



**COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICATION**

Office of the Comptroller

**DATE** : March 28, 2014  
**TO** : Chairwoman Marina Dimitrijevic, 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 is set to terminate on August 15, 2014. This Agreement needs to be maintained due to the continuation of the Credit Assistance Agreement between Midwest Airlines and Milwaukee County.

The Office of the Comptroller and US Bank are requesting an extension of one-year to August 15, 2015 for the Standby Reimbursement Agreement. Midwest Airlines complied with covenants under the Credit Assistance Agreement in 2009 for an extension of the Standby Reimbursement Agreement.

**Action Requested**

A resolution is attached, which will allow the Office of the Comptroller to extend the Standby Reimbursement Agreement for a period of one year.

**Background**

Milwaukee County entered into a Credit Assistance Agreement with Midwest Airlines in July 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, in place of Midwest Airlines. The letters of credit guaranteed payment on two industrial development revenue bonds (IDR Bonds) issued for Midwest Airlines to build hangars.

The guarantee to US Bank was formalized through a Standby Reimbursement Agreement, between the County and the Bank. With Milwaukee County's

guarantee, Midwest Airline 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, 2009. Previously, the Standby Reimbursement Agreement was extended to August 15, 2014 and this resolution would extend it one additional year to August 15, 2015.

If the County does not extend the Standby Reimbursement Agreement, the bondholders could call the letters of credit to pay off the IDR Bonds. The County could become responsible for repaying the bank for the funds issued to the bondholders.

The Credit Assistance Agreement, between Milwaukee County and Midwest Airlines, remains in place; therefore, it is important that the County maintain the Standby Reimbursement Agreement, as long as the Credit Assistance Agreement is outstanding.

The County guarantee is supported by a mortgage on two hangars owned by Midwest Airlines and Skyway Airlines, and a trust fund. The trust fund currently has a balance of \$5,727,200. 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 Airlines deposited \$900,000 of its own funds into the trust.

In 2009, Republic Airways Holdings, Inc. purchased Midwest's stock from a private equity company. Republic and Frontier have been making the payments on the debt on behalf of Midwest Airlines. No transfer of the obligation of Midwest Airlines was ever made to Frontier Airlines. The County's Credit Assistance for Midwest Airlines, is therefore, still with Midwest Airlines.

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

There are currently two debt issues for which the County is providing a guarantee. The Skyway Hangar has debt outstanding of \$5,750,000, with an appraised value on the hangar of \$4,200,000. The Midwest Hangar has debt outstanding of \$6,835,000, 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 IDR bonds, but an original hangar that was privately funded by Midwest.

There are two reserves which are being used to support the guarantee. The Midwest Reserve has a current balance of \$1,135,465. These funds will be maintained by the County for debt service payments. In addition, the County has a reserve from the State of Wisconsin – Department of Commerce that has a current balance of \$4,591,777.

The trust reserve from the State of Wisconsin – Department of Commerce requires that as principle payments are made by Frontier Airways 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, the County has returned \$502,114 as of December 31, 2013. Frontier Airways has made principle payments as of March 31, 2014 of \$1,415,000.

The following is a comparison of the loan balance and collateral as of October 2003 and October 2013.

Item	Description	2003 Balances	2013 Balances
1	1998 Bonds	\$7,905,000	\$6,835,000
2	2001 Bonds	6,310,000	5,750,000
3	<b>Total Debt</b>	<b>\$14,215,000</b>	<b>\$12,585,000</b>
4	Appraisal Midwest Hangar	\$8,850,000	\$10,500,000
5	Appraisal Skyway Hangar	3,900,000	4,200,000
6	Midwest Airlines Reserve Account	900,000	1,135,465
7	State CDBG Reserve Account	4,000,000	4,591,777
8	<b>Total Collateral</b>	<b>\$17,650,000</b>	<b>\$20,427,242</b>

Scott B. Manske  
Comptroller

- cc: Chris Abele, County Executive  
Supervisor William Johnson, Jr., Co-Chairman, Finance, Audit and Personnel Committee  
Supervisor David Cullen, Co-Chairman, Finance, Audit and Personnel Committee  
Don Tyler, Director, Department of Administrative Services  
Josh Fudge, Director, Office of Performance, Strategy and Budget  
Stephen Cady, Research Director, Office of the Comptroller

**ADDENDUM #5  
TO  
STANDBY REIMBURSEMENT AGREEMENT**

THIS ADDENDUM, dated June 30, 2014, amends the STANDBY REIMBURSEMENT AGREEMENT (the "Agreement") between MILWAUKEE COUNTY, WISCONSIN (the "County") and U.S. BANK NATIONAL ASSOCIATION (the "Bank") as follows:

Section 1.1 of the original Agreement between the County and the Bank indicates that the agreement terminates on August 15, 2008. An addendum, dated July 31, 2008, extended the Agreement's termination date for a one-year period to August 15, 2009. Addendum #2 extended the Agreement's termination date for a period of two years to August 15, 2012. Addendum #3 extended the Agreement's termination date for a period of one year to August 15, 2013. Addendum #4 extended the Agreement's termination date for a period of one year to August 15, 2014. This Addendum #5 will extend the Agreement's termination date for a period of one year to August 15, 2015.

This addendum incorporates all of the findings and conditions of Milwaukee County Resolution 14-xxx attached herein.

MILWAUKEE COUNTY, WISCONSIN

BY \_\_\_\_\_

Its Director, Department of Administrative Services

U.S. BANK NATIONAL ASSOCIATION

BY \_\_\_\_\_

Its \_\_\_\_\_