

County of Milwaukee
Interoffice Communication

Date: July 5, 2011

To: Chairman Lee Holloway, County Board of Supervisors
Supervisor Johnny Thomas, Chairman, Finance & Audit Committee
Supervisor Gerry Broderick, Chairman, Committee on Parks, Energy and Environment

From: Pamela Bryant, Interim Fiscal and Budget Administrator

Subject: Due Diligence Report for Agreement with Philippine Cultural and Civic Center Foundation, Inc. for lease of the pavilion at Zablocki Park

Request

The Department of Parks, Recreation, and Culture requests approval to enter into an agreement with Philippine Cultural and Civic Center Foundation, Inc. for the lease of Zablocki Park pavilion located at 3717 W. Howard Avenue, Milwaukee, WI. The initial term of the lease shall be for a fifteen-year period, but is renewable for two consecutive ten-year periods.

The PCCCCF is looking to lease a portion of the Zablocki pavilion to use for their administrative offices, civic and cultural programming and a free medical clinic.

Below is a summary of the terms of the lease agreement:

- Lease may be in place for a total of 35 years.
- Tenant pays no rent for use of the facility.
- Tenant pays for electric and gas utility costs, after the first 5 months of the lease, but the Landlord pays for the sewer and water costs.
- Tenant shall invest a minimum of \$200,000 in contribution value to renovate and improve the building. Any equipment that will be retained by the Tenant upon termination of the lease will not count towards the \$200,000 minimum. Any renovations that are made to suit the Tenant's programs and activity functions, and are not necessarily maintenance related improvements, do count towards the \$200,000 minimum.
- The County's Department of Transportation and Public Works – Architectural and Engineering Division must review all plans for improvements. The Tenant shall reimburse the County for all A&E costs associated with reviewing the design plans.

Background

The Philippine Cultural and Civic Center Foundation (PCCCCF) is a non-profit organization that provides a free medical clinic, as well as a variety of programs such as computer, cooking and dance classes. They currently operate the free medical clinic at 535 N. 27th Street, Milwaukee, WI, but are in search of a new facility in order to

combine their classes and medical clinic into one facility. The organization has been in existence since 1995 and has been providing a free medical clinic since 2000.

The Zablocki pavilion previously housed the Parks Department South Region staff, but they are now located at the Parks Administration building. The pavilion is two levels and is approximately 8,800 square feet. The upper level is currently available for rental to the public. The lower level is not rented to the public. In 2010 the upper level community room was rented out 66 times and generated \$20,000 in revenue. The upper level community room will still be available for rentals to the public.

The PCCCF would be leasing several office spaces on the upper level, as well as the lower level. The lower level of the pavilion would be set up as the free medical clinic that occurs twice a month. The free medical clinic provides basic medical treatment, exams, screenings and routine immunizations for those who are unable to afford health care. The service is provided to the community free of charge.

The Committee on Parks, Energy and Environment reviewed the proposed lease during the June 2011 cycle. The County Board referred the lease back to the Committee since due diligence had not been completed.

Review & Analysis

The Department of Administration- Fiscal Affairs (DAS) has reviewed the proposal from Lake Valley Camp along with Risk Management and Corporation Counsel and prepared the analysis that follows.

It should be noted that the Tenant determines whether they want to renew the lease for the two- ten year extensions. The only way to terminate the lease is if the PCCCF is failing in one of their obligations or if the County elects to close the Zablocki Park by official action and resolution. The lease could potentially be in place for a total of 35 years.

The lease requires a minimum of \$200,000 in capital improvements. The PCCCF provided a list of proposed capital improvements. The proposed improvements include approximately \$107,000 in improvements that directly benefit the County. For example, the PCCCF has proposed replacing all of windows in the facility, which are in dire need of replacement. The remaining \$73,000 in improvements are being completed to suit the Tenant's program and activity functions, such as retrofitting existing locker rooms into exam rooms, but does provide an improvement to the facility.

The PCCCF currently has the available funds to complete the \$200,000 in improvements. They are applying for grants to assist in paying for the cost of improvements in order to replenish their available cash. Upon execution of the lease the PCCCF will be responsible for maintenance on the leased portions of the building. The County will maintain responsibility for the public restrooms, mechanical and electrical rooms, janitor's room, the roof, exterior walls, foundation and any portions of the building that are not leased to the Tenant.

In order to determine the financial benefit that the County is receiving the DAS calculated a rent equivalent based on the capital improvements that are being invested in the building. If the Tenant makes the \$200,000 in capital improvements and if the lease is renewed for the full 35 years, then the rent equivalent is approximately \$476 per month, which does not take into account the monthly utilities that will be paid by the Tenant or any future repairs that the Tenant makes. The Parks Department also feels that once the improvements are complete the community room would be more attractive for rentals and may increase their rental revenue. The DAS recommends that after the initial 15 years of the lease that the Tenant and Landlord review the capital needs of the facility. If additional improvements are needed, then those should be added to the lease prior to the ten-year extensions if the County Executive and the County Board approve it.

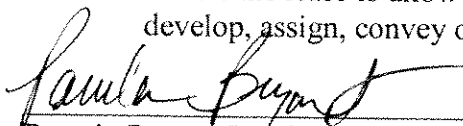
The County has entered into long-term leases in the past for other Park facilities. Though the issue of leasing County facilities to other organizations is strictly a policy decision the DAS wanted to point out a few issues that may arise from entering into a long-term lease:

- If a public facility is leased to another organization there are certain restrictions on paying for capital improvements with the use of tax-exempt bonds. If a major improvement is needed to the facility, such as a roof replacement, then the County may be required to cash finance the project.
- The County may determine in the future that there is a better use for the facility and/or land prior to the expiration of the lease or that the Park/facility must be closed for financial reasons.

Recommendation

Acknowledging the opinions of Parks, Risk Management and Corporation Counsel staff as well as DAS's review of pertinent documents, DAS recommends that the agreement be amended with the following condition:

1. Amend the lease to require the approval of the County Board and County Executive to extend the lease beyond the initial 15 years.
2. Add a requirement in the lease that if the lease is renewed beyond the initial 15 years that the Tenant and Landlord review the capital needs of the facility. If improvements are needed the repairs should be added as a requirement of the Tenant as a condition of the lease extension.
3. Revise the lease to require the \$200,000 in capital improvements apply only to improvements to the building. Their proposal included a few improvements, such as installing a Philippine flagpole, that do not improve the building.
4. Revise the lease to require the improvements be completed within the first five years of the lease.
5. Revise the lease to allow the lease to be terminated if the County Board elects to develop, assign, convey or otherwise dispose of the park and/or pavilion.



Pamela Bryant, Interim Fiscal and Budget Administrator

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