

County of Milwaukee
Interoffice Communication

Date: December 26, 2014

To: Supervisor Marina Dimitrijevic, Chairwoman, Board of Supervisors

From: Josh Fudge, Director, Office of Performance, Strategy, and Budget

Subject: Due Diligence Report for Concessionaire Agreement with Service Systems Associates, Inc.

Issue & Background

I respectfully request that this report be forwarded to the appropriate standing committee(s).

In 2014 the Milwaukee County Zoo submitted a Request for Proposal for the operation of its food service, catering food service and retail and warehouse divisions.

Service Systems Associates, Inc. (SSA) is requesting to sign an agreement with the Milwaukee County Zoo (Zoo) to operate its food service, catering food service, retail and warehouse divisions on an exclusive basis for a contact period of ten (10) years.

The Department of Administration – Office of Performance, Strategy, and Budget (DAS-PSB), Corporation Counsel, and Risk Management (Risk) have reviewed the draft agreement.

Analysis

Applicable portions of the requirements of MCGO 32.88(4) are listed below:

Letter of Full Disclosure

SSA provided a letter outlining their intention to comply with the provisions of MCGO 32.88 and attached the required documentation.

Cash Flow Projections

SSA provided cash flow and budget projections for the venture. The figures appear to be reasonable and attainable.

County Operating Budget Impact

The proposed agreement will have a positive impact on the County's operating budget. The County will collect, on a monthly basis, the following commission on gross receipts for each category listed below:

CATEGORY	SALES	COMMISSION
Concession Food & Beverage and Vending	Receipts from \$0 up to \$2,000,000	25%
	Receipts in excess of \$2,000,000	28%
Retail Gifts	All Receipts	30%
External Catering Food & Beverage and Alcohol	All Receipts	15%

Annual Guarantee. If in any contract year (January 19 – January 18), Zoo Attendance exceeds 1,200,000 visitors, Concessionaire shall pay County the following amounts (the “Guaranteed Amount”) if the Guaranteed Amount exceeds the total remuneration due to County under Section 4.A for that contract year.

- Contract Year 1: \$1,450,000
- Contract Year 2: \$1,650,000
- Contract Year 3: \$1,700,000
- Contract Year 4: \$1,750,000
- Contract Years 5 and beyond: \$1,800,000

If Zoo Attendance does not reach 1,200,000 in a contract year, no guarantee will apply for that year and Concessionaire shall only pay the County remuneration pursuant to Section 4.A of the agreement.

Debt Management

SSA currently hold an eight figure line of credit with Wells Fargo Commercial Banking Group. They plan on using this line of credit to cover the anticipated capital outlay of \$3,000,000. This debit will be paid down on a regular basis with SSA’s net free cash flow.

Legal Liability

The legal firm Hale & Westfall LLP represents SSA, and states that SSA has no outstanding legal issues that may prevent them from performing its obligations pursuant to the contract with the Zoo.

Financial Reporting Systems

SSA uses a proprietary system called Cash Management Online (CMO). This system allow SSA to report sales on a daily basis. On a monthly basis profit and loss statements are generated and submitted to the Zoo’s Visitor Services General Manager, Regional Supervisor, and other Corporate Executives.

SSA has committed to providing the Zoo with weekly and monthly sales reports and will produce a daily revenue report upon request. They will also provide the Zoo with a commission statement (and payment) no later than 20 days following the end of the previous fiscal month. A sample commission statement was provided for review.

Right-To-Audit Provisions

SSA states that Milwaukee County may audit its records pertaining to any lease agreement that SSA may execute with Milwaukee County.

Project Feasibility

SSA utilized historical data, provided by the Zoo, to prepare its financial model, which includes projected attendance, per capita spending, and revenue projections. These figures include the assumption that revenues will increase by enhancing the physical amenities through capital infusion. It also helped SSA arrive at a commission rate that provides a competitive return to the Zoo.

During the first year of the agreement SSA will work with the Zoo to create a market analysis matrix to help determine pricing for the upcoming year. This analysis will compare the Zoo's food pricing with nearby cultural attractions and compare its facilities pricing and inclusions (or exclusions) with competitors. This will be done in conjunction with the Zoo's annual planning process.

Key Factor to Success

SSA listed the following as key factors for success:

- Attendance – annual increases in attendance will benefit both parties and has a direct impact on the commission paid to the zoo.
- Capital Investments – enhancements to the facilities will increase visitor's perceived value of the amenities and will increase efficiencies
- Revenue Growth – growth will translate to higher commissions to the Zoo, while returning a healthy EBITDA to SSA
- Exclusivity – this will allow SSA to reach its projected revenue goal
- Communication – regular communication, between key individuals, will allow SSA to meet departmental goals and County expectations
- Quality Programming and Services – guest perception will play a key role in whether or not their overall zoo visit represented a quality experience. This will also play a role in repeat visitation.

Governance Structure and Procedures

SSA is a privately held Sub-S Corporation, which is 100% owned by T. Kevin McNicholas, Chairman of the Board, Timothy L. Brantley, Chief Executive Office, and Sean K. McNicholas, President.

SSA created the following training materials to help ensure the business runs smoothly:

- General Manager Handbook
- Cash Management Handbook
- Retail Operations Manual
- Food Service Safety Manual
- Customer Service Training Program
- Visual Merchandising Training
- Diversity & Inclusion Training
- Mentorship Program

Employee/Labor Relations Impacts

While SSA does not anticipate entering into any collective bargaining agreements with its employees at the Milwaukee County Zoo, SSA is currently partnering with Teamsters Local 2 (food service) and Teamsters Local 856 (retail) in San Francisco (San Francisco Zoo) and Teamsters Local 986 (all departments) in Las Angeles (Los Angeles Zoo).

This agreement would have a net impact on 4 full-time employees and 50FTE seasonal employees. One of the full-time positions is vacate and SSA has agreed to hire the other three employees. SSA also plans to hire over 200 seasonal employees. They have provided a copy of their 2015 benefit plan for both full-time and seasonal employees.

Environmental Concerns

SSA dos not foresee any environmental concerns related to this venture. SSA does plan to adopt regimented sustainability programming and tracking that should enhance existing environmental awareness of both employees and visitors to the Zoo.

Governance Structure and Procedures / Tax Consequences

SSA operates as a Sub-S Corporation. Milwaukee County should see sales tax revenue as a result of the agreement.

Capital Management/Maintenance

SSA has agreed to make an investment, in capital improvements, in the amount of \$3,000,000 over the term of the agreement. SSA is also responsible for the cost of any moveable furniture, fixtures, and equipment. Any leasehold improvement shall become part of the Zoo facilities and are subject to the provisions of Section 24.F of the agreement. All leasehold improves require the written approval of the County and the DAS-Facilities prior to the start of work.

The Zoo is responsible for routine general maintenance of Zoo facilities, repairing major breakdowns and system malfunctions not caused by negligence, and cleaning public restrooms. SSA is responsible for cleaning all non-public restrooms located within all retail and food service locations, cleaning all indoor dining areas associated with concessions, and the daily upkeep of all retail shops, retails carts and transportation equipment. The Zoo and SSA will share the cost of pest control as outlined in Section 12 of the agreement.

Conflict of Interest/Ethics

SSA states that to their knowledge no potential conflicts of interest exist.

Performance Measurements

It is the intent of both parties that SSA will enhance existing food service and retail amenities in a manner that increases visitor satisfaction, revenues, and therefore commission to the Zoo. SSA will also support the Zoo's mission, follow the Zoo's rules, protocols and procedures, and maintain a clean, friendly, and safe food service and retail environment.

SSA will use the following measures to track its performance:

- Visitor satisfaction surveys
- ‘Secret Shopper’ reports
- Distributing post-event surveys to a 100% of the Zoo’s catering clients
- Annual reviews
- The submission of annual operating plans which outline the upcoming year budget and capital improvement goals.

Org Chart / Mission Statement

SSA provided an organizational chart. Their mission statement is to:

“Service Systems Associated is dedicated to providing high quality products, purveyed in a professional, pleasing, and efficient manner.”

Name of Bank to Determine Single or Combined Reporting

SSA maintain financial accounts at Wells Fargo Commercial Banking Group located at 1700 Lincoln St., 8th Floor Denver, CO 80203.

Recommendation

Upon review of the available information, and upon consultation with Corporation Counsel, and Risk Management DAS-PSB recommends approval of the draft agreement.



Josh Fudge, Director, Office of Performance, Strategy, and Budget

- cc: Chris Abele, County Executive
Supervisor Gerry Broderick, Chair, Committee on Parks, Recreation, & Culture
Supervisor Willie Johnson Jr., Co-Chair, Committee on Finance, Personnel and Audit
Supervisor Theodore Lipscomb, Sr, Co-Chair, Committee on Finance, Personnel and Audit
Raisa Koltun, Interim Chief of Staff, County Executive’s Office
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Charles Wikenhauser, Director, Zoological Department
Vera Westphal, Deputy Zoo Director (Administration/Finance)
Teig Whaley-Smith, Director, Department of Administrative Services
Jessica Janz-McKnight, Office of the Comptroller
Stephen Cady, Office of the Comptroller