**County of Milwaukee**
**Interoffice Communication**

Date: July 12, 2012

To: Supervisor Gerry Broderick, Chair, Parks Energy and Environment Committee

From: Craig Kammholz, Fiscal and Budget Administrator, Department of Administrative Svcs

Subject: Due Diligence Report for an Agreement with the Rock Sports Complex, LLC to allow for the construction, maintenance, operation and management of athletic fields and related amenities at Crystal Ridge.

## Request

Pursuant to County Ordinance 32.88, "venture" agreements[1] with non-County entities cannot be approved until the related Department of Administrative Services – Fiscal Affairs (DAS) due diligence review has been submitted for County Board and County Executive approval.[2] Any Milwaukee County agency (in this instance, the Department of Parks, Recreation, and Culture) considering a venture with a non-County entity is responsible for ensuring that all relevant provisions (of County Ordinance 32.88) are addressed (subject to DAS review).

The Department of Parks, Recreation, and Culture (Parks) requests approval to enter into a maintenance and operations services agreement (agreement) with the Rock Sports Complex, LLC (RSC) for that portion of the Root River Parkway, commonly known as Crystal Ridge, to allow for the construction, maintenance, operation and management of athletic fields and related amenities.

## Background

RSC is seeking a long-term lease agreement with Parks to install athletic fields and related amenities (collectively defined as "improvements") within the boundaries of the Crystal Ridge property. RSC proposes to use a $4,000,000 line of credit (secured through Zimmerman Ventures, LLC) to acquire and install the improvements. Milwaukee County funds will not be used toward the construction or operation of the improvements. In addition, RSC is a for-profit LLC and will charge fees to recover ongoing operations costs and generate profit.
The installation of the improvements is envisioned as a two (2) phase project. Phase 1 costs are estimated between $3 million to $3.5 million and include twelve baseball/softball fields in the northeast section of the property along with adjacent parking.

Phase 2 improvements include four soccer fields, an indoor sports facility, trail upgrades, and additional parking. No timeline for Phase 2 construction improvements was provided.

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*[1] Per County Ordinance: "**Ventures** shall be defined as any agreement involving a shared responsibility regarding management, development, financing, expenditure or revenue sharing for programs, services or facilities. This includes, for example, revenue based leases but does not include flat fee property rentals. Further, this section shall apply only to ventures where potential total expenditures or revenues are equal to or greater than one hundred thousand dollars ($100,000.00)."*

*[2] DAS received the initial due diligence documents from Parks on June 4, 2012. The Parks, Energy, & Environment Committee June cycle deadline for reports was June 5, 2012. As a result, DAS did not have adequate time to perform a due diligence review for the June cycle.*

*Throughout the month of June and early July, there appeared to be outstanding issues with the WDNR and possible asphalt dumping that occurred on the Crystal Ridge site. On June 27th, DAS was made aware of outstanding debt related to capital improvements (i.e. gas extraction system and clay capping improvements) at the Crystal Ridge site. As a result, this prompted the Comptroller's Office to conduct a review of the outstanding debt. Due to the short amount of time (as well as the need to include review by Bond Counsel), the Comptroller is still in the process of its review. In light of these events, a DAS due diligence review was not anticipated for the July cycle.*

**Review & Analysis**

At this time, review of this agreement has been provided by Corporation Counsel and Risk Management. The Comptroller's Office is still in the process of reviewing outstanding County-issued debt related to the Crystal Ridge site.

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

- Lease may be in place for a total of 25 years.
- Tenant pays a $25,000 annual base rent payment for the first 15 years. If renewed for an additional 10 years, tenant pays a negotiated annual rent payment of not less than $31,250.
- Tenant pays five percent (5%) of its annual net earnings before taxes in years 1-5, eight percent (8%) in years 6-15, and ten percent (10%) in years 16-25.
- Tenant shall be responsible for the total amount of funds necessary for the construction and installation of the improvements in advance of construction AND Tenant shall provide proof that the total amount of funds have been obtained for this purpose prior to the start of any construction activities.
- Tenant agrees to establish an endowment fund in the amount of $50,000 for capital maintenance of the improvements.
- Tenant pays for all ongoing operational and maintenance costs.
- Tenant has the authority to establish a fee schedule for use of the sports improvements, retail, and concessions.
- Upon expiration or early termination of the Lease, the County shall acquire, free and clear at no cost, the title to any and all improvements as well as any remaining endowment funds.

**Items to Consider**

Based upon review of the available information and acknowledging the condensed timeframe, DAS highlights the following items:

1. The Comptroller Office is reviewing the outstanding debt related to the Crystal Ridge property. It is recommended that the County Board review the Comptroller's analysis prior to approval of the agreement with RSC.
2. The initial term of the lease should be reduced to 10 years, with three optional extensions of 5 years each. This provides the County more negotiating flexibility by shortening the initial terms and renewal terms.
3. The proposed agreement establishes a $50,000 minimum threshold for the capital improvement endowment fund. Given the long term nature of the lease agreement, the minimum amount for this endowment fund should be based upon the long-term maintenance needs of the facility. As the improvements age, the $50,000 minimum may not provide enough funding for replacement.
4. Parks staff has indicated that RSC may have conducted a Market Study for the complex. However, this information was not available for DAS review. Therefore, assumptions used for customer base and usage of the complex could not be analyzed. As a result, revenue assumptions cannot be verified.
5. Phase 2 construction costs and related RSC cash-flow analysis were not available. These improvements and operations will have an impact on future cash-flows of the complex, but cannot be analyzed.

6. Although ski-hill operations are anticipated by RSC, operational expenditures and revenues were not included in the RSC cash-flow analysis. Therefore, the ski-hill operations cash-flow affects cannot be analyzed.[3]
7. A retail component is envisioned for the complex. However, operational expenditures and revenues were not included in the RSC cash-flow analysis. Therefore, the retail operations affecting cash-flow cannot be analyzed.

Craig Kammholz, Fiscal and Budget Administrator

pc: Chris Abele, County Executive
Supervisor Marina Dimitrijevic, Chair, County Board of Supervisors
Amber Moreen, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Sue Black, Director, Department of Parks, Recreation and Culture
Patrick Farley, Director, Department of Administrative Services
Jessica Janz-McKnight, Research Analyst, County Board
Stephen Cady, Fiscal and Budget Analyst, County Board
Paul Kuglitsch, Contracts Services Officer, Department of Parks, Recreation, & Culture

[3] *The County has an existing year-to-year agreement with the current operator of the ski-hill and receives a $10,000 annual rent payment. Parks staff has indicated that this agreement can be terminated, by either Party, within 90-days of written notification to one another.*