

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : July 21, 2015

TO : Milwaukee County Board of Supervisors
Milwaukee County Executive

FROM : Scott B. Manske, Comptroller, Office of the Comptroller

SUBJECT : **Project WO517 War Memorial Renovation Status Report**

POLICY ISSUE

The Office of the Comptroller provides ongoing capital and debt monitoring and submits reports to policymakers that summarize the status of ongoing capital projects. This memo regarding Project WO517 - War Memorial Renovations is being presented to policymakers since this project includes a substantial amount of County financing and has complex issues.

BACKGROUND

The 2013 Adopted Capital Improvements Budget (2013 Budget) included an appropriation of \$2,000,200 for Project WO517 - War Memorial Renovation. The 2013 appropriation was to finance elements that included the replacement of the concrete in the Veteran's Courtyard; south stairs at the Veteran's Courtyard south entrance; repair of the concrete on the south canopy, interior columns and delamination of roof slabs; engineering and initial planning to replace the HVAC system for the Kahler building and engineering costs associated with these improvements.

The 2013 Budget anticipated that the \$2 million appropriation was the first year of a 5-year plan to renovate the War Memorial Facility. The total estimated cost for the improvement program was \$11.8 million, with \$10 million in financing from Milwaukee County and the remaining financing to be provided from the Milwaukee Art Museum (MAM). The 2013 Budget also anticipated the parties entering into a Memorandum of Understanding (MOU) to memorialize the funding commitments to improve the facility.

The overall plan was to consist of repaving the parking lot; replacing the roof membrane of the loading dock; improvements to the exterior building envelope, which includes the replacement of the waterproof membrane in the Veteran's Courtyard; including the replacement of the exterior and enclosed stairway (Bird Cage); general building exterior; concrete and structural improvements; replacement of the heating, ventilation and air conditioning (HVAC) system for the Kahler Building; improvements to the air handling unit for the West Building (Saarinen Building); general HVAC improvements; renovations of two (2) restrooms near the south entry area; and elevator renovations.

In October 2013, the County entered into a Development Agreement (File 13-647) with the Milwaukee Art Museum and the War Memorial Center. The Development Agreement anticipated that the County would authorize and appropriate \$10 million to the costs of the County Project. The appropriations were to occur during the 2013-2017 budgets.

The major elements of the project along with the cost estimates (Construction Budget) were included in Exhibit A of the development agreement. The table below includes the major element names, the estimates included in the Development Agreement and the total County appropriations that have been made to date. The table below also includes soft costs that were not provided for in the Development Agreement. The Development Agreement notes that “design and/or administrative costs for Milwaukee County are excluded, except where specifically listed as “supervisory engineering”

To date appropriations totaling \$11.9 million have been allocated to the Project. The appropriations have been broken up into the related Development Agreement categories in the table below. The table also includes a row for design and/or administrative costs that are not covered by the Development Agreement. The row titled “Proposed Appropriation Transfer” indicates the amount that is being requested by the Department of Administrative Services for July 2015. The transfer amount includes a contribution of \$175,000 from the MAM. If approved the appropriations for the project would total \$13.3 million.

Description of Major Element	Development Agreement Estimate	County Appropriations	Variances
Site Work	\$1,020,000	\$572,500	(\$447,500)
Building Exterior Envelope	\$2,551,000	\$2,026,341	(\$524,659)
Exterior Stairs	\$1,249,000	\$1,120,000	(\$129,000)
General Building Exterior	\$110,000	\$50,000	(\$60,000)
Concrete and Structural	\$866,859	\$419,859	(\$447,000)
HVAC System	\$2,925,000	\$5,407,855	\$2,482,855
General Building Interior	\$110,000	\$0	(\$110,000)
Elevators	\$565,000	\$288,374	(\$276,626)
Electrical Systems	\$741,000	\$425,000	(\$316,000)
Unanticipated Items			
Total	\$10,137,859	\$10,309,929	\$172,070
Soft Costs not Included in Agreement	\$0	\$1,587,976	\$1,587,976
Total Budget	\$10,137,859	\$11,897,905	\$1,760,046
Proposed Appropriation Transfer (HVAC/Elevators)		\$1,385,000	\$1,385,000
Total Revised Budget	\$10,137,859	\$13,282,905	\$3,145,046

The total actual expenditures on the project since 2013 total approximately \$6.4 million. The current outstanding encumbrances total approximately \$3.4 million. The current available balance is approximately \$2.1 million. If the July 2015 appropriation transfer is approved, approximately \$3.5 million will be available. We believe that subsequent appropriations will be required to complete work on the project.

Significant Variances Compared to Development Agreement

Although there are significant elements of the project that are ongoing or have not been started, the County's appropriations have already exceeded \$10 million. Prior to the start of construction, the parties involved in the War Memorial Center Improvements estimated the County's portion of the costs as \$10 million. Costs have exceeded the original estimates. The parties dispute the final responsibility for some of these additional costs. The element of the project that has the most significant variance is the HVAC System.

HVAC System

The Development Agreement included a County contribution estimate of approximately \$2.9 million for the HVAC System. To date, excluding soft costs, approximately \$5.4 million has been appropriated by the County for HVAC System related work. In addition there is a proposed July 2015 appropriation transfer being submitted to the Finance, Personnel and Audit Committee that would increase the County appropriations to the HVAC replacement by \$710,000. Assuming approval of the transfer the overall variance between County appropriations and Development Agreement estimates for the HVAC work would be approximately \$3.2 million.

The main reason for the additional costs compared to the Development Agreement include the following:

1. The original scope did not include replacement of all of the vertical ductwork that was concealed behind art walls and totally inaccessible, yet contaminated. The costs for creating structural openings and closings skyrocketed.
2. The existing lake water chiller system was undersized and needed to be upgraded or another water tower installed. These were not in the original scope.
3. Unanticipated asbestos abatement was needed in several areas of the HVAC replacement.
4. From early in 2014 when plans were to be finalized and through construction, MAM has had many plan changes that directly changed the design and scope of the HVAC project.

Elevators

The Development Agreement included an estimate of \$565,000 for the Elevator Improvements. To date, \$288,374 has been appropriated by the County for Elevator related work. In addition there is a proposed July 2015 appropriation transfer being submitted to the Finance, Personnel and Audit Committee that would increase the County appropriations to the Elevator element of the project by \$500,000. During the installation of the new fire protection system for the MAM and the WMC, it was discovered that the elevator controller systems is not compatible with modern digital technology. In the event of an alarm, the elevator system recall would not respond. Modernization of the microprocessor controller would also require updates on other systems for the elevators. There are a total of seven elevators that the County is responsible for updating. Assuming approval of the transfer the overall variance between County appropriations and Development Agreement estimates for Elevator work would be approximately \$220,000.

Soft Costs Not Provided for in Development Agreement

The Development Agreement notes that “design and/or administrative costs for Milwaukee County are excluded, except where specifically listed as “supervisory engineering”. To date these costs represent \$1.6 million that has been appropriated to the project but not included in the Development Agreement.

Tolling Agreement

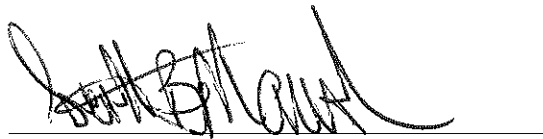
In October 2014, the County and the Milwaukee Art Museum entered into a tolling agreement. The tolling agreement was entered into in order to give the County and the MAM time to evaluate information and issues related to the respective duties and obligations under the Development Agreement and to provide time to discuss matters without regard to time constraints contained within the Development Agreement. The tolling agreement would allow for the overall project to move forward without having to stop progress and address disputed items.

The County is tracking the costs that have been encountered that it believes should not be its responsibility.

As provided in the Tolling Agreement, we understand that the County Executive has taken steps to commence the arbitration process called for in the Development Agreement in order to resolve responsibility for disputed costs. The parties are in the process of exchanging summaries of disputed items prior to the scheduling of the arbitration.

Recommendation

This is an informational report only for all policy maker and affected parties. There is a separate fund transfer request being submitted by the Department of Administrative Services for the July cycle of the Finance, Personnel and Audit Committee. There is also a separate request from the Office of the Comptroller to increase the authorization for the 2015 general obligation bond issuance to include a higher amount for Project WO517 War Memorial Improvements to reflect the amounts being included in the appropriation transfer.



Scott B. Manske
Office of the Comptroller

Attachments

pc:

Raisa Koltun, Chief of Staff, Milwaukee County Executive
Kelly Bablitch, Chief of Staff, Milwaukee County Board
Stephen Cady, Comptroller, Research Director
Greg High, Director DAS-AE&E
Julie Bastin, DAS-AE&E
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Steve Kreklow, DAS-PSB
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Dan Keegan, Milwaukee Art Museum
Dave Drent, War Memorial Center