



WAR DEPARTMENT

P. O. Box 2610
WASHINGTON, D. C.



REFER TO FILE NO. EIDM WL-27

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1 November 1944

Subject: Report of Inspection of Concessions at Hanford Engineer Works.

To: Major General L. R. Groves, C. E.

From: Colonel E. E. Kirkpatrick.

I - Authority

1. Pursuant to your verbal orders, an inspection of the concessions at Hanford Engineer Works has been made.

II - Matters Investigated

2. The concessions were inspected with regard to contracts, service rendered, administration, operation, prices charged and fair profits. The inspection consisted of a tour of the various concessions, review of financial statements and interrogation of individuals concerned.

III - Facts & Discussion

3. The concessions at Hanford are uniformly let on a monthly rental basis for facilities occupied. Final contracts for the facilities have not yet been completed but are in process of being negotiated. At the start of the project difficulty was experienced in getting concessionaires on the job and propositions had to be made attractive due to the unknown risks involved. Since that time most of the businesses have been quite lucrative.

The Project Manager and the Office of the Area Engineer were cautioned that profits derived in the operation should be considered when the final contract terms were negotiated. In many cases it will be difficult to determine the exact figure but reasonably accurate estimates of earnings should be possible. Prices charged at Hanford were comparable to those at Richland and other surrounding towns and services afforded the population were adequate. There were no concrete evidences of grossly excessive profits but some may be uncovered by the contractor's inquiry. In one case it was stated that the original grocery concessionaire, who had been a small operator, had cleared in excess of \$80,000 before taxes in his operation. This can be compared to a store owner in a nearby town where income had been less than \$5,000 per year prior to the start of the project and during the past year he has netted about \$32,000 before taxes.

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4. Concessions at Richland.

a. Facilities. Tab "A" is a photostatic copy of a listing of all existing and contemplated concessions at Richland giving the present status of each, pertinent contract provisions, etc.

b. Prices. It will be noted that in all but four cases the government's share in the gross receipts is on a percentage basis. In these exceptions the percentage of profit is limited except in the case of the temporary food store. The profits of the temporary food store are being carefully watched and in case of excesses adjustments will be negotiated. The bank pays no rent and in lieu thereof provides free service to the government and the contractor. *(fixed fee) JRS*

The variety of stores will create a competitive situation with regard to Richland establishments. Prices have already reached a level comparable to the surrounding towns. Frequent price studies have been made and have resulted in a healthy adjustment during the past four months. Tab "B" is a recapitulation of a survey made in May since which time conditions have improved as indicated in Tab "C" which reflects the price situation as of 26 September.

Prices at Richland Thrifty Drug are a little high but action is being taken to correct this situation. The Safeway prices represent about the minimum that can be charged in the area. Inclosed is an advertisement from the Walla Walla Union Bulletin of 26 October which indicates that the same prices prevail at Safeway Stores in Richland, Walla Walla, Freewater, Dayton, Pasco and Kennewick. The survey reveals that prices in other stores at Richland compare favorably with those at Safeway when the type store is taken into consideration. It can be said that the prices charged in stores at Richland have been in line with OPA ceiling regulations and, in the main, have been competitive with those charged in the general territory.

Paragraph 17 of the standard concession contract for Richland provides additional protection by specifying that prices charged will be fair and reasonable and consistent with the volume of business, OPA regulations, and normal profits in like businesses.

5. Food and Drug Stores, at Hanford and Richland. The price policy for food and drug stores has been discussed above. The stores themselves are adequate, well stocked and the service given is satisfactory. Conditions will improve as more facilities become available.

6. Hotel and Cafeterias at Richland. The concession that has caused the most discussion at Richland is the Hotel and Feeding accommodations. These concessions are operated by the Progressive Cafeteria Company in facilities costing the government \$281,500 and equipped by the government to the extent of \$59,000.

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The government receives 25% of the gross receipts from the hotel, \$800 per month for the cafeterias, \$100 for the coffee shop and \$25 for the news stand. For the year 1944 the government will gross approximately \$40,000 from this property or 11.8% per annum for furnishing the properties including utilities, etc.

7. Financial figures for the entire operations are as follows:

a.	<u>Profit</u> , January 1 to August 30, 1944	\$ 36,321.20
	Profit, September, 1944	3,458.92

b.	<u>Income</u> , January 1 to September 30, 1944		<u>Profit</u>		
	Rooms	\$ 85,386.53	15.88%	16,002.99	18.74%
	Cafeteria	350,513.69	65.20%	30,719.53	8.76%
	Coffee Shop	87,096.75	16.20%	LOSS - 8,422.92	9.67%
	News Stand	<u>14,628.56</u>	2.72%		
		<u>\$537,625.49</u>			

Total Sales September, 1944	71,840.53
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c.	<u>Cost of Sales.</u>	
	Cafeteria	\$ 159,288.26
	Coffee Shop	37,622.05
	News Stand	<u>12,475.48</u>
	Total	\$ 209,385.79

Gross Profit	328,239.70
Due	<u>80.30</u>
Total Oper. Profit	\$ 328,320.63

d.	<u>Operating Expenses.</u>	
	Cafeteria	\$ 145,664.39
	Coffee Shop	54,210.49
	News Stand	753.45
	Rooms	<u>65,767.28</u>
	Total Oper. Expense	\$ 266,395.61

Adm. & Gen. Expense	\$ 22,144.90
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Net Profit	\$ 39,760.12	7.4% for 9 months.
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8. e. It is believed that the above profits will become smaller when the construction program is completed and the operating forces are established thus affecting a more stable population and reducing the number of transients. The rates charged in the transient quarters are comparable to those at good commercial city hotels. Accommodations are as good or better but there is less service. During September there were available 3390 room-days, 2560 were occupied at an average rate of \$3.69 per room and \$2.68 per person. The hotel was 75.52% occupied during the month.

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f. For the past nine months the average monthly profit for the hotel has been approximately \$1,780 per month. At the same time there has been a loss of \$8,422.92 in the coffee shop or approximately \$940 giving a net monthly profit of approximately \$850.00. With 2560 occupancies a month, the net profit per room per day is only 33¢. This is too narrow a margin to permit adjustment until such time as the plant arrives at a more stable operating status.

g. The service and food at the cafeteria can only be classed as fair. Prices are as high as those found in regular city cafeterias of the better type. The concessionaire could well afford to improve both the quality of food and service and make a reduction in some of the prices.

h. The Coffee Shop has satisfactory service but the quality of food and service is not as good as what can be gotten for the same price at the average hotel or restaurant except those in large cities. As this facility has operated at a loss of nearly 10%, it must be subsidized by the hotel profits. The cost of labor makes it impractical to reduce the cost of meals in this facility and it is believed that the present operating loss will have to continue and be considered as a part of the hotel service paid for in room rental. It would not be advisable to shut down the Coffee Shop as it fulfills a definite essential need at the project.

i. Sanitary conditions are satisfactory.

IV - Recommendations

8. It is recommended that:

a. Each concession contract be reviewed and the amount of profit be determined with a view to revision of contracts if legal and fair and to insuring that the concessionaire will not move from the site until the close of the work. There is bound to be a period of diminishing return which might result in current losses as the project closes out.

b. Regular submission of financial statements be required from all concessions at Richland, and that earnings be carefully watched by the prime contractor in order to adjust or prevent any excessive profits that might otherwise occur.

To get subcontracts - See app. See that they are carried out wisely as practicable. E. E. KIRKPATRICK Cblonel, Corps of Engineers 5/Dec/44

Inclosures:

- Tab "A" - List of concessions at Richland
- B - Recapitulation of Food store survey, May 1944
- C - Safeway Advertisement
- D - October price summary
- E - Progressive Cafeteria Transient Quarters, News Stand and Coffee Shop Contract.

(Inclosures continued on next page.)

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Inclosures (continued)

Tab "F" - Progressive Cafeteria Contract

- G - Copy of Audit of Progressive Operations
by Horwath & Horwath for 4-month period ending April 30, 1944.
- H - Operating Statement as of September 30, 1944.
- I - Prices charged at Richland cafeterias.
- J - Copy of standard Lease form for concessions.
- K - Profit & Loss Statements for miscellaneous concessions
at Richland.

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