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GP Rah's letter of February 19, 2002, provided a financial assumption of the existing improvements between \$250,000 "depreciated replacement cost" and \$500,000 "estimated replacement cost"; and existing equipment between \$300,000 "estimated auction prices" and \$600,000 "three complete new miniature trains." Neither a detailed breakdown of the equipment's value nor methodology/source of the estimated value was provided. GP Rah used the assumed values of \$350,000 for improvements and \$450,000 for the train ride equipment, a total of \$800,000.

With their own figures in mind, GP Rah believed the two Piatelli appraisals to be extremely low and antagonistic compared to their own perceived value. As such, GP Rah paid two independent contractors, CMA Construction and Hoffman and Associates, to estimate the cost of reconstructing similar improvements of like quality. The results were \$537,500 and \$603,700, respectively. Due to the discrepancy of the Piatelli appraisals and the two replacement estimates from GP Rah, staff requested the Department's Citywide Construction section to also estimate the cost of reconstructing similar improvements of like quality at the train ride concession facilities. This estimate, though not detailed by line item, came to \$425,000 total, well above the Piatelli estimates and over \$100,000 less than the lower subcontractor replacement estimates submitted by GP Rah. Note that Citywide Construction's estimate did not include the perimeter chain link fence, a high expense because of the need for approximately 7/8 mile to enclose the multi-acre premises.