

COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION

Date: September 16, 2014

To: Chairwoman Marina Dimitrijevic, Milwaukee County Board of Supervisors
Supervisors Willie Johnson & David Cullen, Co-Chairs Finance, Personnel &
Audit

From: Don Tyler, Director of Administrative Services

Subject: Revision to File# 14-702 - 2014-2016 Budget Years Management Strategy
Regarding the Consolidated Facilities Plan (CFP) – Action Item

BACKGROUND

THIS REPORT REVISES FILE #14-702 TO INCLUDE CERTAIN LEASE AGREEMENTS. THE TOTAL FISCAL IMPACT REMAINS AT OR BELOW THE PROJECTIONS IN THE ORIGINAL REPORT WHICH WAS PRESENTED AND APPROVED BY A VOTE OF 7-0 AT THE SEPTEMBER 10, 2014 TPW/T COMMITTEE MEETING.

Resolution #14-483 was approved at the Special Transportation, Public Works & Transit Committee Meeting and the June 26, 2014 Milwaukee County Board Meeting providing direction from the Board to the Department of Administrative Services (DAS) regarding specific actions related to the Consolidated Facilities Plan (CFP). During the Milwaukee County Board July cycle, an informational report was provided to the TPW/T Committee. This report is within the scope of the approved resolution and is meant to provide an update to the committee(s) and to request action on several initiatives.

UPDATE ON PHASE 2 OF THE CFP

Deliverable # 1 – Detailed Space Program and Relocation Strategy for City Campus

- The CFP Workgroup, along with CBRE and Quorum completed and reviewed “fit plans” on three of the four prospective office buildings to better identify the most efficient utility of space based on the County’s needs. Two of the three potential office buildings (310 W. Wisconsin Ave. and 633 W. Wisconsin Ave.) were deemed to be suitable and efficient;
- The CFP Workgroup concluded that at this juncture, exploring a Courthouse restacking initiative within the Courthouse would be too costly and disruptive and may not be a suitable long-term strategy given the possibility of a consolidation of additional court functions into the Courthouse;
- The CFP Workgroup directed CBRE to pursue lease rate and leasehold estimates with these two office buildings management representatives. Both alternatives expressed interest in negotiating a competitive lease rate and leasehold allowance. Therefore, the CFP Workgroup directed CBRE to work toward final negotiations of a lease with both properties.

- The CFP Workgroup and CBRE determined that the best and final negotiated offer was the most attractive for the 633 W. Wisconsin Ave. building and is in receipt of a Lease Agreement (633 Lease) to be reviewed and approved by Corporation Counsel and Risk Management subject to Board approval;;
- In addition, the CFP Workgroup has been working on separate plans to relocate DHHS Housing and the potential need to temporarily relocate certain Department of Transportation (DOT) staff from City Campus. Specifically:
 - The CFP Workgroup has identified a potential location for DHHS Housing at 601 W. Wisconsin that can accommodate its needs for client accessibility. The 7,500 square foot space is fully built out and will require minimal leasehold improvements;
 - The CFP Workgroup has identified the Technology Innovation Center (TIC) as potential temporary space for certain DOT staff in the event the addition to the Fleet Building is not completed prior to the deadline to vacate City Campus. The economic cost of temporarily relocating DOT staff to the TIC building would be minimal due to the revenue sharing to the County of the lease revenue by Research Park;
- The CFP Workgroup, DAS - Economic Development Division, Community organizers and City and County officials met at City Campus with the neighborhood community for a tour and listening session on Tuesday, July 29th. There were over 75 in attendance, many of which went on one of four tours of the facility. After the tour, several public officials provided insight as to the future of City Campus and then participants broke into four listening groups to share and tabulate ideas. A summary of the draft report on the public meeting outcomes is attached for your consideration. Additionally, Teig Whaley-Smith will provide the TPW/T Committee with a more comprehensive update during the September cycle;
- The CFP Workgroup has engaged an outside consultant to fully assess the hazardous material remediation costs associated with the potential demolition of one, two or all three of the buildings at City Campus. The current estimate to demolish all buildings is \$3.8 million.

Deliverable #2 – Agreement with the State for Marcia Coggs Center

- The short term lease with the State has been completed and has been submitted to Milwaukee County Board for approval. Revenue from the lease agreement is essentially the same as in previous years but is now exclusively structured as lease revenue; previously it was split between lease revenue and IT support but the County is no longer providing IT support to the State;
- The State has yet to issue an RFP for space to house staff and operations currently at the Marcia Coggs Center due to delays related to the summer fire in the building housing the Department of Operations. We still anticipate the RFP to be issued in the coming months. Once the RFP is issued we anticipate six to eight months before the State reaches a conclusion on the proposal evaluation.

Deliverable #3 – Finalization of an Updated County Master Space Plan *(No Activity This Period)*

- Under the direction of the Board, as stated in Resolution #14-483, the Department of Administrative Services will present a preliminary plan no later than December 31, 2014;

Deliverable #4 – Disposition Plan for the City Campus Property

- Grand total costs for lease space planning, relocation expenses, computer networking, telecommunications, furniture and fixtures and leasehold improvements related to the

shutting down of the City Campus facility is estimated not to exceed \$1.8 Million. Costs are broken down as follows:

- Space planning and consulting services: \$337,000
- Relocation costs: \$277,000
- Network, Telecommunications, Furniture & Fixtures: \$818,000
- Leasehold Improvements: \$240,000
- Contingency: \$84,000

The projected cost of \$1.8 million is within the range (\$1.425-\$2.575 Million) submitted to committee in July. Of the \$1.8 million, \$650,000 was budgeted in the 2014 Adopted Budget for Milwaukee County (including 75% of the \$200,000 for the CBRE's services related to the Phase II of the CFP effort).

- There are two compelling economic reasons to vacate City Campus:
 - Reduction in Annual Operating Expenditures. As reported in the January 13, 2014 CBRE report to the Board, the estimated annual operating expenditures to support and maintain the City Campus facility is approximately \$1 million. The estimated annual cost savings as a result of the relocation of staff from City Campus to other facilities is projected to be around \$229,000 in 2015 and average approximately \$401,000 thereafter for the next four years.
 - Avoidance of Significant Capital Expenditures. As reported in the January 13, 2014 CBRE report to the Board, the estimated cost to renovate City Campus to bring it up to code and convert the facility into a true office building is \$26.0 million (\$18.5 million principal plus \$7.5 million interest costs).¹
- The current breakeven analysis suggests that this initiative will begin to generate positive cash flow to the County in 2019 (on a per annum operating basis). When factoring in for capital costs avoidance, positive cash flow is achieved in 2018. Please refer to the attached spreadsheet for additional detail.

Deliverable #5 – Comprehensive Plan for County Grounds *(No Activity This Period)*

- The Economic Development Division continues to pursue broad discussions with the City of Wauwatosa, Milwaukee County Research Park, Froedert and Children's Hospital, Milwaukee Medical College and other community organizations and institutions to begin to shape a long term strategy for maintaining a Milwaukee County government presence at the County Grounds as the Behavioral Health Division (BHD) continues to wind down.

Deliverable #6 – Courthouse Complex Plan *(No Activity This Period)*

- The CFP Workgroup is beginning its initial data gathering work specifically related to the development of a strategy for the Safety Building.
- The CFP Workgroup is aware of and will be phasing into some initial research work regarding various options related to consolidation of Milwaukee County Courts and alternatives for the Office of the Medical Examiner, the Community Correction Center and the 6th & State Street lot.

Deliverable #7 – Facility Management Consolidation *(No Activity This Period)*

¹ Updated Bond financing for the rehab of City Campus includes principal of \$18.5 Million plus interest and debt issuance costs of approximately \$4.7 Million for a total of \$23.2 Million amortized over 15 years and paid with Tax Levy via the Debt Service Fund. See "Table 2" of the attachment.

This effort is an ongoing initiative begun with the creation of DAS-FM in the 2012 adopted budget and currently not specifically in the scope of the 2014 project and will be addressed in 2015.

NEXT STEPS – SEEKING APPROVAL

The Board approved \$700,000 for the CFP effort in the 2014 Operating Budget. Of that, \$250,000 was encumbered subject to Board approval. Therefore, DAS is seeking approval to:

- Expend the encumbered \$250,000 on the relocation costs for all staff at City Campus except for DHHS Housing;
- Expend no more than an additional \$1.1 million out of the Debt Service Reserve Fund to cover costs specifically related to:
 - Relocation costs for DHHS Housing: \$28,000
 - Network, Telecommunications, Furniture & Fixtures: \$818,000
 - Leasehold Improvements: \$240,000
- Fully execute three lease agreements with the following provisions:
 - Lease for “Core” Staff Vacating City Campus:
 - 5-year initial term;
 - Rental rate of no greater than \$14.90 per square foot for no more than 32,000 square feet of space, costing the County approximately \$430,000 per year with a 3% annual escalator;
 - Includes a leasehold allowance of approximately \$636,000 – to the extent it is not fully utilized, the lease rate will be reduced proportionately;
 - Includes ability to terminate the agreement after three years with a six month notice;
 - Includes market rate renewal provisions after the initial term;
 - Includes 12 reserved parking stalls for fleet vehicles and a negotiated monthly parking rate of \$85.00/month for up to 180 parking stalls.
 - DHHS Housing Lease Agreement:
 - For a two-year term with nine one-year renewals;
 - Rental rate of no greater than \$11.00 per square foot for no more than 8,000 square feet of space, costing the County approximately \$81,000 per year.
 - Technology Innovation Center (TIC) Lease Agreement:
 - This is a month-to-month lease agreement that will go into effect to the extent we need to temporarily relocate DOT staff during the construction of the Fleet building addition.
 - Net rental rate of \$8.50 per square foot for no more than 6,000 square feet of space, costing the County approximately \$17,000 over a four month period.

Thank you for your consideration.



Don Tyler, Director
Department of Administrative Services

Attachment: 1. Resolution # _____
2. Fiscal Note
3. Estimated City Campus (Cost)/Savings to Vacate and Relocate
4. 633 Lease Agreement
5. Walnut Lease Agreement
6. TIC Lease Agreement

Cc: Chris Abele, County Executive
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Kelly Bablitch, Chief of Staff, County Board
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