



COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICATION

Office of the Comptroller

DATE : April 29, 2016  
TO : Chairman Theodore Lipscomb, Sr., Milwaukee County Board of Supervisors  
FROM : Scott B. Manske, Comptroller  
SUBJECT : Extension of Standby Reimbursement Agreement with US Bank

**Policy Issue**

A Standby Reimbursement Agreement ("Agreement") between Milwaukee County and US Bank, dated October 1, 2003, is set to terminate on August 15, 2016 related to debt associated with two hangars, owned by Milwaukee County and leased to Midwest Airlines, Inc. ("Midwest") and Skyway Airlines, Inc. ("Skyway"). The construction of the hangars was financed by bonds issued by the City of Milwaukee (IDRBs), but in 2003 was guaranteed by Milwaukee County to assist Midwest's and Skyway's cash flow. Milwaukee County established a trust reserve account in 2003 with \$900,000 received from Midwest and \$4,000,000 from the State of Wisconsin Department of Commerce and Racine County CDBG funds. These funds have been invested by the Treasurer and are receiving interest. The trust reserve is security for the IDRBs used to build hangars for Midwest and Skyway, however, under Milwaukee County's guarantee, if any payments are missed by Midwest or Skyway, the County is responsible for paying.

The Agreement needs to be maintained due to the continuation of the Credit Assistance Agreement between Midwest and Milwaukee County. If the Agreement is not renewed, Milwaukee County becomes responsible for any payments and potentially the balance of the IDRBs. The Comptroller (previously the Controller) has annually requested extensions to the Agreement since 2009. However, on February 25, 2016, Republic Airways, Midwest and Skyway filed for Chapter 11 reorganization. Republic Airlines had previously purchased the stock of Midwest and Skyway. The Comptroller believes the only assets remaining of Midwest and Skyway are the two hangars at Mitchell Airport.

Subsequent to the Chapter 11 filing, the Comptroller submitted an appropriation transfer in the amount of \$500,000 to transfer funding from the reserve into an operating account should payments not be made by Midwest or Skyway. Milwaukee

County was required to make payments and as of April 28, 2016, \$130,457 in payments have been made.

Due to the bankruptcy filing, unlike in prior years, the Comptroller is submitting a resolution requesting multiple options depending on the outcome of negotiations with US Bank. The options are:

- Option 1 - allow the Office of the Comptroller to extend the Standby Reimbursement Agreement with US Bank for a period of one year as has been done in the past.
- Option 2 - allow the Comptroller to execute a new Reimbursement Agreement with an alternative financial institution should negotiations with US Bank fail to result in an agreement satisfactory to Milwaukee County.
- Option 3 - allow the Comptroller to issue General Obligation Promissory Notes or Bonds (the "Obligations") to either US Bank or an alternative financial institution to provide funding to pay the County's obligation under the Agreement to U.S. Bank for the IDRBs should negotiations for the Agreement fail to result in an agreement satisfactory to Milwaukee County. If the Agreement expires, U.S. Bank is required to call the IDRBs and draw on the letters of credit to pay the IDRBs in full. If Midwest and Skyway do not pay U.S. Bank the full amount of the IDRBs, under the Agreement, the County is responsible for payment of the IDRBs. The estimated outstanding balance on the IDRBs is \$11,555,000. The resolution permits the Comptroller to issue the Obligations in the full amount needed to pay the IDRBs in the event the trust reserve funds are not immediately available. The resolution permits the Obligations to be issued for a term of not greater than 20 years at an interest rate not to exceed 4.00%. The amount of principal due on the Obligations shall be determined by the Comptroller after considering the debt service payments due on all other debt of the County so that the debt service payments on all debt of the County, including the Obligations, will be as level as possible. The Agreement permits the County to issue a general obligation promissory note to US Bank rather than pay cash. The promissory note would be payable over 10 years at a rate of rate of 1.00 percent plus 30-day LIBOR. The attached resolution will authorize the Comptroller to issue the promissory note to US Bank or other Obligations to an alternative financial institution if the Comptroller determines it is in the best interest of the County to do so.. An informational report will be submitted to the Finance, Personnel and Audit Committee.

## **Background**

Milwaukee County entered into a Credit Assistance Agreement with Midwest and Skyway in October 2003 (Resolution 03-265(a)(a)) to provide credit support to the airline. The Credit Assistance Agreement required Milwaukee County to be the guarantor of letters of credit issued by US Bank, for the account of Midwest and Skyway. The letters of credit guaranteed payment on two industrial development

revenue bonds (defined above as "IDRBs") issued by the City of Milwaukee for Midwest and Skyway to build hangars.

The guarantee to US Bank was formalized through a Standby Reimbursement Agreement (defined above as "Agreement"), between the County and the Bank. With Milwaukee County's guarantee, Midwest and Skyway assets that had been used to support the letters of credit could be used to obtain additional credit from financial institutions.

The Standby Reimbursement Agreement had a termination date of August 15, 2008. Previously, the Standby Reimbursement Agreement was extended to August 15, 2016 and option one under this resolution would extend it one additional year to August 15, 2017.

If the County does not extend the Standby Reimbursement Agreement, the Trustee of the IDRBS will accelerate the IDRBS which will result in draws under the letters of credit to pay off the IDRBS. The County will become responsible for repaying the bank for these draws on the letters of credit.

The County guarantee is supported by a mortgage on two hangars owned by Midwest and Skyway, and a trust reserve fund. The trust reserve fund currently has a balance of \$5,333,082. The trust fund was originally established with a contribution of \$4.0 million from the State Department of Commerce and Racine County through a Wisconsin Community Development Block Grant. In addition, Midwest deposited \$900,000 of its own funds into the trust.

In 2009, Republic Airways Holdings, Inc. purchased Midwest's and Skyway's stock from a private equity company. Republic and Frontier have been making the payments on the debt on behalf of Midwest and Skyway. No transfer of the obligation of Midwest or Skyway was ever made to Frontier Airlines. The County's Credit Assistance for Midwest and Skyway, is therefore, still with Midwest and Skyway. As noted above on February 25, 2016, Republic Airways (and Midwest and Skyway) filed for Chapter 11 reorganization.

#### **Status of Loans and Collateral**

There are currently two IDRBS for which the County is providing a guarantee. The Skyway Hangar has debt outstanding of \$5,285,000, with an appraised value on the hangar of \$4,200,000. The Midwest Hangar has debt outstanding of \$6,270,000, with an appraised value on the hangar of \$10,500,000. The Midwest Hangar has a higher appraised value because the hangar includes not only the portion built with the IDRBS, but an original hangar that was privately funded by Midwest.

There are two trust reserves which are being used to support the guarantee. The Midwest Trust Reserve has a current balance of \$1,020,116. These funds will be maintained by the County for debt service payments. In addition, the County has a

trust reserve from the State of Wisconsin – Department of Commerce that has a current balance of \$4,312,965.

The trust reserve from the State of Wisconsin – Department of Commerce requires that as principal payments are made by Midwest or Skyway on the outstanding debt, a prorated portion of the trust must be returned to the State of Wisconsin – Department of Commerce. One of the parties to the trust agreement was Racine County under the agreement between State of Wisconsin – Department of Commerce and Racine County; the two entities are to split the prorated portion equally. A recent amendment to the agreement requires that Racine County receive the entire payment until their 50% share is received and then the remaining payment will go to State of Wisconsin – Department of Commerce. Under this agreement on the trust reserve, the County has returned \$841,350 as of May of 2016. Midwest and Skyway have made principal payments as of May of 2016 of \$2,565,000.

The following is a comparison of the loan balance and collateral as of October 2003 and May 2016.

<b>Description</b>	<b>2003 Balances</b>	<b>May 2016 Balances</b>
1998 Bonds	\$7,905,000	\$6,270,000
2001 Bonds	6,310,000	5,285,000
<b>Total Debt</b>	<b>\$14,215,000</b>	<b>\$11,555,000</b>
Appraisal Midwest Hangar	\$8,850,000	\$10,500,000
Appraisal Skyway Hangar	3,900,000	4,200,000
Midwest Airlines Reserve Account	900,000	1,020,116
State CDBG Reserve Account	4,000,000	4,312,966
<b>Total Collateral</b>	<b>\$17,650,000</b>	<b>\$20,033,082</b>



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Scott B. Manske  
Comptroller

cc: Chris Abele, County Executive  
Supervisor Peggy West, Chairwoman, Finance, Personnel & Audit  
Committee

Teig Whaley-Smith, Director, Department of Administrative Services  
Steve Kreklow, Director, Office of Performance, Strategy and Budget  
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