



Department of Administrative Services Milwaukee County

INFORMATIONAL REPORT

TO: Chairman Theodore Lipscomb, Sr.

FROM: Teig Whaley-Smith, Director of Administrative Services

RE: Transactions related to the Milwaukee Regional Medical Campus (MRMC)

DATE: June 14, 2018

I. Summary

Milwaukee County and the MRMC member organizations have reached initial agreements on the purchase of land currently leased and occupied by the organizations on the Milwaukee Regional Medical Campus (MRMC) campus. Milwaukee County wants to realize the highest and best use for the lands that comprise the MRMC campus, and also realize the full value on behalf of county taxpayers. This transaction will help the MRMC members continue to invest in the campus to meet their specialized needs and control their own futures. This investment is a benefit to the quality of life of Milwaukee County residents, and the economic growth of Milwaukee County. Once the purchase is finalized, MRMC organizations will assume all of the liabilities and costs of ownership, which means the county will no longer be responsible for the cost of infrastructure improvements, maintenance and operations of the campus.

II. Background

Currently, the MRMC organizations own the buildings they occupy, but lease the land from the County. The lease agreements were created for a different time and no longer meet the vision for the campus. Some of the lease agreements are more than 40 years old and create a dynamic that doesn't make sense. Since the beginning of MRMC the delivery of healthcare has evolved, as patient needs and society changed. Milwaukee County brought partners on the campus to provide these services and got out of the healthcare business. The relationship between the county and MRMC members has changed, but the lease agreements haven't, and that

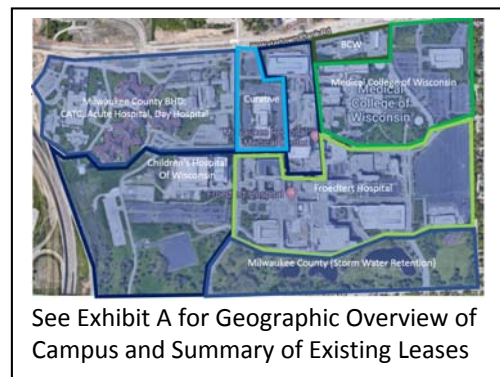
- *Existing Leases met initial objective of drawing partners to campus, but no longer meet the needs of the Campus or County.*
- *MRMC partner organizations have invested \$1.6 billion on campus, and this transaction will help continued investment*
- *This transaction cements a long-term income stream to County, without the liabilities of infrastructure costs and other liabilities of the leases*

creates inefficiencies. The lease agreements limit the ability of MRMC member organizations to collaborate, evolve, thrive and compete globally. Due to budget and staffing constraints, the county can't keep up with its current responsibilities and can't take on new ones. Because of that, MRMC has assumed some of the county's landlord responsibilities such as plowing campus roads and fixing street lights. Under the lease agreements MRMC members also have to ask the county for permission to make investments and get approval of projects, and often trigger liability to the County. Inefficiencies like this tend to stifle rather than promote continued investment. MRMC organizations have invested \$1.6 billion on campus infrastructure and services over the past 20 years to provide world-class patient care, research and medical education, benefiting patients from across Wisconsin and acting as an economic driver for the region. As the campus has evolved, county staffing and funding for operations and maintenance of roads, landscaping, street lighting and traffic signals has struggled to keep pace with demands of the highly specialized academic medical center. Once the purchase is finalized, MRMC organizations will assume all of the liabilities and costs of ownership, which means the county will no longer be responsible for the cost of infrastructure improvements, maintenance and operations of the campus.

III. Transaction Summary

A. Executive Summary

This transaction allows the County to continue to receive proceeds from the land on the MRMC campus, while removing significant liabilities from the County. The transaction keeps in place the existing multi-million payments from Froedtert expected through 2021 related to the sale of Doyme Hospital in 1995. The transaction also secures annual total payments ranging from \$309,000 to \$1.2 Million for the next 82 years. These payments are consistent with what the buyers would have paid under the existing lease, except with more clarity and more certainty; and without the liability to the County. The transaction includes an inflationary increase each year. The transaction releases the County from liability related to cost-sharing of improvements, obligation to repurchase, and significant environmental liability. The transaction includes the land that is currently leased to the various MRMC partners, and an additional 3.5 acres near the retention ponds for Kathy's House. The transaction does not include the parcels currently occupied by Milwaukee County's Behavioral Health Division. The transaction is structured as an option, which means that the Buyer is not obligated to buy the property, but they may purchase the property by *exercising* the option at a later date.



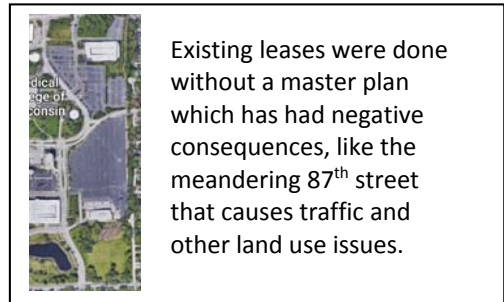
Appraised Value	PV Existing Leases*	PV Land Sale Payments
\$24.48	\$47.95	\$47.69
<i>(in millions)</i>		
See Exhibit F for a financial overview		
* does not reflect all liabilities in leases		

B. Background on existing Leases

The existing leases were designed starting in the 1970s to provide (a) a home for the medical industry on campus, and (b) provide a steady stream of income to the county. When these leases were negotiated, however, there were a lack of several key terms and included significant liabilities to the County. The benefit of this transaction is that it meets the objects of (a) and (b) above, but does so with clarity and without the significant liabilities to the County of the existing leases.

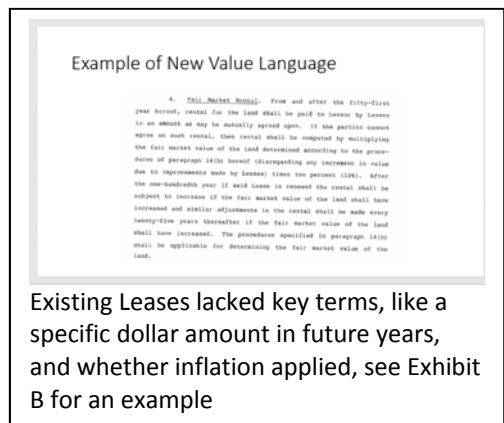
1. Existing Leases Lacked Uniformity & Planning

The existing leases were done sometimes decades apart without the benefit of a master plan for land use and development. As a result, roads and other infrastructure have not been developed in a systematic way. For example, 87th street was constructed to curve around water system infrastructure causing traffic congestion (See figure to the right). Furthermore, in a master plan, utilities would have been planned with a system of mains and laterals, clearly defining ownership between the public and private. Here, systems were simply extended as new buildings were put into place, sometimes crossing under one another. At one point the County had a Director of Institutions (MCO 98.12) to address these issues, but this appears to be a position that was lost decades ago.



2. Existing Leases Lacked Key Terms

The existing leases were designed to give an entry level rate to attract medical tenants, usually one dollar. The leases then included a New Value after several decades. Unfortunately, the New Value was not a specific dollar amount, but instead a complicated formula involving setting a fair market value and a capitalization rate (see Exhibit B for an example). A capitalization rate is essentially a way to convert a purchase price into a lease rate. Many of the leases are also very unclear as to whether an inflationary increase applies to the New Value. The transaction fixes this lack of key terms by establishing a set payment for the next several decades and includes an inflationary increase. The term of the payments is similar in duration and length to what it would have been under the lease; but again, with more clarity and without the liabilities noted below.



3. Existing Leases had Risky Exit Strategy

The most significant liability to the County in the existing leases is that at the end of the lease the County was required to purchase “all of the Facility and fixtures in-stalled thereon ... by paying to Lessee in cash the fair market value thereof.” (See Exhibit C for example language). Since the inception of the leases, the medical partners have built hundreds of millions of dollars of facilities, which under the terms of the lease the County was required to repurchase. This transaction eliminates this obligation of the County.

Example of Repurchase Liability language

(b) If the Lessee is unsuccessful for any reason in obtaining a third party purchaser and consummating the sale of the Facility to it or should Lessee desire to waive its rights to attempt to obtain a third party purchaser under subparagraph (a) above, Lessee shall give notice to Lessor in either such event, and thereupon Lessor shall purchase from Lessee all of the Facility and fixtures in-stalled thereon (and such other equipment and other property as the parties may agree) by paying to Lessee in cash the fair market value thereof, determined by an independent appraiser mutually satisfactory

Existing Leases included a County buy-out at the end of the Lease. See Exhibit C for Details

4. Existing Leases Had Significant Unreimbursed Costs to County – Remaining Liability

Several of the leases also included liabilities to the County for future costs. For example, the Froedtert Lease included language that obligated the County to pay for demolition, asbestos, environmental remediation and other costs. (See Exhibit E for example language). On occasion, these costs have exceed \$1 million annually. This transaction eliminates this obligation of the County.

Example of Remaining Liability language

(b) Demolition. Lessor agrees, pursuant to the terms hereof and the terms of the Purchase Agreement, that Lessee shall have the right, at any time, to demolish either or both of the 1927 Building and the 1957 Building and appurtenant facilities, and Lessee shall have the right from time to time to construct additional improvements on that portion of the Land upon which portions of the Dwyer Improvements have been demolished, provided such additional improvements are consistent with the Land Use Plan. Pursuant to the terms of the Purchase Agreement, Lessor has agreed to pay certain costs related to demolition of the 1927 Building and the 1957 Building (“Dwyer Demolition Costs”). Any and all such demolition shall be done in compliance with all statutes, laws, ord-

Some Existing Leases included a County obligation to demolish old infrastructure like tunnels and other environmental Remediation. See Exhibit E for Details

5. Existing Leases Had Significant Unreimbursed Costs to County – Cost Sharing

All of the leases included a responsibility for the County to contribute towards increased security costs, roads and other infrastructure. (See Exhibit D for example language). Because of the neglect of infrastructure in the past, there is expected to be major costs in replacing 87th Street and improving other roads and exits. This transaction eliminates this obligation of the County going forward.

Example of Cost Sharing Ordinance language

• 25. Cost Sharing Ordinance. It is hereby agreed by and between the parties that the Cost Sharing Ordinance (Chapter 98 of the General Ordinances of Milwaukee County) relating to the development of the Medical Center on the County Institution Grounds is hereby incorporated herein by reference, is made a part hereof, and is deemed applicable to the parties hereto as if set forth in its entirety herein. The terms of such ordinance are a material part hereof and shall be amendable or modified only by the mutual agreement of the Lessor and the Lessee. Notwithstanding anything contained in the Cost Sharing Ordinance, future amendments to such ordinance relating to utilities, tunnel construction and parking shall only become a part hereof if all decisions with respect to the planning and development of such supportive facilities for the Medical Center are made in accordance with the decision making procedure specified in Section 98.11 of such ordinance and provided such decisions and amendments are not inconsistent with the other provisions of this Lease.

Existing Leases required County to share in the cost of campus specific infrastructure. See Exhibit D for Details

C. Background on Transaction Strategies

As stated above, this transaction essentially allows the County to continue to receive proceeds from the land on the MRMC campus, while removing significant liabilities from the County. The land sale payments are roughly equivalent to what would have been paid under the lease, but with more clarity and certainty. This Annual Installment strategy was one of several strategies the County attempted to negotiate, and the only one that was successful.

1. Appraisal + Fire Charge

The County’s first approach was to ask for the appraised value of the land, and a commitment from the medical partners to take over the Fire Service Charge from Wauwatosa. Independent from the lease

agreements with the medical partners, in 1980 the county agreed to pay Wauwatosa for fire services at Milwaukee County Grounds (i.e. what is now Research Park, Innovation Campus, and MRMC). Initially the agreement was for \$288,900 annually, but has since ballooned to \$1.3 Million annually. There is no obligation under the leases for any of the medical partners to pay towards this Fire Service Charge, except for a modest amount paid by the Blood Center of Wisconsin, and a past payment by Froedtert. The Fire Services Agreement with Wauwatosa ends in 2040 unless otherwise renewed.

The medical partners were not able to take on this obligation for several reasons, but predominately because the costs continue to grow beyond the value of the land. Consequently, negotiations were redirected towards annual payments that would have been paid any way, and the elimination of lingering liabilities to Milwaukee County.

2. Lump Sum Based on Lease Payments

The first attempt at annual installments was to calculate future installments and use a present value interest rate to come up with a one-time lump sum payment. This strategy would have been attractive to both parties because it would have avoided the complicated issues of the County maintaining a security interest in the property. Ultimately the parties could not agree on a present value interest rate and consequently were several million dollars apart in coming to a lump sum agreement.

3. Annual Installments

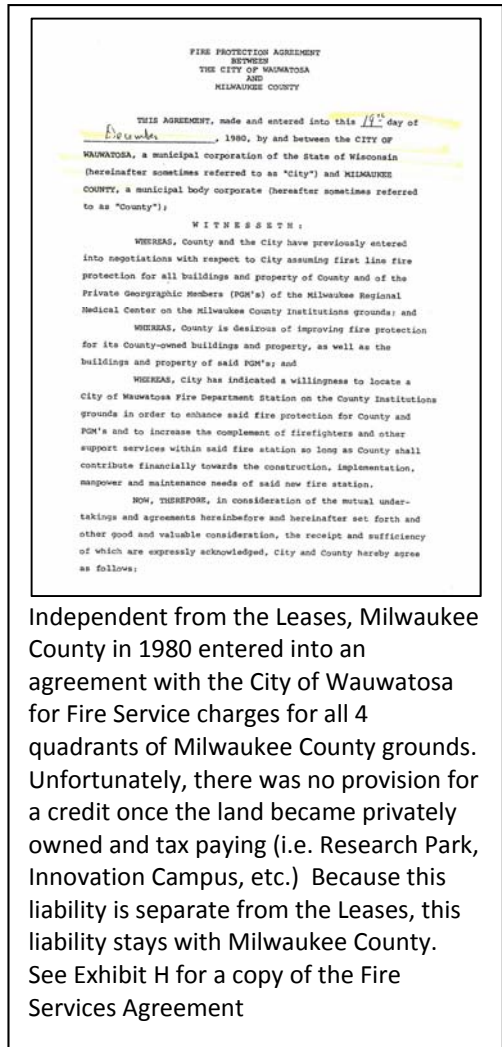
The final transaction essentially takes the amount that would have been paid under the lease and provides more clarity, while removing outstanding liabilities to the County. Appraisals were received on each parcel to determine a fair market value, then a cap rate and inflation were negotiated to established an annual payment. (See Exhibit F for financial overview).

D. Overview of Option

A template option was developed for each buyer with the following core provisions.

1. Option - Time period

The transaction is structured as an option, which gives the Buyer the ability to buy the property but does not obligate the Buyer to buy the property. As detailed in Section 6 of each option the buyer has 180 days to determine if they want to buy the property under the terms in the option. The initial option fee is \$5,000. The Buyer can extend the option period two times by six additional months each, by paying an additional \$5,000 each time.



Independent from the Leases, Milwaukee County in 1980 entered into an agreement with the City of Wauwatosa for Fire Service charges for all 4 quadrants of Milwaukee County grounds. Unfortunately, there was no provision for a credit once the land became privately owned and tax paying (i.e. Research Park, Innovation Campus, etc.) Because this liability is separate from the Leases, this liability stays with Milwaukee County. See Exhibit H for a copy of the Fire Services Agreement

2. *Property as is*

As detailed in Section 13 of the Agreement, the Property is being sold in “As-Is, Where-Is” Condition.

3. *Detailed Financial Terms*

Unlike the previous leases that had an unclear and complicated formula for future payments, the Agreement includes an Exhibit C that outlines the payments due for the duration of the agreement.

4. *Security Interest*

Section 4 of the Agreement details how the Buyer must provide a security instrument to ensure that the County gets paid in future years. The security instruments available to the Buyer are: Mortgage, Collateral Trust, or Letter of Credit.

5. *Transit Protection*

Section 18 of each Agreement preserves the right of Milwaukee County to continue to operate transit through the MRMC Campus, at no additional cost to County for easement or other right-of-way permissions.

6. *Claw Back Protection*

Section 11 of each Agreement includes a “Claw Back” that requires additional payments to the County if the property is resold at a profit to a third party in the next 10 years.

7. *Burial Site Protection*

Portions of the MRMC campus were previously used as burial sites. Over the last few years burial sites have been catalogued in partnership with the State and UWM. No catalogued burial site is part of this transfer. Burial sites will continue to be owned by Milwaukee County. Section 9.b. of each Agreement includes a provision that outlines a process to humanely handle any remains found in the future, including when appropriate the reconveyance of any newly discovered burial site to the County.

E. Buyer Variances

Of course, each Property and lease is unique, consequently there are some variances in each option Agreement as detailed below.

1. *Blood Center of Wisconsin.*

The existing lease payments for BCW are less than \$5,000 for the next 20 years. Consequently, BCW requested that it be allowed to pay a lump sum of \$1.5 million. This amount is consistent with the present value interest rate initially requested by the County and was therefore accepted.

2. Froedtert - maintains net lease payments, credit for liabilities

Froedtert currently has two leases. The Original Land Lease of 13.2 acres was for \$1 a year through 2030, then switched to a complicated New Value. The Additional Land Lease of 25 acres was for a percent of net revenue that has ranged annually from \$0 to \$8 million and ends in 2021. The Additional Land Lease included a commitment for the county to pay for environmental remediation and other costs for several decades to come. This liability is estimated to be about \$3.5 Million. The present value of the Original Land lease is estimated to be about \$3 million. Consequently, the transaction includes (a) the County getting rid of \$3.5 million in liabilities in exchange for (b) the elimination of the Original Land lease payments (which again were \$1 through 2029 and the present value is estimated at \$3 million).

3. Children's - Credit for vacant land

Children's option Agreement follows the template except in two areas. First, Children's lease was one of the only leases that indicated an inflation rate (e.g. 1%), so that inflation rate did not need to be renegotiated. Second, Children's made a lump sum payment of \$300,000 for land to be added to the lease in 2013, which has been given as a credit towards future year land sales payments.

4. Medical College of Wisconsin

MCW's option Agreement follows the template with the exception of a credit related to the water retention tanks on the Property. The land which the water tanks occupy were included in the land sale price, but are not usable unless removed. There are plans to remove to allow for the straightening out of 87th Street.

5. Curative

Curative does not have a completed option agreement at this time. Curative has a long-standing relationship with the County and MRMC and is working with partners to ensure a successful future for Curative on campus.

6. Kathy's House

Kathy's House is a non-profit Hospital Guest House that provides lodging and a supportive environment to families who are experiencing one of life's most stressful situations—personal illness or the serious illness of a loved one. Kathy's House accommodates many families with family members receiving care at Froedtert and other area hospitals. Kathy's House does not currently have a lease, so the transaction for Kathy's House is a sale based on the appraised value of the property of \$551,000. The Kathy's House option is contingent upon Froedtert closing on its option.

IV. Other notes

This transaction only involves the land currently leased by the MRMC partner organizations, plus Kathy's House. It does not include the land currently occupied by the Department of Health and Human Services – Behavioral Health Division. This area is zoned for medical use and if Milwaukee County exits it will likely be a separate transaction for uses consistent with the area as a medical campus. This transaction also does not include the current water system, which we are working separately with the

MRMC and the City of Wauwatosa to ensure that the system can be owned and operated by an entity with medical campus and utility experience.

V. Summary

This transaction allows the County to continue to receive proceeds from the land on the MRMC campus, while removing significant liabilities from the County. The transaction keeps in place the existing multi-million payments from Froedtert expected through 2021 related to the sale of Doyne Hospital in 1995. The transaction also secures annual total payments ranging from \$309,000 to \$1.2 Million for the next 82 years. These payments are consistent with what the buyers would have paid under the existing lease. The transaction includes an inflationary increase each year. The transaction releases the County from liability related to cost-sharing of improvements, obligation to repurchase, and significant environmental liability. The transaction includes the land that is currently leased to the various MRMC partners, and an additional 3.5 acres near the retention ponds for Kathy's House. The transaction does not include the parcels currently occupied by Milwaukee County's Behavioral Health Division. The transaction is structured as an option, which means that the Buyer is not obligated to buy the property, but they may purchase the property by *exercising* the option at a later date.

VI. Recommendation

This is an informational report to the County Board of Supervisors for informational purposes. No action is requested by the County Board at this time. I am available to meet with any interested Supervisor to discuss in more detail.

Respectfully Submitted



Teig-Whaley-Smith, DAS Director

CC: Chris Abele, Milwaukee County Executive
Raisa Koltun, County Executive Chief of Staff
Milwaukee County Board of Supervisors
Kelly Bablitch, County Board Chief of Staff
Comptroller Scott Manske
Margaret Daun Corporation Counsel

Exhibits

Exhibit A	Summary of Existing Leases
Exhibit B	Example of New Value Language
Exhibit C	Example of Repurchase Liability Language
Exhibit D	Example of Cost Sharing Ordinance Language
Exhibit E	Example of Remaining Liability Language
Exhibit F	Financial Summary
Exhibit G-1	Medical College of Wisconsin Option
Exhibit G-2	Children's Hospital of Wisconsin Option
Exhibit G-3	Blood Center of Wisconsin Option
Exhibit G-4	Froedtert Hospital Option
Exhibit G-5	Kathy's House Option
Exhibit H	Fire Services Agreement with Wauwatosa