

County of Milwaukee
Interoffice Communication

Date: November 26, 2013

To: Marina Dimitrijevic, Chairwoman, Board of Supervisors

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

Subject: Due Diligence Report for Lease Agreement with Starbucks at Red Arrow Park

Background

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

In 2002, the Department of Parks, Recreation, and Culture (Parks) agreed to lease space at Red Arrow Park to provide food and beverage services. The lease and extensions will expire on December 31, 2013. Parks is requesting authority to execute a long-term amendment to the current lease.

Review & Analysis

The Department of Administration - Fiscal Affairs (DAS), Corporation Counsel, Risk Management, and Community Business Development Partners have reviewed the draft proposal.

Per the terms of the proposed agreement, Starbucks would continue to lease their current location at Red Arrow Park for a term of ten (10) years concluding on October 31, 2023, with two mutual options to extend the agreement for an additional five (5) years each. Under the proposed amendment, the County would receive \$2,261 of rent monthly (\$27,132 annually) through November 2018. The following lists the monthly rent payment to the County.

Monthly rent payment from Starbucks to Milwaukee County

December 2002 to November 2007: \$2,500

December 2007 to December 2013: \$2,750

January 2014 to November 2018: \$2,261

December 2018 to November 2023: \$2,487

December 2023 to November 2028 (if extended): \$2,736

December 2028 to November 2033 (if extended): \$3,010

The proposed agreement also requires Starbucks to, at its sole cost and expense, renovate the premises during 2014. The renovations, which must total an investment of at least \$100,000, would become property of the County upon completion of the improvements. Prior to the start of any construction or renovation, construction plans must be approved by the Department of Administrative Services, Architecture and

Engineering section. While renovations are completed, Starbucks is permitted to temporarily relocate their operations to a mobile café adjacent to the existing premises.

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

Letter of Full Disclosure

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

Cash Flow Projections

Starbucks declined to provide cash flow information for the Red Arrow location, citing confidentiality concerns. Due to the success of concession in the past years, it is likely that cash flow at the Red Arrow location will be positive.

County Operating Budget Impact

The County would receive approximately \$27,132 annually in rent per the terms of the agreement.

Debt Management

Starbucks declined to provide debt management information for the Red Arrow Park location, citing confidentiality concerns.

Legal Liability

Starbucks states that no current legal liability exists with Milwaukee County and Parks.

Right-To-Audit Provisions

The proposed agreement does not contain any right-to-audit provisions.

Project Feasibility

No feasibility study was conducted. Starbucks has successfully utilized the facility since 2002. DAS believes that Starbucks' record for the past several years demonstrates that the proposed lease is feasible.

Employee/Labor Relations Impacts

Starbucks states that they are not involved in any labor contracts. Certain employees of the Parks Department will likely need to devote staff time to ensuring that the County is fulfilling the terms of the agreement. A need for additional County staff is not anticipated.

Environmental Concerns

No potential environmental concerns have been identified.

Tax Consequences

Starbucks is a for-profit corporation that is subject to all local, state, and federal taxes.

Capital Management

Per the terms of the proposed agreement, the County is responsible for capital repairs to the facility, with the exception of a one-time renovation of at least \$100,000. The proposed use of the facility is not expected to increase the need for Capital Improvements.

Conflict of Interest/Ethics

Starbucks states that no potential conflicts of interest exist.

Org Chart / Mission Statement

The mission of Starbucks is to “inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time.”

Name of Bank to Determine Single or Combined Reporting

Starbucks maintains financial accounts at Chase Bank, 111 E. Wisconsin Street, Milwaukee, WI.

Recommendation

Upon review of the available information, DAS recommends approval of the proposed agreement.



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

cc: Chris Abele, County Executive
Supervisor Gerry Broderick, Chair, Committee on Parks, Energy, and Environment
Amber Moreen, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board of Supervisors
John Dargle, Director, Parks, Recreation & Culture
Laura Schloesser, Chief of Admin & External Affairs, Parks, Recreation, & Culture
Suzanne Carter, Contracts Services Officer, Parks, Recreation, & Culture
Don Tyler, Director, Department of Administrative Services
Jessica Janz-McKnight, Research Analyst, County Board
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