

**COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION**

DATE: February 20, 2020

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

FROM: Stuart Carron, Director, Facilities Management Division - Department of Administrative Services
Aaron Hertzberg, Director, Economic Development Division – Department of Administrative Services

SUBJECT: **From the Directors of Facilities Management and Economic Development Divisions, Department of Administrative Services, providing an Action Report on the Development of the Center for Forensic Science and Protective Medicine, Recommending Transfer of \$11,191,328 from Allocated Contingency to Capital Improvement Project WC20901 – Forensic Science Center.**

BACKGROUND

The proposed new Center for Forensic Science and Protective Medicine Building (“CFSPM”) is intended to house the Milwaukee County (“County”) Offices of the Medical Examiner and Emergency Management in partnership with the Medical College of Wisconsin (“MCW”) who will also occupy the building. The project has been considered for placement at the Milwaukee Regional Medical Complex (“MRMC”). The current proposal is for MCW to develop the site and build the building as landlord. County shall lease its portion of the building and complete its interior and systems construction under the capital project, as a tenant fit-out. The proposed 30-year lease is the object of this report.

Per 2020 Budget Amendment 1B002, the approved capital appropriation of \$11,191,328 is currently held in an allocated contingency account within the project. The funds may be released, subject to County Board approval, after the final MCW lease-purchase agreement is presented to the County Board for review.

At the Board’s request, reports have been provided to examine other alternatives such as the County constructing and owning the building and leasing a portion of the building to the Medical College of Wisconsin (“MCW”). Based on the Board’s guidance, the option for the County to build and finance its own tenant improvements and lease the shell from MCW has advanced as the preferred alternative. These reports were previously submitted to the County Board in the following files:

16-393 – An informational report regarding a collaborative effort between the OEM, Office of the Medical Examiner, State of Wisconsin Department of Justice Crime Lab and the Medical College of the Wisconsin in creating a Forensic Science and Intelligence Center

16-721 – An informational report regarding Milwaukee County’s participation in the

development of a collaborative forensic research facility

- 17-298 – An informational report regarding the Public Policy Forum report titled “Breaking New Ground?” Analyzing the potential for a public-private forensic science center in southeast Wisconsin**
- 18-484 – An informational report regarding Milwaukee Regional Medical Complex land options****18-764 – From the County Executive, submitting the 2019 Recommended Budget (see Amendment 1B002 by Supervisor Lipscomb, Sr. amending Capital Project WC21401 – Forensic Science Center Phase 1)**
- 19-625 – An informational report regarding Amendment 1B002 Center for Forensic Science and Protective Medicine**
- 19-705 – An informational report on the Development of the Center for Forensic Science and Protective medicine, Recommending Transfer of \$660,00 from Allocated Contingency to Capital Improvement Project WC21401 - Forensic Science Center Phase 1**

Note this item also relates to two other reports submitted to the County Board for consideration in the March 2020 cycle:

- An Informational Report regarding the potential transfer of the County water system servicing portions of the Milwaukee County Grounds to the City of Wauwatosa and the Milwaukee Regional Medical Center.
- An Informational Report regarding the sale of County owned land at 9201-9501 W. Watertown Plank Road and other lands at the Milwaukee Regional Medical Complex.

Overview of County Grounds Transactions

For the purposes of this report, it is relevant to point out that part of the BHD land sale is for the County to retain control over six acres for the design and development of a new Medical Examiner facility and space for the Office for Emergency Management. MRMC campus remains the hub of research and academics for the practice of medicine in southeastern Wisconsin and a partnership with MCW seems a synergistic fit for the planned CFSPM, as will be more detailed through this report. Details of the CFSPM as part of the transaction are available in a companion Informational Report regarding sale of County owned land at 9201-9501 W. Watertown Plank Road. The companion report was also submitted to the County Board for consideration in the March 2020 cycle.

Project Budget

As currently budgeted, the project dollars breakdown as follow:

Site Development and Base Building (MCW): \$41M
Tenant Improvements (County): \$28M
FF&E/Relocation Costs (County): \$2.7M
Annual Lease Cost (County): \$1.7M

As noted, MCW would have the responsibility to incur the initial capital for the site development and base building costs in the amount of \$41M. The County’s portion of the construction costs are passed through in the annual base rent. There are no development fees included, only MCW’s actual costs inclusive of debt service. If the County were to assume this responsibility, there would be a significant impact on the County’s self-imposed bonding limit that would need to be paid off over the course of 15 years instead of the 30 years allotted by the lease. The remaining County cost

obligations remain the same.

The capital cost of the County’s tenant fit-out of highly specialized systems and space within the CFSPM is estimated to be \$28M. The 2020 approved capital of \$11,191,328 is the first of two installments proposed for this project. Further design work underway will refine the final capital budget and a request for the balance will be made in the 2021 capital budget. An additional \$2.7M of cash cost will be required for furniture, equipment and relocation costs in 2023.

The County and MCW understand that the development of a successful CFSPM is a highly technical and interdependent undertaking and agree to cooperate in all aspects of construction, design and leasing such that the construction of the base building fully reflects the requirements of the County and its design and construction process is conducted most efficiently and that the lease echoes the cooperative nature of the deal.

Summary of 30-Year Cash Flow

As previously detailed in File 19-625, the 30-year cash flow for the County to build and finance its own tenant improvements and lease the shall from MCW follows:

	<i>Lease Shell/Build Tenant Improvements</i>
<i>Lease Expenses</i>	\$37,086,594
<i>Debt Service Expenses</i>	\$42,365,058
<i>Operating and Maintenance</i>	\$36,758,544
<i>Capital Reserve Expenses</i>	\$2,884,241
<i>Furniture and Fixtures</i>	\$2,425,869
<i>Other Expenses</i>	\$591,590
<i>Total Expenses</i>	\$122,111,896
<i>Net Present Value of Total Expenses</i>	\$78,421,230

The referenced table is accurate only within the parameters of cost estimates at the time when produced.

Advantages of Leasing from MCW

Co-location could increase the number of pathology residents and fellows, which now are in short supply and may open up new forensic research grant opportunities.

The County will have the ability to walk away from an asset at the end of its usable life that is functionally obsolete and of little or no residual value.

Leasing, with an option to purchase as is being presented for consideration, provides the flexibility if so desired to remain if the property does retain a residual value for the County.

Lowers project costs that would otherwise have a significant impact on the County’s self-imposed bonding limit.

If the facility is leased by the County, it does not compete with other priorities that may crowd out

maintenance budgets. The result is the facility does not fall behind on needed repairs.

Summary of Lease Deal Points

For assistance with the lease, the County has retained CBRE as its real estate consultant and Husch-Blackwell as its outside counsel.

Term

The County will be afforded a 30-year base term with the option to extend for two consecutive five-year periods. Then length of two serves to extend the amortization period for capital costs associated with the project and provides the project developer a high-credit anchor tenant. In concert, these items can be used to leverage more favorable financing for the core and shell that are to be delivered.

Previously, stakeholders identified the need to address any residual value in the building. In structuring the deal terms of the lease, attention was paid to providing future leadership with options. Future needs and conditions cannot be projected out thirty years. Control of the property beyond thirty years is captured in an option to purchase, as follows.

Option to Purchase

During the term of the lease, the County reserves the right to purchase its premises as a condo unit. The County may elect to purchase at any time at the higher of fair market value or the balance of remaining project. The lease discusses these scenarios in more detail.

Rent

Base Rent is to be structured on actual costs to construct the core and shell along with debt service amortized over 30 years. Base Rent is capped at \$19/sf. County retains the right to audit project finances to confirm rent number. In addition to Base Rent, there are additional rent components, including operational costs (maintenance/repairs) and the potential to have certain leasehold improvements funded through the lease. The latter is for future deliberations as the design of the project comes into sharper view.

As occurs from time to time in constructing a new building, there may be capital components that would be the tenant's responsibility but there may be cost savings and efficiencies gained by incorporating into the landlord's work. Subject to the defined uses of bonding funds, decisions regarding bondable and operating costs can be made as the need arises. It is also noted that by partnering with MCW the County avoids any additional fees that a traditional developer would incorporate into project costs to make a more profitable return on investment.

CBRE, retained as the real estate consultant to this transaction, has provided an overview of market rents. While this facility is unique and with limited market comparables, the maximum Base Rent of \$19/sf is not unreasonable. In the context of a suburban market, this rate is moderately aggressive, but it's important to note that MRMC is a special development and rents may track more with the Milwaukee central business district. Class "A" rents are moving up in the area, especially with new construction and particularly within the Milwaukee central business district. On the positive side, there are no escalations in the Base Rent, so in theory this lease should be more in market each year and eventually below market. Additionally, this is not a normal developer driven lease, but something

of a hybrid to make it attractive for ME and OEM to be at the MRMC and to amortize MCW's construction costs.

Revenue Share

Another item raised previously by the Board was how to generate revenue through leasing excess space. There is risk associated in being a landlord that may exceed the reward. To help balance risk and reward, the County has negotiated a rent component in the lease that allows MCW and the County to share any net revenues from third-party leases to offset operational costs and pay down any unamortized debt service. If there is any revenue after such events, the balance may be used to offset the County's Base Rent. The intent is to keep the project financially neutral for both County and MCW and any net revenues dedicated to the building.

Maintenance Responsibilities

County and MCW are coordinating maintenance and replacement responsibilities for the building. In general, maintenance outside of the County's premises will be the obligation of MCW. There will be equipment specific to the County's needs, to be later determined, that will be kept as the County's responsibility. These operating costs are subject to annual reconciliation.

Capital Reserve

Long term lease includes a capital reserve which will be used to finance capital improvements to the leased portion of the facility. Also, maintenance and repair expenses would be incorporated into the Lease agreement. This will make it more likely that improvements and repairs are done on a timely basis.

Permitted Uses

Stakeholders have asked what measures are being taken to ensure that any other uses in the building are synergistic with the County's ME and OEM functions. The County and MCW agree that any use in the building should be limited to academic, research and administrative functions.

Current Status of Planning & Design

In November 2019, the County Board authorized the transfer of \$660,000 funds from allocated contingency to capital project WC21401 – Forensic Science Center Phase 1, for the purpose of initiating design and planning for the project. In December, DAS-FMD conducted its bid process and subsequently awarded contracts for both Design and Project Management to Continuum Architects/Smith Group and Concord Group, respectively. Work from the teams was initiated in January with intensive design workshops with ME and OEM to determine needs. Concurrently, they are coordinating with MCW and MRMC partners on location analysis and site planning. Conceptual and schematic-level design work is to be completed in time to develop finer budget information to inform the 2021 budget process. As of this writing we have not developed the design or additional information that would indicate significant changes in the project financials from what was previously reported.

Project Schedule

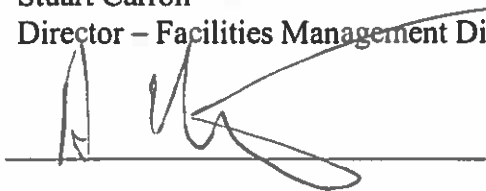
In 2020, the goal is to continue moving forward with planning and design efforts between both the County and MCW. During the first quarter of 2021, MCW is scheduled to commence construction on the site work and base building. This is a change from the previous report which projected a 2020 construction start. The revision is due to the realization of more significant planning and design required for the entire west MRMC campus area that has been initiated and will take place in 2020. Based on the new construction start date, MCW will be responsible for turning over to the County a substantially complete core and shell in the first quarter of 2022. Thereafter, the County will complete its space and be operational by mid-2023.

RECOMMENDATION

This report fulfills requirements from the 2020 Budget to present a lease to the Board and therefore we recommend adoption of the attached Resolution to move funds budgeted in the allocated contingency account in Project WC20901 Forensic Science Center so that funds are available to be spent to further project design and construction.



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cc: Chris Abele, County Executive
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