

ITEM #103

**ADDITIONAL MATERIAL
10:00 A.M. REGULAR MEETING**

JUNE 12, 2018

**SUBMITTED AT THE REQUEST OF
COUNTY ADMINISTRATION**

ADDITIONAL BACKGROUND INFORMATION REGARDING THE PROPOSED TERMS OF A NEW LEASE BETWEEN
YOUNG AT ART AND BROWARD COUNTY – June 11, 2018

In February 2004, the County entered into a Challenge Grant agreement with YAA providing \$3 million in funding for the design, site preparation, construction costs, and exhibits of the YAA Children's Museum. The Challenge Grant's terms included a commitment by YAA to raise \$6 million to receive \$3 million in County dollars on a reimbursable basis. The County entered into a second agreement with YAA in December 2006, related to construction of the Young at Art Children's Museum/Broward County Library joint-use facility, which included a 40-year lease provision at \$1 per year. Such lease of space by YAA at the facility was predicated upon YAA paying a non-refundable deposit of \$500,000, with YAA's remaining share of costs (all construction costs related to the museum and half the costs associated with the facility's site preparation, design and construction of shared areas), including interest, paid over 11 years, at the amount of \$1.2M annually. After YAA defaulted on the first two annual \$1.2M payments, the County began renegotiating the agreement.

In February 2014, a renegotiated agreement was reached and brought before the Board of County Commissioners where it was amended and then ratified by the YAA Board. That agreement created a debt obligation repayment schedule (over thirty-seven years) and lease agreement and sought to incentivize the prepayment of the debt obligation by applying 50% of unrestricted pledge payments to the principle (Section 3.2.4). YAA agreed to a competitive solicitation process to secure professional consultant services to provide a formal review of YAA's governing board structure, operations, programming, performance measures, fiscal stability, etc. The agreement amended the By-Laws to include representation upon the governing board by a member of county staff, selected by the County Administrator. Upon presentation of the Consultant's findings and recommendations, as well as the proposed YAA Strategic Plan in May 2015, the Board of County Commissioners directed the County Auditor to conduct a review of YAA. In May 2015, YAA's Board also requested that the County representative to the YAA governing board assist in acquiring a path to ownership of the entire building or YAA's occupancy proportion (75%), to assist in a successful Capital Campaign. The County representative to the YAA Board presented several scenarios for the YAA Board's consideration. YAA's Board hired a Consultant to develop a plan for undertaking a Capital Campaign which was presented to the Board of County Commissioners, in September 2015. To date, a Capital Campaign has not been initiated.

The County Auditor's Report which was presented to the Board on April 5, 2016 advised that YAA had not paid the County \$240,888, as required by the Agreement for 50% of the unrestricted pledge payments received in 2015, which resulted in direction to County staff to begin renegotiating the agreement. YAA also did not pay the County \$282,148 for 50% of unrestricted pledge payments received in 2016. To date YAA has also not paid the County full monies owed for 2017. The parties then negotiated new agreement terms which were approved by the Board on November 14, 2016. The County presented YAA with a draft agreement in December 2016 based on the agreed-upon terms. YAA subsequently informed the County that it would be unable to execute the agreement

due to concerns about its ability to honor the financial terms. YAA suggested and the County agreed to a straightforward lease agreement.

A simple lease agreement would eliminate all aspects of the current agreement, including the debt obligation repayment schedule YAA is currently bound by (currently valued at approximately \$10.9 million). The new lease would not contain any provisions for an option to buy the property at a fixed price. If YAA is interested in pursuing a purchase of the property at a later date, it is understood that YAA would pay at least the prevailing fair market value of the property at the time of purchase.

The new agreement provides YAA with an arrangement that contains several subsidies/cost reductions. The first involves what would be considered a waived repair and replacement (R&R) payment. The County currently maintains R&R funds for its buildings, which are funds set aside for future repairs and replacement of critical building systems. In the private sector, R&R payments are either included in the rent payment or provided in a separate payment. In the case of the YAA lease, the County has not included an R&R requirement in the lease terms. At 1.5% of building construction value, or in this case YAA's 75% share of the building, an annual R&R payment would be \$186,750. Over the 30-year term of the lease, that adds up to \$5,602,500 of waived payments.

The second subsidy relates to the rent payments of the current agreement as compared to the rent payments of the proposed lease terms. This is due to both the monthly rent and the annual rent escalator being reduced in the new proposed lease terms. At the end of the 30-year lease term of the new proposed lease terms, YAA will have paid the County \$14,272,625 in lease payments. Under the current agreement, YAA would have paid \$18,067,937 during the same 30-year period, resulting in a savings to YAA of \$3,795,312.

The final item can be considered an implicit subsidy. Because YAA is renting a building that the County built at YAA's behest, it is enjoying rents based in part on the County's cost of money. If YAA were to have built its own facility, it would have borrowed monies at a market interest rate, resulting in higher annual payments. To compare apples to apples, let's assume a new building would cost YAA \$10.9 million dollars. At a 6% interest rate over 30 years, the annual payments would be \$791,873. Over the 30-year lease term YAA would have paid \$23,756,190, rather than \$14,272,625 under the proposed lease terms. That represents a savings of \$15,063,239 over the 30-year term of the lease.