

DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: April 7, 2010

Board Item V-E-6

Approval of Cafeteria Management Contract

Action by Consent

Action

Information

This Board item recommends approval of contract #12933A with Two Forks, Inc. for three years in an amount not to exceed \$275,000 for operation of manage Denver Water's on-site cafeteria, and an amount not to exceed \$225,000 for providing special occasion meals, box lunches, coffee and snacks. These latter costs are budgeted separately in each section's operational budget.

Background

Denver Water has maintained an on-site cafeteria in the main administration building since being at this location. The cafeteria provides a convenient and time saving option for employees who otherwise would travel "off campus" for lunch breaks. The on-site cafeteria, currently managed by Two Forks, Inc., serves approximately 250-350 lunches per day, and several hundred breakfasts, in addition to providing coffee service, snacks and meals for various meetings and events. Denver Water recently issued a RFP for the cafeteria management services. Four proposals were received, two from out of state and two from local companies, including Two Forks. Two Forks' proposal was the lowest acceptable one. One other firm proposed a lower management fee, but also proposed to provide the same level of service with 4 employees. Two Forks has six employees who order, prepare, cook and serve the meals, service the various vending machines, deliver meals to various meeting sites, and clean up.

There are a number of providers of food services such as Aramark, which operates about 1400 cafes for 500 corporate clients, Sodexo with 6,000 clients and 700 facilities and the Compass Group serving over 4 billion meals a year worldwide. In past solicitations for Denver Water's on-site cafeteria management services, proposals were received from Compass Group and Sodexo. Due to Denver Water's location and the number of meals served, there was no interest expressed by these larger vendors in the most recent solicitation. Other arrangements considered by Denver Water for food service includes vending machines and concessionaires. These options would not provide as much quality, variety and freshness of meals for employees. It would also be harder to encourage healthier alternatives with the daily menu in Denver Water's effort to promote health and wellness.

The arrangement adopted for the on-site cafeteria is one that allows Denver Water to receive all money from food sales in the cafeteria, while paying for the direct costs (food, labor, utilities, catering and a management fee) that are associated with operating the cafeteria. Two Forks charges a management fee of \$26,000 per year, for licensing, legal, and other incidental operating expenses. The costs of labor, ranging from \$57,000 per annum for Claire Brown, the lead partner in the enterprise, to about \$12 per hour for the lowest paid employee, are much less than they would be if the cafeteria workers were Denver Water employees. The cafeteria workers do have health care benefits available through Two Forks, but the benefits are not the same as Denver Water employee benefits, and only one of the cafeteria workers is receiving healthcare benefits through Two Forks. All food items are purchased

from wholesale sources, at the lowest price possible, but without the discounts that a large restaurant or chain might receive. The vendor makes no profit other than the fixed management fee.

The annual cost to Denver Water for the on-site cafeteria is the difference between sales and operating costs. All operating costs are paid by Denver Water, except taxes which come from individual meal sales and are paid to the State. To better control the overall costs, emphasis is put on finding the most economical prices for food and supplies, establishing appropriate costs for meals served, and controlling the cost of labor. The following chart indicates the success of these efforts in a comparison of 2008 and 2009, and projecting costs for 2010. The projection for 2010 includes an increase in the cost of meals, charging "to go" orders for the use of Styrofoam containers and cups, and reducing the cost of food and supplies by changing vendors for those items. Assuming the level of sales, including catering, would not decrease significantly, these changes are projected to cut Denver Water's operating deficit by \$72,738 or 59% from the 2009 level.

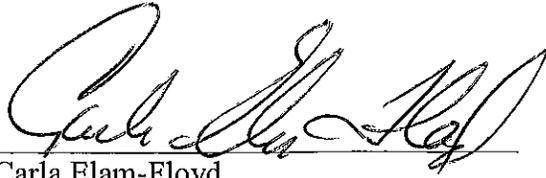
2008		2009		2010	
Sales	\$389,687.28	Sales	\$397,757.47	Sales	\$429,200.00
Costs		Costs		Costs	
food	\$231,303.19	food	\$213,379.91	food	\$180,000.00
wages	\$255,761.25	wages	\$254,574.39	wages	\$255,000.00
supplies	\$18,157.67	supplies	\$19,605.22	supplies	\$19,000.00
tax	\$23,456.81	tax	\$24,289.70	tax	\$25,000.00
Costs	\$528,678.92	Costs	\$511,849.22	Costs	\$479,000.00
Operating Deficit	\$132,868.41	Operating Deficit	122,538.08	Operating Deficit	\$49,800.00
Fee		Fee		Fee	
Mgt Fee	\$18,000.00	Mgt Fee	\$23,000.00	Mgt Fee	\$25,000.00

The staff proposes to seek the services of experts in the restaurant industry to conduct a study of the on-site cafeteria. Any recommendations from that study concerning pricing, types of meals served or management of an on-site facility, as well as alternatives to providing on-site food services, will be provided to the Board.

Recommendation:

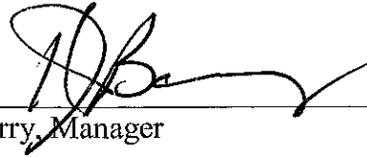
It is recommended that the Board approve contract #12933A between Denver Water and Two Forks, Inc., for three years in an amount not to exceed \$275,000 for management fees and operating cost, and an amount not to exceed \$225,000 over the same three year period for Board paid coffee, snacks, box lunches and meals for special events. These funds have been budgeted in the 2010 budget, some under the Cafeteria Services line item, and the rest under specific food line items in Division and Section and budgets. It is further recommended that the Board authorize the staff to engage the services of restaurant industry experts to conduct a study of the operations of the on-site cafeteria.

Approvals:



Carla Elam-Floyd
Director of Human Resources

Respectfully submitted,



H. J. Barry, Manager



Legal Approval