

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : November 20, 2015

TO : Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors

FROM : Pamela Bryant, Capital Finance Manager, Office of the Comptroller

SUBJECT : Milwaukee Yacht Club Lease Payments (2008 and 2013)

REQUEST

The Office of the Comptroller is requesting approval of the attached resolution to authorize and direct the Department of Administrative Services, with the assistance from the Office of the Comptroller, to prepare and execute an administrative transfer to receive lease payment revenue from the Milwaukee Yacht Club (MYC) and deposit the funds into the debt service reserve to offset approximately \$18.7 million in debt issued for improvements to the McKinley Marina breakwater and dockage. In addition, the Office of the Comptroller is informing policymakers of the change in use for the \$150,000 payment that was budgeted in 2008 in the Miscellaneous Revenue budget and the payment plan for the \$175,000 payment for 2013.

BACKGROUND

Milwaukee County entered into a lease agreement with the MYC that included the construction of a facility with ownership to revert to the County at the end of the term. The initial lease was from 1966 to 1991, with renewal for another 25 years upon approval by the County policymakers. The current lease is for the years 1992-2017, with renewal for 25 years upon agreement and approval by County policymakers. The current lease specifies that the MYC must notify the County of its intention to negotiate a renewal term two years prior to January 10, 2017 and MYC did so March 20, 2015. The Parks department is in the process of drafting a lease for MYC that will be negotiated in the Spring of 2016.

Some of the terms of the current lease include the following:

- Payment of \$1,070,300 in rent over the 25 year term. The rent is to be renegotiated after the current 25 year term.
 - Annual fee of \$10,000 with a 2 percent increase to the base amount (\$10,000) over the term of the lease for a total of \$320,300.
 - Five (5) “balloon” payments totaling \$750,000.
 - 1999 - \$100,000
 - 2003 - \$125,000
 - 2008 - \$150,000
 - 2013 - \$175,000
 - 2018 - \$200,000
- Rent shall be used by MYC for major maintenance and improvements to the McKinley Marina (area bounded by the breakwall on the east and the flushing channel on the west). Milwaukee County determines the improvements.

- A fee of \$10,000, with a 2 percent increase to the base amount (\$10,000) over the term of the lease for 100 parking spaces. (The County expanded the parking lot adjacent to the MYC facility to accommodate this provision). The payment is an unrestricted payment which shall be general revenue to MYC.

The lease language for this provision was incorrectly written, but Parks has stated that it was correctly implemented. The lease language states that Milwaukee County (Lessor) will lease 100 parking spaces and pay the Lessee (MYC) \$10,000.

- The MYC will spend \$600,000 over the 25 year period on major maintenance and capital enhancements to the existing facility.
- The property shall continue to be owned by MYC until the end of the lease so that property taxes can be accessed on the property.

The County currently owns the land and MYC as stated above owns the building until the current lease ends. The County can elect to continue or change this provision as well as any others.

ANALYSIS

The Parks Department began receiving the annual rent and MYC parking fees in 1994. These amounts have been included and budgeted as general revenues for the Parks Department. In 1999, the first balloon payment of \$100,000 was due and budgeted in the Miscellaneous Revenue budget to offset costs associated with the construction of the breakwater and dockage at McKinley Marina. The County spent approximately \$18.7 million from 1994 to 2001 for these improvements.

The balloon payments for the years 1999, 2003 and 2008 were budgeted in the Miscellaneous Revenue Budget for the respective years. The County did not receive the \$150,000 balloon payment budgeted in 2008. The Parks department is responsible for collecting the lease payments. Although it is not clear why the revenue was not collected, there were a number of staff changes in the Parks fiscal department as well as the Department of Administrative Services Fiscal Affairs Division (now known as DAS-Performance, Strategy and Budget).

In 2011, MYC requested permission from the Parks Department to use the \$150,000 (2008 balloon payment), along with \$50,000 of MYC funds, to pay for the dredging of the Flushing Channel. In February of 2012, the Parks Department sent a correspondence to the MYC allowing them to use the \$150,000 to dredge the Flushing Channel.

In 2013, the County did not receive the \$175,000 balloon payment that was due. A 2015 communication from Parks to the MYC indicates that they were in default of the lease due to the non-payment of the 2013 balloon payment. The Parks Department met with the MYC in May of 2015 and developed a payment plan for the MYC to pay the \$175,000 that was due in 2013 in installments in lieu of finding the MYC in default. All payments are due 15 days after the end of the quarter.

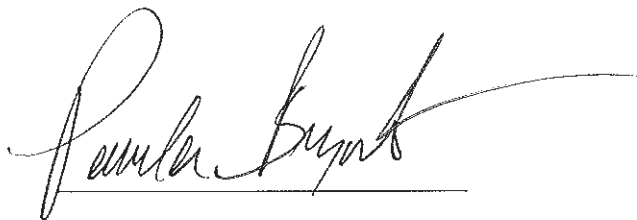
<u>Due Date</u>	<u>Amount</u>
June 30, 2015	\$25,000
September 30, 2015	\$25,000
December 31, 2015	\$25,000
March 31, 2016	\$25,000
June 30, 2016	\$25,000
September 30, 2016	\$25,000
December 31, 2016	\$25,000
Total	\$175,000

The MYC has signed the payment plan. Parks communicated to the MYC that if it failed to make the payments that the MYC would be in immediate default of the existing lease. To date, MYC has made all payments in accordance with the plan.

The plan is contingent on the MYC's successful completion of its due diligence obligations by July 15, 2015 and successful completion of all subsequent and timely lease negotiations with Parks. Preliminary Financial statements were submitted to The Parks Department by July 15, 2015. All other due diligence requirements will be due closer to lease execution, by the current timeline June 2016. If lease negotiations with the MYC are not timely, Parks reserves the right to find the MYC in default under the terms of the lease. All parties are meeting timeline established deadlines.

RECOMMENDATION

The Office of the Comptroller is requesting approval of the attached resolution to authorize and direct the Department of Administrative Services, with the assistance from the Office of the Comptroller, to prepare and execute an administrative transfer to receive lease payment revenue from the MYC and deposit the funds into the debt service reserve to offset approximately \$18.7 million in debt issued for improvements to the McKinley Marina. In addition, the Office of the Comptroller is informing policymakers of the change in use of the \$150,000 payment that was budgeted in the Miscellaneous Revenue budget and the payment plan for the 2013 payment.



Pamela Bryant
Capital Finance Manager

pc: Chris Abele, County Executive
Supervisor Willie Johnson, Co-Chair, Committee on Finance, Audit and Personnel
Supervisor James "Luigi" Schmitt, Co-Chair, Committee on Finance, Audit and Personnel
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