COUNTY OF MILWAUKEE
Inter-Office Communication

Date: September 2, 2008

To: Supervisor Elizabeth M. Coggs, Chair, Committee on Finance and Audit
Supervisor Toni M. Clark, Chair, Committee on Economic and Community Development
Supervisor Peggy West, Chair, Committee on Health and Human Needs

From: St. Michael's Facility Lease Workgroup

Subject: Report by the Department of Audit and County Board Staff re: Authorization Requested by County Administrators to Enter Into Final Lease Negotiations with WEAS Development Company for the Long-Term Lease of the St. Michael's Hospital Facility for the Behavioral Health Division Inpatient and Nursing Home Operations [File No. 07-71(a)(b)]

BACKGROUND

At the May 2008 meetings of the Committee on Health and Human Needs and Committee on Finance and Audit, the recommendation by the administration to enter into final lease negotiations with WEAS Development Company for the long-term lease of the St. Michael's Hospital facility for the Behavioral Health Division Inpatient and Nursing Home operations was referred to County Board and Department of Audit staff for a review of the proposed alternatives. In addition, the County Board at its meeting on May 22, 2008, authorized an appropriation not-to-exceed $50,000 from the Appropriation for Contingencies for the Department of Audit to retain an outside consultant to provide technical real estate consulting services, including an estimate of the value of the current Behavioral Health Division site.

The Department of Audit and County Board Staff report contained the following recommendations:

> *It is our recommendation that the County Board choose to either renovate the current facility or build a new facility on county-owned property near the current site. If building a new facility is pursued, this could be accomplished with the assistance of an outside party based on a request for proposal (RFP) process.*
>
> *We further recommend that any policy decision to privatize County services be reviewed and scrutinized separately.*

At the July meetings of the Committees on Health and Human Needs; Finance and Audit; and Economic and Community Development, each committee laid the item over so that a more detailed report can be produced by Department of Audit, County Board, DAS and departmental staff that contains:

- The cost of renovating the current Behavioral Health facility or building a new facility on County-owned land near the current site;
- A list of other capital demands faced over the next five years that compete with BHD for resources;
- The impact on the County's bond rating and the effect of bonding limits from either a renovate or build decision;
- A list of the capital improvements made to the BHD facility over the past six years to assess whether the levels of spending and priorities have kept pace with infrastructure needs; and

- An analysis of the current public transit services to the existing site versus the proposed St. Michael facility.

A workgroup comprised of staff from the Department of Audit, County Board Staff, Department of Health and Human Services, the Behavioral Health Division, the Department of Administrative Services, the Economic and Community Development Division, and the Department of Transportation and Public Works was assembled to complete the task.

ANALYSIS

Cost Estimates for Renovation of the Existing BHD Facility and Building a New BHD Facility
The standard process used for developing a project cost estimate for a Milwaukee County Capital Improvement request entails using the RS Means Estimating Process, Department of Transportation and Public Works (DTPW) cost databases and/or in some cases, specialized data developed from other sources such as expert consultant services or actual construction contractor quotes. The estimate consists of construction costs and professional service fees for all applicable categories. The preliminary estimate and project scope are reviewed with the requesting department and considerable deliberation takes place in determining whether the project is viable and cost justifiable. The goal is to provide the County Board and County Executive the information needed in analyzing the project to determine the pros and cons of the proposed project. This information serves as a basis upon which to decide what projects to include in the Adopted Capital Budget or in the 5-year Capital Plan. This same standard process was used to develop the costs used in estimating both renovation of the existing BHD facility and building a new BHD facility.

As a project moves through several stages of development, cost estimating is performed at each stage. Stages of project development include Conceptual Design, Schematic Design, Developmental Design and Construction Bid Documents. As designated by the RS Means Estimating Process, the degree of accuracy of Conceptual Design estimates (numbers, sizes, location) is +/- 20-40%; Schematic Design estimates (drawings, material lists) is +/- 15-20%; Design Development estimates (refined drawings, outline specifications) is +/- 10%; Construction Document estimates (construction bid documents) is +/- 5-10%. Accuracy of the cost estimates increases with the degree of design development.

Conceptual Design cost estimating is the normal level of cost estimating used for submittal of requested County capital improvements projects and for the renovation of the existing BHD facility and building a new BHD facility options.

In this case, the Conceptual Design cost estimates **do** include the most common soft cost items. These include:

- Planning and design costs (consultant and DTPW staff);
- Project management (consultant and DTPW staff);
- Owner services (consultant and DTPW staff);
- Construction management (consultant and DTPW staff);
- DBE participation administration (consultant and DTPW staff);
- Construction contingency or general conditions; and
- Design to Leadership in Energy and Environmental Design (LEED) design standards (to some extent)

Included in the above are typical levels of costs for land surveying, soil boring and geotechnical analysis, Wisconsin Department of Natural Resources and municipal agency review, environmental impact studies and hazardous materials assessment and abatement. Variables that can affect the accuracy of these estimates include unforeseen site conditions such as major concealed asbestos deposits or extremely poor soil conditions; a prolonged, difficult building permit approval process; and scope of work changes from owner add-ons and reactions to unforeseen issues. It is the consensus of the workgroup that the cost estimates for the renovation of the existing BHD facility option are particularly vulnerable to fluctuation, with less flexibility to incorporate cost saving design modifications than with the build new option. Coupled with concerns associated with patient relocations necessary under the renovation option, as well as limitations imposed with the current facility 'footprint,' it was the workgroup's further consensus that renovating the existing BHD facility is the least attractive of the three options under consideration.

The Conceptual Design cost estimates used for the renovate and build new options **do not** specifically include:

- County staff time (other than DTPW);
- Design adhering to all LEED Standards;
- LEED Certification; and
- Site development costs for surrounding site grading, access roads, utility extensions, etc.

It is worth noting here that the Conceptual Design cost estimating performed for the renovate and build new options went somewhat further than normal in the level of detail of the data gathered for a typical County Capital Improvement request. Extensive building inventory and assessment was conducted on the existing BHD facility including field verified building system analysis, hazardous materials assessment and demolition analysis. Also, data developed as a part of the St. Michael's facility lease option provided more detail than usual regarding space planning and programming on the building a new BHD facility option. This serves to provide more confidence in the build new option cost estimates as they relate to real world current construction costs.

<u>Cost Estimates for Renovate and Build New Options vs. St. Michael's Facility Lease Option</u>
Total costs associated with the proposed 25-year St. Michael's facility lease option, including savings of $81.4 million from the privatization of 79.5 County positions, are estimated at $359.8 million. Total costs associated with the build new option over the same time period, assuming no privatization savings, are estimated at $423.2 million (see **Attachment A**).

Whereas the construction cost estimates for the renovation of the existing BHD facility and building a new BHD facility are at the Conceptual Design stage, the WEAS Development cost estimate for the St. Michael's facility lease option can be labeled as at the Schematic Design stage or even into the Developmental Design stage. As such, the WEAS Development cost estimates have additional precision and less risk during bidding and construction.

Therefore, while the cost estimates for the build new option is generally sufficient for planning and budgeting purposes, Milwaukee County's risk liability and variation of quality in the delivered project in the planning, design and construction phases is reduced in the St. Michael's facility lease option. The County would know the total dollar amount required for the turnkey developed building if it were to choose that option. In effect, the County would be paying WEAS Development, through project cost contingencies, to assume that risk.

With regard to that risk, it is important to understand that the proposed St. Michael's facility lease constitutes what is known as a triple net lease. A triple net lease (Net-Net-Net or NNN) is a lease agreement on a property where the tenant or lessee agrees to pay all real estate taxes, building insurance, and maintenance (the three 'Nets') on the property in addition to any normal fees that are expected under the agreement (rent, etc.). In such a lease, the tenant or lessee is responsible for all costs associated with repairs or replacement of the structural building elements of the property. (In this case, the only maintenance liability assumed by WEAS Development is the structural parts of the building—i.e., structural deficiencies in the steel and concrete of the building. The County is liable for all other maintenance, repair and/or replacement costs.) Under the proposed lease, capital improvement needs anticipated over the 25-year life of the agreement are funded through a reserve established from the lease payments. Ongoing maintenance costs are included as annual operating expenses, which are also funded through the lease payments. Therefore, the County would incur additional capital improvement and/or maintenance costs only in the event such expenditures exceed those anticipated in the lease agreement.

Although rents are usually lower in triple net leases than other forms of lease agreements, this form of lease agreement is desirable for real estate investors since the expenses incurred by the investor are dramatically decreased due to the transfer of financial responsibilities on the property from the investor/lessor to the lessee.

It is also fair to say that significant cost savings can be realized by a private sector developer, such as WEAS Development, due to expedited schedules, use of existing contractor relationships and elimination of bureaucratic review and approval processes. It is equally fair to say that the lack of a public bidding process in this instance makes it impossible to ascertain the extent to which such savings are passed on to the County.

<u>Construction and Financing Costs Adjusted for the Time Value of Money (Net Present Value)</u>
Comparing the total construction and financing costs only for the build new option ($127 million paid over 15 years) and the St. Michael's facility lease option ($178.3 million paid over 25 years) requires consideration of the time value of money because of the different time periods over which the costs are incurred. A 'discount rate' must be applied to future costs to reflect the fact that money today is worth more than the same amount of money ten years from now, due to: (a) inflation; and (b) the ability to grow money available today through investment. Guidelines from the federal Office of Management and Budget (OMB) suggest discount rates for lease/purchase decisions should be based on U.S. Treasury Notes and Bonds. A similar cost-of-capital approach is used by the State of Wisconsin Fiscal Bureau and the City of Milwaukee Office of the Comptroller. Using the OMB guideline, a discount rate of 4.75% is appropriate for a 15-year financing decision, and 4.9% for a 25-year financing decision. An alternative approach recommended by Dr. Stephen Finkler of New York University prefers a discount rate based on the rate of return the funds could earn in the private sector. The 8.0% assumed actuarial rate of return used by the Milwaukee County Employees' Retirement System could be used as the discount rate under that approach. Using the OMB guidelines the Net Present Value (NPV) of the estimated construction and financing costs of the build new option is $5.3 million less than the NPV of the construction and financing portion of the St. Michael's facility lease option. Alternatively, using the Finkler approach, the NPV of the construction and financing portion of the St. Michael's facility lease option is $5.1 million less than the construction and financing portion of the build new option. (Detailed results of the NPV cost analysis using the two approaches are presented as **Attachment B**).

Timelines for Build New and St. Michael's Facility Lease Options
WEAS Development has committed to a timeframe of 26 months from approval of a formal agreement to completion of the St. Michael's facility lease option. A realistic timeline for a build new option on a site near the current BHD facility is 36 months from the time County Board approved funding is in place to substantial project completion. This 36-month estimate does not include time for identifying and approving a specific site, nor does it anticipate extraordinary local zoning or planning commission approval delays.

Potential Site for the Build New Option
A potential site for building a new BHD facility is located just north of the Ronald McDonald House and east of the WE Energies Power Plant on the north side of Watertown Plank Road. The area, which is adjacent to the BHD food service building, is presently zoned as a Medical Center and Institution District (established for the Milwaukee Medical Regional Center) and is owned by Milwaukee County. The area is currently undeveloped and could easily accommodate a 15-acre site for a new BHD facility. The non-profit organization that operates the Ronald McDonald House has expressed interest in some of the land near the potential site for future expansion, but there is sufficient land to allow for consideration of that interest, as well. The real estate consultant authorized as part of this analysis had estimated the value of this land to be approximately $120,000 to $250,000 per acre, or approximately $1.8 million to $3.75 million for a 15-acre plot. To the extent this land would ever be sold for development, this represents an opportunity cost to the County of building a new BHD facility on this site.

Other Milwaukee County Capital Demands
During testimony at the July cycle of the Committee on Health and Human needs, it was suggested that taking on construction of a new BHD facility would begin to compete with the needs of other capital improvement projects, including the need for a new Safety Building, Community Corrections Center, Children's Court, staggering needs of the Zoo, Parks infrastructure backlog and repairs, water parks, and the needs of other cultural institutions. Determining the magnitude of 'competing' capital improvement needs across Milwaukee County infrastructure assets in the near future is an issue that DTPW works on continuously. Staff meets formally once a year and informally on an ongoing basis with each of the owner departments to review and update their 5-year capital improvement plans. Every year DPTW assesses and evaluates the County infrastructure using its building assessment software database (VFA) and similar but less complex assessment systems for County Trunk Highways, bridges, County roadways such as parkways, pools, trails, parking lots, etc. Currently, approximately 70% of County buildings are assessed. Efforts are made to remove from the listing of building system deficiencies those that have been dealt with through capital and major maintenance projects. The other condition assessment databases mentioned above are less costly to maintain and are updated each year. Those databases are used to provide one method for the owner departments to prioritize the projects requested.

The following information is summarized from a memo dated February 18, 2008 from the Director of DPTW to the Committee on Public Works and Transit.

Background
Since 2000 there have been a number of reports submitted to the Milwaukee County Board by various County departments to report on the status of the two components of capital improvement needs, those being infrastructure deficiencies and operational use of that infrastructure. DPTW has reviewed many of those reports and the information currently available regarding infrastructure deficiencies and operational use of that infrastructure. For purposes of this report, infrastructure is defined as building, bridges, highways and land improvements such as dams, staircases, hard

paved surfaces, pools, playgrounds, marinas, landscaped areas such as golf courses and parks and underground and overhead utilities.

Infrastructure Deficiencies
Many infrastructure deficiencies are now tracked using various inventory and assessment systems. This includes buildings, bridges, highways and land improvements such as dams, staircases, hard paved surfaces, pools and playgrounds. Some of these, including bridges, highways, some hard paved surfaces such as parkways and trails, pools and playgrounds are assessed each year or every two or three years on a rotating basis. The others are assessed intermittently as time and resources allow. About 70% of the County buildings have been assessed at least once in the last 15 years. Inventory and assessment of utilities is still in the early stages but progress is being made, particularly with fuel tanks and sanitary and storm sewer systems. While there is an inventory of landscaped facilities, they are not yet regularly assessed for their condition. The inventory and assessment of the infrastructure is necessary to determine the capital improvement and major maintenance needs.

1. The Milwaukee County Deficiency Summary Report summarizes the deficiencies of all the County buildings that have been assessed to date since 1995. Deficiencies to be repaired are listed in the amount of **$181 million** (priorities 1-5). Buildings that are not included and have not yet been assessed are those of the Airports, the House of Correction, Fleet Management, Public Museum and the Performing Arts. Center.

2. A 2006 Park System Infrastructure Maintenance and Replacement Needs assessment includes known deficiency costs **in addition to** the buildings (in #1 above) of **$129 million**.

3. The Five-Year Capital Improvements Program (2008-2012) that is a part of the 2008 adopted capital budget contains projected expenditures over the next five years that could total **$311 million**, excluding airports, and **$568 million** including airports. These figures address some, but not all, of the needs assessment items identified in #1 and #2 above.

Impact on the County's Bond Rating and the Effect of Bonding Limitations
If the County were to construct a new BHD building for $92.5 million, the annual debt service would be approximately $8.5 million over a 15-year period, with a total cost of construction and capital financing costs of approximately $127 million. This estimate is based on a level debt service schedule for a 15-year term. According to the County's bond counsel, all other things being equal, including an additional $92.5 million capital project to the County's current debt would not, in and of itself, have a significant impact on the County's current AA bond rating. Structure. (As of the end of 2008 the County will have approximately $398 million in General Obligation debt outstanding.) However, it is clear that, with respect to the pressing capital improvements previously cited, significant additions to annual debt service obligations will at some point have a detrimental effect on the County's bond ratings as established by the private bond rating agencies.

Regarding State-imposed limitations, there are two specific 'caps' relevant to any County bonding decision. First, there is a debt levy rate limit of approximately $1.42 per $1,000 of equalized value. For 2008, Milwaukee County stood at 83 cents, or less than 60% of the legal limit. In addition, there is the overall tax levy limit imposed by the State. For 2009, it appears that it will be about a 2% increase (approximately $5 million). However, debt service for bonds issued after July 1, 2005 is currently exempt from the tax levy limit. Therefore, neither of the two State-imposed caps would prevent the County from issuing G.O. bonds to build a new BHD facility.

A decision to build a new BHD facility using bond financing would require the County Board to waive its self-imposed limit on debt issuance. Adopted policy limits the amount of corporate purpose bonds issued by the County to finance capital projects. Under this policy, corporate purpose bond issuance could not exceed a maximum of $30 million through fiscal year 2008 and in each subsequent fiscal year could be increased by no more than three percent over the principal amount of the preceding year's issue.

It is also useful to note that a restructuring of approximately $110 million of the County's outstanding debt service obligations in May 2003 provided four years of debt service payment relief, while accelerating payments in later years. Since that restructuring, the Department of Administrative Services has strived to manage debt service obligations in a manner consistent with the County's self-imposed limitation policy, while attempting to avoid large year-to-year swings in total net debt service payments. As a result, currently scheduled debt service payment obligations, net of anticipated revenues, are projected to increase about $7.5 million from 2008 to 2009; then remain relatively stable during the next five years until a significant decrease is anticipated in 2015, as shown below.

Year	**Projected Net Debt Service Payments**
2008	$53.4 million
2009	$60.9 million
2010	$61.9 million
2011	$61.3 million
2012	$60.8 million
2013	$61.7 million
2014	$61.2 million
2015	$43.8 million

Alternatively, the County could choose to pursue the build new option without using bond financing. This would entail soliciting proposals for a lease buyback agreement structured similarly to the St. Michael's facility lease proposal, with ownership of the land reverting back to the County at the end of the lease period.

Capital Improvements at the Current BHD Facility

Following is the six-year trend for total capital improvement appropriations, adjusted for transfers, at BHD.

2003	$ 161,588
2004	236,800
2005	1,052,866
2006	1,274,545
2007	0
2008	240,092
Total	**$2,965,891**

According to an October 19, 2007 memo from the Director of DPTW to the Finance and Audit Committee, deferred maintenance costs identified at BHD (including the day hospital and the food service building) totaled $7.8 million.

Access to Public Transit

An analysis of transit access at the BHD Complex and St. Michael's was conducted with the Milwaukee County Transit System (MCTS). Below is a summary of routes that connect downtown with these locations along with data on travel times and service frequency. These routes provide 'front door' access to both locations and give people the opportunity to transfer from other routes from almost anywhere in Milwaukee County. All information shown is for weekday service (weekend and holiday service is available but operates less frequently and for a slightly shorter period).

BHD Complex (92nd & Watertown Plank Road)

Bus Route	Nearest Stop	Travel Time from Downtown*	Frequency of Service	Hours of Operation
Route 31 (State - Highland)	92nd & Watertown Plank Road	40 minutes	35 min. during rush hour, 40 min. during midday	6:30 am to 10:30 pm
Route 10 (Humboldt – Wisconsin)	Coffey & 87th (0.6 miles or approx. 12 min. walk#)	35 minutes	15 min. (24 min. after 8 pm)	5:30am to 12 am

St. Michael's (24th & Villard)

Bus Route	Nearest Stop	Travel Time from Downtown*	Frequency of Service	Hours of Operation
Route 80 (6th Street)	24th & Villard	25 minutes	26 min. during rush hour and 32 min. during midday.	7 am to 12 am
Route 12 (Teutonia – Hampton)	Villard & Teutonia (0.4 miles or approx 7 min. walk#)	28 minutes	25 min. (42 min. after 8 pm)	6 am to 12 am

* The downtown bus stop for Routes 12 and 31 is at the Downtown Transit Center (Michigan & Lincoln Memorial Drive). The Route 10 downtown stop is at Cass & Wisconsin. The Route 80 downtown bus stop is at 6th & Wisconsin.

Distance and walking time is from Google maps.

There are other routes that may be used by BHD clients, but that technically operate outside the standard transit service area of both locations and that do not travel through downtown, e.g., Route 27 (27th Street) and Route 63 (Silver Spring). They were not included in this analysis.

MCTS indicated that any request to change a route must be analyzed in relation to transit service policies and objectives and the impacts the routing change would have on cost, schedule, and current riders. After a final location is selected for BHD, MCTS can work with the County to examine requests to modify a route. Any permanent change to a route must be approved by the County's Transportation, Public Works, and Transit committee as well as the County Board of Supervisors.

CONCLUSIONS

- *Cost estimates for the renovation of the existing BHD facility are more vulnerable to variation for unforeseen circumstances. Coupled with the issue of patient disruption during relocation, as well as restrictions due to the existing 'footprint,' it is the consensus* *of the workgroup that renovating the existing BHD facility is the least attractive of the three options under consideration.*

- *The cost estimates for the renovation of the existing BHD facility and for the construction of a new BHD building were developed using standard procedures for capital improvement requests and were enhanced with additional detailed information obtained from analyses of the St. Michael's facility lease proposal. The estimates for the build new option (degree of accuracy between +/- 20-40% and +/- 15-20%) is not as precise as those contained in the St. Michael's facility lease option (degree of accuracy between +/- 15-20% and +/- 10%). Therefore, the build new estimate has more risk during bidding and construction, but the estimate is suitable for planning purposes. Total costs associated with the proposed 25-year St. Michael's facility lease option, including savings of $81.4 million from the privatization of 79.5 County positions, are estimated at $359.8 million. Total costs associated with the build new option over the same time period, assuming no privatization savings, are estimated at $423.2 million.*

- *Taking into account the value of money over time, the Net Present Value (NPV) of the estimated construction and financing costs of the build new option is $5.3 million less than the NPV of the construction and financing portion of the St. Michael's facility lease option using discount rate guidelines suggested by the federal Office of Management and Budget. The State of Wisconsin Fiscal Bureau and City of Milwaukee Office of the Comptroller use a similar cost-of-capital approach in establishing an appropriate discount rate. An alternative approach recommended by Dr. Stephen Finkler of New York University suggests the use of a discount rate based on the rate of return funds can earn in the private sector. Using that approach, the NPV of the construction and financing portion of the St. Michael's facility lease option is $5.1 million less than the NPV of the estimated construction and financing costs of the build new option.*

- *Under the proposed lease, capital improvement needs anticipated over the 25-year life of the agreement are funded through a reserve established from the lease payments. Ongoing maintenance costs are included as annual operating expenses, which are also funded through the lease payments. Therefore, the County would incur additional capital improvement and/or maintenance costs only in the event such expenditures exceed those anticipated in the lease agreement.*

- *The St. Michael's lease option provides greater price assurance than the build new option and can be completed approximately one year sooner. The 'triple net' character of the proposed lease and the lack of a public bidding process prevent the County from ascertaining the extent to which it will fully benefit from lower costs.*

- *Financing a build new option through G.O. bonding will not, in and of itself, reduce the County's AA bond rating. However, it would require waiving the County's self-imposed limit on bond issuance and would place additional pressure on meeting other pressing County capital needs. Currently, net debt service payment obligations are projected to increase from $53.4 million in 2008 to $60.9 million in 2009, and then remain relatively stable for the next five years before declining to an anticipated $43.8 million in 2015. The build new option would add an additional $8.5 million in debt service payments annually for 15 years. The build new option could be pursued using an alternative financing mechanism, such as a lease buyback, to avoid financing through bond issuance.*

- *Pursuit of the St. Michael's facility lease option would free up County-owned land worth approximately $15 million to $57 million, less remedial costs of up to $20 million, at the Milwaukee Medical Regional Center. Pursuit of the build new option on County-owned property on the north side of Watertown Plank Road, valued at between $1.8 million and $3.75 million, would free up the same land as the St. Michael's facility lease option. To the extent this land would ever be sold for development, this amount represents an opportunity cost to the County of building a new BHD facility on this site.*

- *Access to bus service at the proposed St. Michael's facility site is essentially equivalent to the service at the existing BHD site. MCTS officials indicated it will work with officials to provide appropriate service at any site selected for BHD.*

- *Capital improvement appropriations have totaled less than half of the deferred maintenance needs identified for BHD during the period 2003 through 2008.*

This report was prepared for informational purposes.

Each member of the workgroup has reviewed and concurs with this report.

<u>St. Michael's Facility Lease Workgroup</u>
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cc: Supervisor, Lee Holloway, Chairman, Milwaukee County Board of Supervisors
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Linda Durham, Committee Clerk, County Board Staff

Attachment A

	Build New BHD Facility	Lease St. Michael's Facility
Ownership	Milwaukee County	Developer
Size of Facility (Sq. Ft.)	410,000*	352,000
Annual Facility Operating Cost (2010)	7,284,054 $17.77 x (410,000 sq')	9,000,000 Operating + Build Out
25 Year Facility Operating Cost	284,385,322	321,326,056
Initial Build Out Cost (Principal)	92,250,000 $225 x (410,00 sq')	0 included in lease
Necessary Existing Building Improvements	0	included in lease
Bond Interest on Build Out/Improvements	34,791,738	included in lease
Move Costs	225,000	included in lease
Patient Relocation Cost	0	included in lease
Furniture Costs	2,289,000	included in lease
I.T. Upgrades	1,525,000	485,000
Patient Centered Security**	Included in Operating Cost	30,898,310
WRAP Rent for Additional Space	0 (Will use available space)	7,118,808 Loss of BHD Rev
Future Major Maintenance	7,713,526	0 0
FTE Reduction	(24.0)	(79.5)
Average Annual Cost Over 25 Years	16,927,183	14,393,127
Total Cost **Over 25 Years**	**$423,179,586**	$359,828,174 *$81,409,895* *(privatization est.)* **$441,238,069**

* The square footage in the lease includes only usable space (352,000 square feet).

Attachment B

St. Michael's Facility Lease vs. Construction of a New BHD Facility
Net Present Value Cost Analysis

	15-Year Payout	25-Year Payot
Discount Rate 1	**4.90%**	**4.75%**
Discount Rate 2	**8.00%**	**8.00%**

	St. Michael's Facility Lease			New Construction		
Year	**Lease Base Rent @ 2.5%**	**NPV Discount Rate 1**	**NPV Discount Rate 2**	**Debt Service Payments**	**NPV Discount Rate 1**	**NPV Discount Rate 2**
1	$5,220,000	$5,220,000	$5,220,000	$8,448,000	$8,448,000	$8,448,000
2	$5,350,500	$5,088,326	$4,922,460	$8,472,100	$8,069,675	$7,794,332
3	$5,484,263	$4,959,972	$4,641,880	$8,472,300	$7,686,547	$7,170,955
4	$5,621,369	$4,834,857	$4,377,293	$8,472,850	$7,321,911	$6,597,707
5	$5,761,903	$4,712,898	$4,127,787	$8,468,600	$6,970,622	$6,066,845
6	$5,905,951	$4,594,015	$3,892,503	$8,469,550	$6,640,263	$5,582,124
7	$6,053,600	$4,478,131	$3,670,630	$8,470,888	$6,325,849	$5,136,365
8	$6,204,940	$4,365,170	$3,461,404	$8,471,050	$6,025,487	$4,725,546
9	$6,360,063	$4,255,059	$3,264,104	$8,469,400	$5,738,158	$4,346,656
10	$6,519,065	$4,147,725	$3,078,050	$8,470,225	$5,466,128	$3,999,313
11	$6,682,041	$4,043,099	$2,902,602	$8,470,025	$5,206,364	$3,679,281
12	$6,849,092	$3,941,111	$2,737,153	$8,469,225	$4,958,593	$3,384,619
13	$7,020,320	$3,841,697	$2,581,136	$8,472,425	$4,724,845	$3,115,026
14	$7,195,828	$3,744,790	$2,434,011	$8,475,375	$4,501,982	$2,866,822
15	$7,375,723	$3,650,328	$2,295,272	$8,469,725	$4,285,279	$2,635,718
16	$7,560,116	$3,558,248	$2,164,442	$ -	$0	$0
17	$7,749,119	$3,468,491	$2,041,069	$ -	$0	$0
18	$7,942,847	$3,380,999	$1,924,728	$ -	$0	$0
19	$8,141,419	$3,295,713	$1,815,018	$ -	$0	$0
20	$8,344,954	$3,212,579	$1,711,562	$ -	$0	$0
21	$8,553,578	$3,131,541	$1,614,003	$ -	$0	$0
22	$8,767,417	$3,052,548	$1,522,005	$ -	$0	$0
23	$8,986,603	$2,975,548	$1,435,251	$ -	$0	$0
24	$9,211,268	$2,900,489	$1,353,441	$ -	$0	$0
25	$9,441,549	$2,827,325	$1,276,295	$ -	$0	$0
Total	**$178,303,528**	**$97,680,659**	**$70,464,099**	**$ 127,041,738**	**$92,369,704**	**$75,549,308**

Discount Rate 1 = Build New Construction & Finance is $5,310,955 less than Lease Construction & Finance
Discount Rate 2 = Lease Construction & Finance is $5,085,209 less than Build New Construction & Finance

Discount Rate 1 is based on U.S. Treasury Notes and Bonds and is the recommended guideline for all federal Heads of Executive Offices and Establishments by the Office of Management and Budget (OMB Circular A-94). A similar cost of capital approach is used by the State of Wisconsin Fiscal Bureau and the City of Milwaukee Office of the Comptroller.

Discount Rate 2 is based on the assumed actuarial rate of return for investments in the Milwaukee County Employees' Retirement System pension fund. This is the rate of return the funds could earn in the private sector and is the recommended approach of Dr. Stephen Finkler of New York University (FINANCIAL MANAGEMENT FORPUBLIC, HEALTH AND NOT-FOR-PROFIT ORGANIZATIONS, 2nd Ed., January 1, 2005).