

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: February 20, 2020

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

FROM: Aaron Hertzberg, Director, DAS – Economic Development Division

SUBJECT: **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**

Background

Previous Legislation –

File 16-390 – From the Director, Department of Transportation, requesting approval of the Locally Preferred Alternative; requesting authorization to apply for the Federal Transit Administration Small Starts grant; and requesting to commit \$7,775,000 to support the development of the proposed East/West Bus Rapid Transit Project.

File 18-484 – An Informational Report from the Comptroller and Director of Department of Administrative Services regarding Milwaukee Regional Medical Complex Land Options

File 18-764 – 2019 Recommended Budget (specifically attachments #16 and #18)

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 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.

Summary

Milwaukee County has completed an Option Agreement (“Option”) for sale of lands at 9201 – 9501 W. Watertown Plank Road (“BHD Land”) and other ancillary properties at and adjacent to the Milwaukee Regional Medical Center (“MRMC”) to MRMC Land Bank, LLC (Buyer). MRMC Land Bank, LLC is comprised of Children’s Wisconsin, Froedtert Health and the Medical College of Wisconsin. Two of the three existing buildings that are part of the sale, the former Child Adolescent Treatment Center (“9501”) and Day Hospital (“9201”), had previously been vacated and decommissioned. The Mental Health Building (“9455”) remains active and under terms of the agreement will be leased back by Milwaukee County for \$1.

Upon completion of the Option, a copy was posted to the County’s website. Copies of other option agreements for partners of the MRMC Campus to acquire lands they current lease from the County were also posted. Those leases were available as part of prior board reports (File 18-

484), but are now also available with the BHD Land Option on the County's Economic Division webpage.

In accordance with Wisconsin State Statute (59.17), the transaction was approved by the County Executive, Comptroller and Intergovernmental Cooperation Council ("ICC") appointees from the Cities of Wauwatosa and Milwaukee. The primary property referenced in the sale agreement is entirely within the boundaries of the City of Wauwatosa. The deal terms outline the potential transfer of lands along the southern boundary of the MRMC campus (denoted later as "Ponds Lands") that include land in the City of Milwaukee, thus also requiring approval from Milwaukee's ICC appointee.

Members of MRMC including the Blood Center of Wisconsin, Children's Wisconsin, Froedtert Health and the Medical College of Wisconsin previously acquired option agreements to purchase land currently leased from Milwaukee County (File 18-484). Following completion of the BHD Land Option, each of the above-mentioned entities and MRMC Land Bank, LLC provide notice of their intent to exercise all options on campus. The agreements set a date for closing within 60 days of exercise, no later than March 31, 2020.

Note that Curative Care Network ("Curative") is a member of MRMC and leases land from the County at 1000 N. 92 Street. Curative previously requested that Milwaukee County agree to assign their lease interests to Children's Wisconsin and under a separate agreement with Children's Wisconsin leased the space they currently occupy. As part of the agreement, Children's Wisconsin entered an Option with the County to purchase the Curative property. Curative will remain in their existing space under the new lease with Children's Wisconsin.

County priorities in entering the Option, in no particular order, were to:

- Vacate underutilized, costly and inefficient buildings
- Avoid liabilities associated with the demolition of County buildings
- Support the Mental Health Board's vision for a community-based service model
- Allow the Behavioral Health Division to continue operations on site as needed
- Receive maximum value from the sale
- Support Milwaukee County's Department of Transportation's plans for East/West bus rapid transit ("BRT") lanes through the MRMC campus
- Ensure the opportunity for development of the County's planned Center for Forensic Science and Protective Medicine
- Align with the City of Wauwatosa's Life Science District Master Plan, which was jointly funded by Milwaukee County and approved in December 2018 after an extensive public process

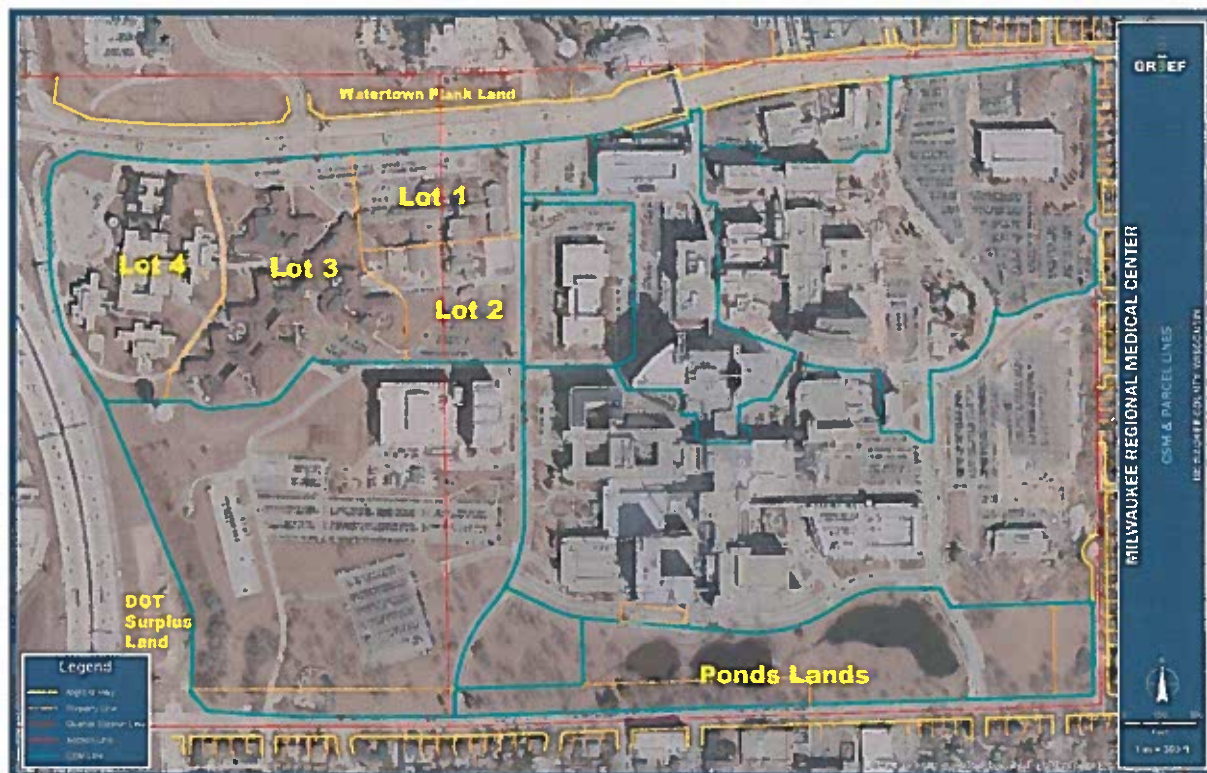
BHD Lands

The BHD Lands comprise 40.373 acres that will be subdivided into four lots. A draft certified survey map depicts the area below with the four lots offered for sale labeled as described in the Option. The property will be acquired "AS IS, WHERE IS" by the Buyer.

Also included are future opportunities for MRMC Land Bank, LLC to acquire "Lands outside the BHD Lands" including, "Ponds Land" (19.334 acres), "Watertown Plank Land" (approximately 2.12 acres) and WisDOT "Surplus Land" (1.92 acres). Note that two outlots

have been created on the Ponds Lands where catalogued burial sites will be retained by the County. The sale of Lands Outside the BHD Lands are described later in the report.

The sale of all lands is separate and distinct of any transfer of the County-owned water and sewer system servicing the MRMC and other properties in the City of Wauwatosa. Negotiations are on-going with both MRMC and the City of Wauwatosa regarding transfer of the water and sewer system. A companion Informational Report regarding the status of those negotiations has been submitted for consideration of the County Board in the March cycle.



The buildings on the BHD Lands (Lots 1-4 above) have met the end of their useful life, no longer serving the County as they were intended when they were built and would require significant investment to update or re-purpose.

The former Children's Adolescent Treatment Center ("CATC" or "9501") and Day Hospital ("9201") buildings have been decommissioned as part of the County's effort to reduce the County's footprint, limiting utility and operational costs. The Behavioral Health Building ("9455") is already underutilized with a high level of vacancy within the building. Needs within the building will be further reduced in the coming years as the Milwaukee County Mental Health Board ("MHB") has entered a contract with Universal Health Services ("UHS") to provide inpatient mental health services at a privately constructed location elsewhere in the County. The MHB and Behavioral Health Division ("BHD") have also sought other opportunities to provide services in community-based locations more accessible to patients. BHD is working with DAS to explore opportunities to move all operations out of 9455, with a goal, though no requirement, to be entirely out of the facility by the end of 2022.

Costs from the DAS-Facilities Management – Architecture & Engineering Division to demolish all three County buildings on BHD Lands were estimated to be between \$11 and \$15 million in 2008. Those estimates were revised in 2012 to between \$12.5-19.4 million (see Exhibit C). The extensive demolition costs are primarily driven by the size of the sprawling complex and challenges in dealing with asbestos containing materials and underground steam tunnels.

At the time of closing, the Buyer will take possession and responsibility for the 9501 and 9201 properties. With the sale, Milwaukee County alleviates itself of any and all responsibilities for maintenance or demolition of those buildings, an anticipated cost avoidance solely related to demolition of between \$5-7.5 million.

Lease Back of 9455

Milwaukee County will lease back 9455 for continued use by BHD. The initial term is for ten years at a base rent of \$1 per year. All parking on Lot 3 shall be retained by the County, with the Buyer required to provide an additional 200 parking spots proximate to the build to help ensure continued operations. Unlimited five-year extensions are available as necessitated by the County. For as long as the building is leased, Milwaukee County retains all maintenance, operation and liabilities of the building.

Because of the outsized cost of demolition of the 9455 building, estimated to be between \$7.5 and \$12 million, the Buyer was unwilling to assume demolition obligations at closing. After Milwaukee County vacates the premises, the Buyer has the right to terminate the lease, take full possession of the property and carry forth with demolition of the building. If the buyer is not prepared to take on demolition of the building when BHD vacates, Milwaukee County intends to decommission the building to limit utility and maintenance costs and retain the lease at a base rent cost of \$1 per year. Milwaukee County would retain the lease until market conditions encourage the Buyer to take on demolition responsibilities.

Additional Lands

In addition to sale of the BHD Lands, the Option outlines terms for transfer of other properties associated with the MRMC Campus. These transfers serve to avoid any ongoing maintenance or infrastructure responsibilities as the campus transitions to private ownership. Terms are outlined below.

Ponds Land

The Ponds Land includes approximately 19.334 acres of land immediately north of Wisconsin Avenue between Windsor Court and W. 92nd Street. Milwaukee County is not required to transfer the Ponds Land unless and until an agreement is made to transfer the County-owned water and sewer system to MRMC, Inc. or an affiliate organization. MRMC, Inc. is the membership organization made up of the six partners on the MRMC campus, Blood Center of Wisconsin, Children's Wisconsin, Curative, Froedtert Health, Medical College of Wisconsin and Milwaukee County. A separate report has been submitted to the Milwaukee County Board in the March 2020 cycle regarding the status of a potential transfer of portions of the County-owned water and sewer system servicing the area to MRMC and the City of Wauwatosa. Note that the

land includes two outlots for catalogued burial sites that will be retained and protected by Milwaukee County. (see Sections 1.b. and 3.d.).

The Ponds Land are considered part of the water and sewer system on campus and are not expected to be developed. No value was applied to the transfer of these lands. There are provisions in the agreement to recapture value of the Ponds Land if it is sold or developed following acquisition from Milwaukee County (Section 11).

Watertown Plank Lands

The Watertown Plank Lands include land of approximately 2.12 acres immediately north of Watertown Plank Road between N. 92nd Street and Discovery Parkway, south of the MRMC Thermal Utility Facility. The frontage parcels carry several utility lines and easements and are not developable. The Milwaukee County Department of Transportation and the DAS-Facilities Management Division confirmed there is no interest in continued ownership by Milwaukee County. As part of the transaction, the Buyer agreed to acquire the land with maintenance responsibilities as a buffer area for the Thermal Facility. No value was applied to the transfer of these lands.

The Watertown Plank Lands also include a parcel east of N. 92nd Street associated with the East Watertown, near the Ronald McDonald House. As is the case with the Ponds Land, Milwaukee County is not required to transfer this land unless and until a transaction of the water and sewer system is completed with MRMC, Inc. or an affiliate organization.

WisDOT Surplus Land

As part of the Zoo Interchange project the Wisconsin Department of Transportation (“WisDOT”) has returned a parcel of land to Milwaukee County associated with an on-ramp that no longer exists from W. Wisconsin Avenue to Interstate 41 North. The land includes a stubbed road onto the MRMC campus along W. Wisconsin Avenue at N. 95th Street. The area of land is important in creating a new road connection to the west side of the MRMC campus. Market value for this portion of land was charged at the same value of other lands on campus, \$190,821 per acre. At approximately 1.92 acres the Surplus Land is sold for \$366,376.

If the Buyer closes on these additional lands, \$75,000 from the sale price of the DOT Surplus Land shall be held in escrow to address potential environmental concerns related to any, but only, the Ponds, Watertown Plank or Surplus lands. Any additional environmental obligations would be the responsibility of the Buyer. Any remaining funds not used for environmental remediation would be paid to the County as part of the purchase price.

Purchase Price

An appraisal for the BHD Land assigned a value of \$190,821 per acre for approximately 40.373, bringing the gross appraised value to \$7,704,016. The gross appraised value became the base value for considering the sale.

The County buildings on the property are of a deteriorated condition, and it's not believed they could be repurposed for private use. The estimated demolition cost based on a low-end estimate for the entire complex was anticipated to be \$12.5 million in 2012. Demolition costs adjusted for

inflation to 2019 dollars (bls.gov) could be anticipated to be \$14.2 million. The appraised value relative to demolition costs demonstrate a negative market value of -\$6,495,984.

MARKET VALUE	
BHD Land Value (\$190,821/acre)	7,704,016
Estimated Cost to Demolish Existing Buildings	- 14,200,000
BHD Land Market Price	- \$ 6,495,984

In considering the sale value, Milwaukee County required the full appraised value of the land to be paid, without discount for demolition costs. Credits were provided to help facilitate County priorities, including construction of BRT investments and the planned Center for Forensic Science and Protective Medicine.

BRT Credit

The Buyer will take responsibility for constructing certain Bus Rapid Transit (“BRT”) infrastructure that aligns with the County’s plans to service the campus. This includes building dedicated lanes for the BRT (Exhibit D). The BRT investment would otherwise be a responsibility of the County but is more easily facilitated by the Buyer, as MRMC makes corresponding investments in infrastructure on campus. The Buyer will build the BRT infrastructure to the County’s specifications and as required by the Federal Transit Administration (FTA).

The expected cost of the BRT investment by MRMC is \$4,511,062. Funds from the transaction will be held in escrow for future construction when the County is prepared to advance the project. If the County does not receive FTA funding for the project, the County’s Director of Transportation has authority to approve the use of funds for other MCTS related transit improvements on campus. Regardless of FTA funding, if not all of the BRT credit funds are utilized remaining dollars would go to the County as part of the sale price.

Center for Forensic Science and Protective Medicine Credit

Milwaukee County has been working in collaboration with the Medical College of Wisconsin to pursue development of a Center for Forensic Science and Protective Medicine (“CFSPM”). The Option outlines allocation of six acres of land for development of the building. The property will be transfer to the Medical College of Wisconsin or an affiliate. The property will be held for development of the CFSPM. The County retains the right to either construct the facility itself or continue pursuit of its partnership with the Medical College of Wisconsin. Details of plans for the CFSPM are available in a companion report submitted to the County Board for consideration in the March 2020 cycle.

Milwaukee County will avoid acquisition costs for land associated with the CFSPM by crediting the sale price for the estimated six acres necessary to construct the facility. The credit amount of \$1,144,926 will be held in escrow. If Milwaukee County moves forward with the project the funds would be returned to the Buyer. If the County does not advance the project on the MRMC campus, the funds would be given to the County as part of the sale price. If the project does

advance on the MRMC campus but less acreage is necessary, then funds would be divided between the Buyer and County on a per acre basis.

SALE VALUE	
BHD Land Value (\$190,821/acre)	7,704,016
Cost to Demolish Existing Buildings	14,200,000
BRT Investment Credit	- 4,511,062
CFSPM Land Credit (at 6 acres)	- 1,144,926
BHD Land Sale Value	\$ 2,048,028

The total sale value is outlined in the table below. Total sale value includes BHD Land, WisDOT Surplus Land and all applicable credits. Note that all credit amounts are subject to actual costs.

TOTAL SALE	
BHD Land Value (\$190,821/acre)	7,704,016
DOT Surplus Land (\$190,821/acre)	366,376
Cost to Demolish Existing Buildings	14,200,000
BRT Investment Credit	- 4,511,062
CFSPM Land Credit (at 6 acres)	- 1,144,926
Surplus Land Environmental Credit	- 75,000
Total Land Price	\$ 2,339,403

Wauwatosa Life Science District Master Plan

In December of 2018, the City of Wauwatosa approved a Life Science District Master Plan, setting priorities and a vision for the MRMC. The plan, funded in part by Milwaukee County, was intended to “unite multiple visions, concepts and opportunities for the future of the area known as the County Grounds.” The plan was approved following an extensive public process including many community listening sessions and public hearings.

With respect to the MRMC, the plan calls for a campus-like environment to support the growth of the existing medical and research uses. The western portion of campus, including the BHD Lands, are envisioned for campus growth and a new road network that requires demolition the 9201, 9455 and 9501 buildings. The new road network is intended to help alleviate congestion on the eastern portion of campus and provide more direct access to I-41 and Watertown Plank Road at Discovery Parkway. The west campus is stated as “a unique opportunity for bold, dynamic, iconic buildings, visible from the freeway comparable to other nationally prominent academic medical centers.”

Today, approximately 17,000 people are employed at the MRMC campus, with upwards of 30,000 visitors. According to the plan, the combined community impact of the members exceeds \$400 million. The sale of the BHD Lands and sale of the other lands on campus to the members, helps to fulfill the Life Science District Master Plan vision for a renowned academic medical center, attracting international talent, enhancing medical research and advancing care for those in Milwaukee County and beyond.

Mental Health Board Approval

Wisconsin State Statute (51.08) requires notes that the County “may not sell the county mental health complex under this section without approval of the Milwaukee County mental health board. The Option denotes the responsibility of the County to obtain such necessary approvals from the Mental Health Board prior to, and as a condition of, closing (Section 8. e.). On February 3, 2020, the Executive Committee of the Mental Health Board unanimously passed a recommendation to the Mental Health Board to approve sale of the building. As of drafting, the Mental Health Board is scheduled to consider the item at their next meeting, February 27, 2020.

Continuing Services Agreement

Milwaukee County Ordinance Chapter 98 (“Ordinance”), outlines cost sharing responsibilities on the MRMC Campus. The purpose was stated in the Ordinance as follows:

“In view of the fact that certain improvements may be made to the county grounds [MRMC Campus] in order to accommodate the aforementioned and other health organizations, the cost and use of which improvements are to be shared on an equitable basis, the county board deems it advisable to formulate certain policy guidelines and detailed procedures that will be applicable to cost sharing for the capital improvements for supportive facilities that may be installed or constructed by the county in order to accommodate said members in the use and operation of their facilities on the campus and for services incidental thereto.

The Ordinance applies to costs including building infrastructure like roads, sidewalks and sewers as well as maintenance of such infrastructure and “commons areas” of the campus. Costs are allocated to each “geographic member” of the campus based on “gross square feet of building area”, including buildings owned by Milwaukee County. The responsibility for demolition of County buildings is explicitly stated to be except from cost share among members and to be borne by the County. The Option sets a path for the County to avoid all demolition costs.

The Ordinance applied to County infrastructure and maintenance responsibilities. With the sale of the campus, including the BHD Lands and lands leased by the MRMC partners, Milwaukee County will no longer own or be required to maintain infrastructure and common areas on the campus. The members will be solely responsible for such maintenance and any future infrastructure investments. Corporation Counsel has, therefore, agreed to provide an opinion that while the Ordinance remains in effect, shared costs are expected to be \$0.

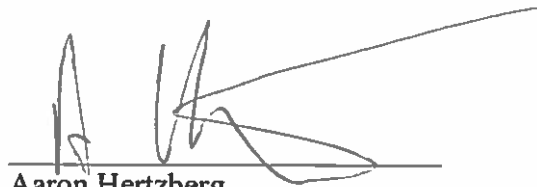
Note that while Milwaukee County may retain ownership of the Ponds Land until such time as a transfer of the water and sewer system is achieved, costs associated with care and maintenance of

those properties is addressed through water system billing. It's envisioned that if the system is transferred those costs and responsibilities will be borne by the future owner of the system.

RECOMMENDATION

The Director of the Department of Administrative Services – Economic Development Division respectfully requests that this informational report be received and placed on file.

Prepared by: Aaron Hertzberg, Director, DAS – Economic Development Division



Aaron Hertzberg
Director, DAS – Economic Development Division

- Exhibits: A: BHD Land Option
 B: BHD Land Map
 C: BHD Demolition Estimates
 D: BRT Map

- cc: Chris Abele, County Executive
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 County Board of Supervisors
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