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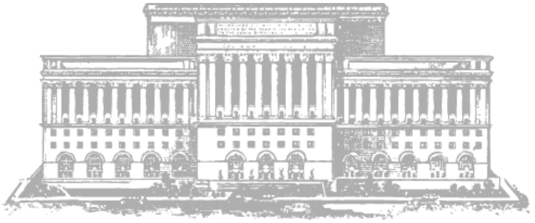
Department of Administrative Services

Facilities Management Division
Economic Development Division

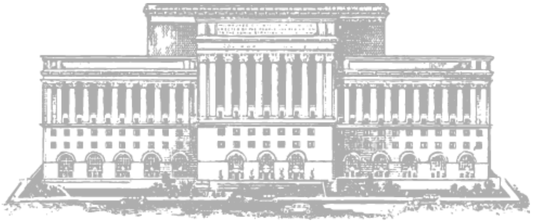
The Future of the Coggs Facility : A Financial Analysis

April 9, 2021



Agenda

1. Background Information
2. Future Scenarios
3. Financial Analysis
4. Conclusion



Milwaukee County historic real estate

- A 1950's & 60's County strategy/philosophy was to own property in certain neighborhoods for stabilization of some assets and to stimulate local economy.
- These buildings sometimes had previous use (hospital/department store/warehousing/jail) that were changed with County occupancy.
- In general, although at times providing convenient neighborhood access, there was no visible economic impact on a given area.
- After 50+ years of applied use the buildings are or have been more expensive to maintain than alternate spaces.

Public Safety Building

City Campus

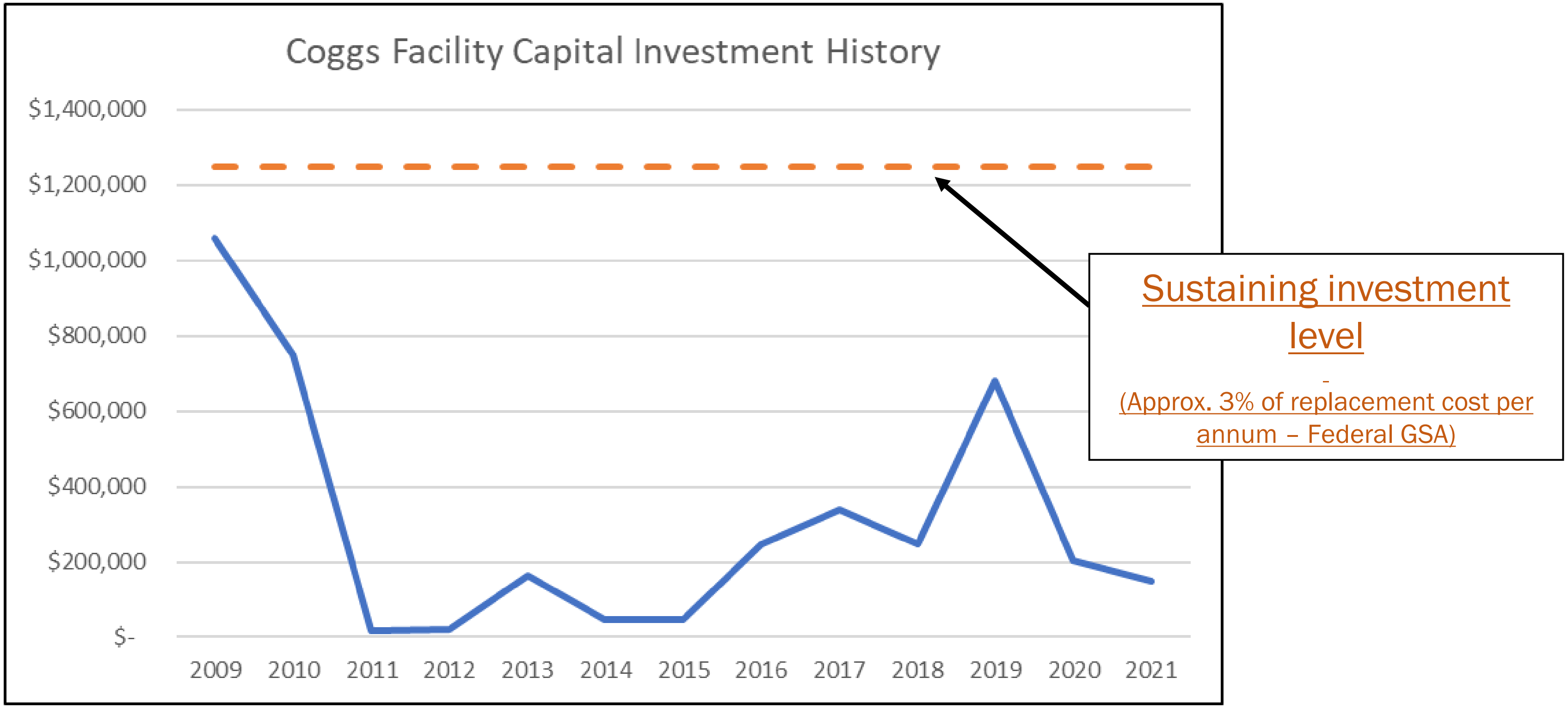
Medical Examiner

The Marcia P. Coggs Human Services Center

- Former department store built in 1920
- Acquired by Milwaukee County in 1963
- 213,000 square foot building
- 150,000 rentable square feet (50,000 square feet per floor)
- State DHS occupies 1^{st} and 2^{nd} floor
- County DHHS occupies 3^{rd} floor
- $1.6 million in operating and maintenance costs in 2021
- $3.35 million lease revenue in 2021 (primarily State DHS, plus cell towers and Food Pantry)

State DHS operations at Coggs include the MilES and MECA income maintenance and childcare subsidy programs for Milwaukee County

The Marcia P. Coggs Human Services Center



Due to years of under-investment, the backlog and current estimate of capital requirements over the next 20 years now stands at approximately $46M.

Background:
County Board report 20-485, July 2020

1. Accessibility is a key issue with tenants, and overall costs to address range between $500,000 and $1,000,000.

2. Under the second phase of the 'No Wrong Door' project, DHHS may vacate Coggs completely, or may continue to occupy the third floor. That 'Phase 2' decision is pending additional analysis and funding.

3. Recent discussions with the State indicate that they are evaluating reducing, not increasing, their footprint.

4. A County Administrative Space Strategic Facility Plan currently underway may identify County occupiers other than DHHS and provide savings from closing other facilities. Results of that study are expected mid-year.

5. Renovations on the order of $4.5M per floor may be required to establish a sustainable office environment for occupants.

6. Options to sell or lease out Coggs if County no longer occupies it do exist but may not be financially attractive. Further analysis is needed.

Background: State plans

- State has never indicated a desire to become a long-term tenant.
- In March the State issued an RFP to reduce footprint and potentially relocate to 50,000 SF of leased office space elsewhere in Milwaukee County.
- The Governor's budget recommendation included funding a new State Office Building at 27^{th} and Wisconsin, which could also incorporate the State DHS programs and leave Coggs without an anchor tenant.
- The State DHS is clearly evaluating its options.

Future scenarios for Coggs

Scenario	Description	County occupancy	State occupancy
A	**COUNTY OWNS**, State remains as-is (status quo)	50k SF	100k SF
B	**COUNTY OWNS** – State reduces footprint by 50%	100k SF	50k SF
C	**COUNTY OWNS** – County 100% occupies	150k SF	0
D	**SALE-LEASEBACK** - County retains 50kSF under lease, State remains as-is	50k SF	100k SF
E	**SALE-LEASEBACK** - County retains 100kSF under lease, State reduces footprint by 50%	100k SF	50k SF
F	**SALE-LEASEBACK** - County retains 150kSF under lease, State vacates	150k SF	0
G	**DISPOSAL** - County vacates and sells with current State lease in place	0	100k SF
H	**DISPOSAL** - County vacates and sells with long-term State lease in place	0	100k SF
I	**DISPOSAL** – County and State both vacate	0	0

Future scenarios for Coggs

All scenarios (except DISPOSAL) start with the presumption that DHHS continues to occupy the 3rd floor, and that the DHHS 'No Wrong Door' project Phase 1 occurs in outside leased space (the costs associated with Phase 1 are NOT included in this analysis).

In all scenarios, as the State occupancy is reduced, we assume backfilling from

- DAS departments relocated from 633 W Wisconsin leased space, then
- DHHS Phase 1 leased space

and harvest the savings from eliminating rent in these other locations.

Scenarios A & D	**Scenarios B & E**	**Scenarios C & F**
Floor 3: DHHS	Floor 3: DAS	Floor 3: DAS
Floor 2: State	Floor 2: DHHS	Floor 2: DHHS
Floor 1: State	Floor 1: State	Floor 1: DHHS

Financial Comparison of Coggs Scenarios

20-year NPV in 000's

Scenario		NPV of Net Operating Costs	Capital Requirements		TOTAL 20-year NPV
			Bond	Cash	
A	COUNTY OWNED, State maintain same footprint (Status Quo)	$33,180	-$25,990	-$10,780	**-$3,590**
B	COUNTY OWNED, State occupancy reduced by 50%	$14,800	-$30,400	-$12,900	**-$28,400**
C	COUNTY OWNED, no State occupancy	$5,600	-$31,300	-$13,700	**-$39,400**
D	SALE-LEASEBACK, State maintain same footprint	-$46,100	-$5,240	-$2,450	**-$53,800**
E	SALE-LEASEBACK, State occupancy reduced by 50%	-$41,400	-$7,940	-$3,850	**-$53,200**
F	SALE-LEASEBACK, no State occupancy	-$24,700	-$10,650	-$5,250	**-$40,600**
G	DISPOSAL under current State lease terms	-$3,900	-$2,530	-$5,110	**-$11,600**
H	DISPOSAL assuming renegotiated long-term lease with State	-$5,500	-$2,530	-$5,110	**-$13,200**
I	DISPOSAL assuming Coggs unoccupied	-$3,900	-$2,530	-$5,110	**-$11,600**

Key Points for Financial Comparisons

- In **Scenario A,** net operating costs are positive since revenue from the State lease more than offsets the annual operating costs. Capital requirements over the 20-year analysis period offset this positive cash flow and make the overall prospect a nearly break-even proposition.

- In **Scenario B**, net operating costs remain positive since revenue from the State lease plus savings from closing other leased facilities offsets the annual operating costs. Capital requirements over the 20-year analysis period overtake the positive net operating costs and significantly increase the total costs.

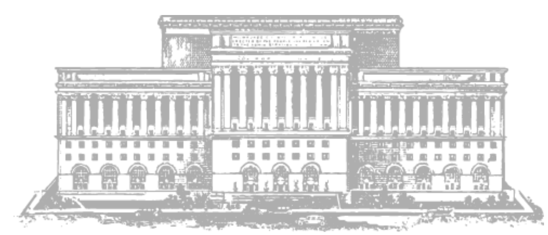
- In **Scenario C** the State is assumed to terminate their lease and vacate, so there is no rent revenue to offset operating costs. Rent savings from closing other facilities barely cover the on-going operating costs. Capital costs rise as retrofitting the building for full County occupancy is required.

- In **SALE-LEASEBACK Scenarios D, E and F,** operating cost rise significantly as the capital costs born by the new building owner/landlord are shifted back to the County as additional rent under the lease. While the risk of managing the capital requirements shifts to the landlord, the cost does not. Worse, the costs shift from the ability to bond for capital improvements to 100% operational funds (tax levy).

- **In DISPOSAL Scenarios G, H, and I**, capital infusion is halted, but costs to relocate DHHS to an alternate leased facility is added. The State lease is assigned to the new building owner. In Scenario H, additional funds are required to secure the State in a long-term lease prior to disposal of the building.

Summary

- While scenario A appears to be the most favorable, it is also thought to be the least likely. The County has limited ability to determine the State's course of action, and current indicators are that the State will most likely down-size, and potentially also relocate. In the coming months we may know more as the State evaluates responses to its RFP for new space.
- SALE-LEASEBACK is determined to be the least favorable approach to the future of Coggs.
- Overall, DISPOSAL scenarios are financially favorable to retaining ownership of the Coggs building.
- The financial benefits of disposal must be weighed against the intangible benefits of retaining the building, such as location, public purpose, owning vs leasing, etc.



Conclusion

- ✓ While the Coggs facility has served the County and its citizens well for over 57 years, this analysis indicates that it may be nearing the end of its useful life.
- ✓ Mounting maintenance requirements and the potential loss of the anchor tenant (and the building's revenue source) make it imperative that the County evaluate its alternatives.
- ✓ Despite intangible benefits of the location, this financial analysis shows that the County must weigh these benefits and the requirements to continue to fund them against other competing priorities.
- ✓ Ultimately policy-makers need to determine the most sustainable facility solution for the County and its citizens. This report should help inform that decision process.