

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: December 6, 2019

To: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors

From: Scott B. Manske, Comptroller
Jennifer L. Folliard, Director of Audits, Comptroller's Office

Subject: Froedtert Memorial Lutheran Hospital Lease Payment [File No. 94-801(a)(e)]

Background

On September 7, 1995, the County Board adopted a resolution [File No. 94-801(a)(e)] related to the sale and lease of John L. Doyne Hospital assets and land to Froedtert Memorial Lutheran Hospital (FMLH). The lease called for annual payments until 2021 based on "operating cash flow." However, the 2021 payment will be reduced by 50% per the lease terms.

Analysis

The 2019 lease payment from FMLH, was \$9,981,000. For 2019, budgeted revenues for this payment were \$9,000,000. We have reviewed the audited financial statements of FMLH as well as their auditor's report on the Schedule of Annual Land Lease Payment (Exhibit A). The payment represents 5.25% of annual operating cash flow as calculated in accordance with the FMLH Lease Agreement.

Payments for all years are listed below. This data reflects 2008 and 2009 information that was previously adjusted when FMLH changed from a December 31 to a June 30 fiscal year.

<u>Year</u>	<u>Actual (\$)</u>	<u>Budgeted (\$)</u>
2019	9,981,000	9,000,000
2018	9,526,000	8,500,000
2017	9,314,000	8,000,000
2016	8,123,000 ^(a)	7,200,000
2015	8,550,000	7,000,000
2014	7,013,000	6,100,000
2013	10,798,000	6,075,550
2012	4,439,000	6,300,000
2011	8,378,000	6,300,000
2010	6,568,000	3,900,000
2009	-0-	3,190,000
2008	78,000	2,919,000
2007	6,877,000	2,919,000
2006	2,919,000	3,796,000
2005	2,596,000	4,018,000
2004	4,018,000	3,434,000
2003	3,434,000	2,162,035
2002	2,696,000	1,355,000
2001	3,479,000	1,302,000
2000	1,302,000	2,030,850
1999	4,035,000	2,387,000
1998	3,107,000	2,421,000
1997	4,538,000	2,373,000
1996	2,035,000	1,953,000
1995	4,100,000 ^(b)	4,100,000

(a) Payment was reduced by \$588,954 to cover soil and piping costs.

(b) Initial lump-sum payment.

Conclusion

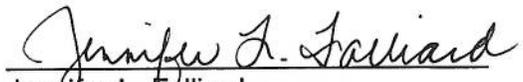
The 2019 land lease payment from FMLH of \$9,981,000 exceeds the budgeted payment of \$9,000,000. It is important to note, however, that this payment does not necessarily indicate a similar payment level in 2020. The 2020 budget includes \$9 million in FMLH revenue. As noted in the 2020 Operating Budget, 2020 is the final year in which full payment will be received. A partial year payment will be received in 2021 based on the terms of the lease.

Recommendation

This report is for information purposes.



Scott B. Manske
Comptroller



Jennifer L. Folliard
Director of Audits

SBM/JLF/cah

Attachment

cc: Chris Abele, Milwaukee County Executive
Supervisor James 'Luigi' Schmitt, Chair, Committee on Finance & Audit
Teig Whaley-Smith, Director, Department of Administrative Services
Jeffrey R. Van De Kreeke, Sr. Vice President, Finance & Chief Financial Officer, FMLH
Steve Cady, Research & Policy Director, Office of the Comptroller
Janelle Jensen, Legislative Services Manager, County Clerk's Office
Shanin Brown, Committee Coordinator, Committee on Finance & Audit

Exhibit A

FROEDTERT MEMORIAL LUTHERAN HOSPITAL, INC.

Schedule of Annual Land Lease Payment ⁽¹⁾

Year ended June 30, 2019

(In thousands)

Revenues in excess of expenses	\$ 108,798
Land lease expenses included in operating expenses	9,891
Depreciation and amortization	64,216
Increase in current liabilities, except current installments of long-term debt and current liabilities related to annual land lease accrual	13,547
Increase in current assets except cash, short-term investments, and current assets whose use is limited	(8,059)
Repayments of principal on debt existing at December 31, 1995	<u> </u>
Annual operating cash flows	108,393
	<u>5.25 %</u>
Annual land lease payment	<u>\$ 9,891</u>

⁽¹⁾ All computations and amounts were determined pursuant to Section 4 of the Amended and Restated Lease Agreement dated December 21, 1995, between Froedtert Memorial Lutheran Hospital, Inc. and Milwaukee County.

See accompanying independent accountants' report.



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Independent Accountants' Report

The Board of Directors
Froedtert Memorial Lutheran Hospital, Inc.:

We have examined Froedtert Memorial Lutheran Hospital, Inc.'s (the Hospital) accompanying schedule of annual land lease payment (the Schedule) in accordance with Section 4 of the Amended and Restated Lease Agreement dated December 21, 1995, between the Hospital and Milwaukee County as of June 30, 2019 and for the year then ended. The Hospital's management is responsible for compliance with those calculations in accordance with (or based on) Section 4 of the Amended and Restated Lease Agreement dated December 21, 1995, between the Hospital and Milwaukee County. Our responsibility is to express an opinion on the Schedule based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule is in accordance with (or based on) the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule referred to above is presented in accordance with (or based on) Section 4 of the Amended and Restated Lease Agreement dated December 21, 1995 between the Hospital and Milwaukee County, in all material respects.

This report is intended solely for the information and use of the Board of Directors and management of the Hospital and Milwaukee County, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Milwaukee, Wisconsin
September 17, 2019