



Village of Shorewood Hills

March 26, 2015

A Message to the Residents of Shorewood Hills:

At the upcoming Spring Election on April 7, the voters of Shorewood Hills will be asked to advise the Village Board on whether it should approve the proposed new lease between the Village and the Blackhawk Country Club (hereafter referred to as BCC). The referendum will be non-binding, however, several Trustees have indicated that if the vote were conclusive, they will approve or reject the proposed lease based on the referendum results. Because the BCC impacts Shorewood Hills significantly—in the approximately 100 acres of open space it occupies and its effect on Village finances—it is a very important issue. There are many viewpoints on this lease being distributed on both sides; this letter is an attempt to explain the recent negotiations and their outcome to date without advocating for either position.

In 1944 the combined effects of the Great Depression and WWII had pushed the BCC into severe financial difficulties. Because the Village feared the loss of open space if the property should be sold to other parties and then developed, and also saw potential uses of parts of the property for Village facilities, Shorewood Hills purchased the BCC property from the BCC. It has leased it back ever since.

Starting in 1944, four leases have been negotiated. The history of these leases and the relationship with the BCC are presented in the **'Blackhawk Lease Negotiations'** section of the Village website (www.shorewood-hills.org) titled **'Blackhawk Presentation and Discussion'** and also referred to in the book **"Shorewood Hills an Illustrated History"** by Village resident and historian Tom Brock.

In early 2014, BCC leadership approached the Village expressing interest in negotiating a new lease. The current lease has eleven years left on it. Because the Village owns the land and the buildings, the lease is the major asset the BCC has to provide as collateral. As the length of time left on a lease such as this approaches the ten year mark, the long term security of the lease as an asset becomes questionable, and with it the ability to secure financing for upkeep and improvements decreases. Thus it has been customary for the BCC to request to renegotiate leases far in advance of their expiration.

In initial presentations the BCC negotiators identified a number of specific reasons they wished to enter into negotiations. They indicated that the BCC is experiencing financial difficulties and hoped to negotiate a rent reduction, in their view to more accurately reflect the market and golf's changing economic picture, and as part of an overall plan to improve its finances, regain membership and be sustainable. The BCC also noted that it is under pressure from its lender to

reduce the amount outstanding on its revolving line of credit, which in the past has exceeded \$1.5 million.

They also maintained that having a new lease in place would help with membership recruiting and donation efforts. They stated a need to make significant capital improvements in order to be competitive, secure donations from members, and obtain financing for capital needs, including renovations and updates to the BCC clubhouse.

To confirm these points, the Village requested and was furnished with audited financial statements from the BCC for most of the past decade.

At the beginning of these discussions, the Village Board agreed with my suggestion that the BCC provides protection of the property from development pressure, that it has been a reasonable tenant most of the time, and that the Village should not take actions which would directly undermine the ability of the BCC to exist, specifically not to entertain speculation about alternative uses for the property. Based on this premise, the Board agreed that we should begin negotiations to renew the lease.

The Board authorized the formation of an ad hoc task force, comprised of two Trustees, two residents and me, to manage the initial stages of the negotiations. (Subsequently there has been some discussion that a member of the task force was ineligible to serve since his wife was a member of BCC and, as a result, his standing on the task force was in conflict with the Village's ethics ordinance. This was a regrettable oversight on my part. However, I feel strongly that both the task force and the Board benefitted from this Trustee's lease-negotiating expertise, and at no time has anyone suggested that his participation compromised the Village's interests). The task force met eleven times; all of its meetings with BCC representatives were noticed as open meetings and the public was invited to attend.

A draft lease developed through the task force's negotiations with BCC was brought to the Village Board for its consideration in late July, 2014. With the negotiations now in their hands, from mid-2014 to early 2015, the Trustees discussed the proposed lease at eleven additional meetings in an effort to develop a document that could be put before the voters. As part of the process, the Trustees solicited and received public comment and took what was heard into consideration as the new draft lease was hammered out. All conversations of the Board, with BCC negotiators present, were held in meetings noticed and open to the public. The Trustees did meet in closed session when open meetings might have compromised the Village's negotiating strategy. BCC representatives were never involved in closed session meetings with the Board.

The basic financial terms of the old lease as compared to the new can be summarized as follows:

- The calculation of the rent under the old lease is reset annually based on 3.957% of the BCC's gross revenues before expenses. There is no floor or ceiling in the rent amount. (The median annual revenue received by the Village over the last ten years was \$124,000).
- The new lease has a base rent of \$100,000 per year that cannot be reduced. The new annual rent will increase by \$300 for every new member, of any type, that the BCC brings in over the base number on record now.

- If, after ten years, the rent (as calculated using the net increase in new BCC members) does not meet or exceed cumulative increases in the consumer price index for all urban consumers (CPI-U), the rent will jump to an annual amount to reflect that cumulative increase. In other words, the rent in 2025 will be at least what the CPI-U would have brought it to over ten years (or more, if there were a significant increase in membership over that period). This provision in the lease, which was not included in the initial draft received from the task force, was included to address comments from the public and a desire by the Village Board to consider a rent escalator that included a CPI component.
- After 2025, the rent will increase by the CPI-U each year until the lease's expiration in 2034.
- There is an option to extend the lease another ten years to 2044.
- It is important to recognize that, outside of any lease, the BCC also pays in excess of \$44,000 in personal property taxes per year. The Village's share of these taxes is about a third of that amount.
- The BCC annual rent under the old, as well as the proposed new lease, is the third largest single source of revenue to the Village's general fund.

There are two main reasons the calculation of the rent in the new lease is based on membership rather than a percentage of gross revenues. One is that through the years the sources of income to the BCC have changed. Competition has reduced the revenue from dues and initiation fees, revenue which directly supports maintenance and improvements to the facilities and overhead costs such as the rent. Instead, the fraction of gross revenue from food and beverage sales and private parties has grown. These support themselves, but compared to dues, cannot provide as much extra for the other BCC expenses. Therefore, even though gross revenue has remained relatively strong, the BCC's ability to cover the costs of operation has decreased.

A second reason for the change in the rent calculation in the new lease was to simplify the process involved in determining the annual rent and to eliminate the Village's periodic costs to audit BCC's financial accounts. At the same time it ensures that the Village shares in the anticipated future success of the BCC as it is reflected in increased membership.

In return for a reduction in rent, the proposed new lease carves out a section of property currently under the control of BCC for use by the Village to construct a storage building (the property in question is near the golf course maintenance buildings). The Village presently leases space outside of Shorewood Hills for the storage of off-season DPW equipment at a cost of approximately \$24,000 per year. The lease on that property will expire in two years, and it is doubtful that the Village will be able to extend it. If we apply the \$24,000 per year toward the construction of the storage building, it can be amortized within ten years, and from then on, we will have no costs for storage. This long-term saving represents some recovery of the reduction in BCC rent.

The new lease also increases and alters Village non-member resident access to the property. Village residents and their children are granted dining privileges at the BCC restaurants up to two times per month from November through April 15. The old lease allowed non-member dining only during the months of January, February and March but for an unlimited number of times. The Trustees felt most residents would prefer to have dining privileges over a much longer

time period including the Thanksgiving and winter holidays, but doubted most people would want to dine at the BCC more than two times per month.

The new lease allows non-member Village residents and up to three guests to golf four times per year. Residents pay 50% of non-member green fees and guests pay 100%. Dining privileges are also extended with the golf. The old lease allowed for Village residents to play golf three times a year at 50% green fees with no guests and no dining privileges extended.

The other resident non-member Blackhawk property access/use privileges and rights specified in the old lease remain unchanged in the new agreement—none of those privileges or rights have been reduced or eliminated.

The new lease also provides that the Village will arrange to have the BCC parking lot paved. The BCC will pay the Village back over the same term and at the same rate of interest the Village borrows for its road projects (a ten year term). There was a point in the negotiations that the Village considered paving the lot as a leaseholder improvement, reasoning that in many cases a lessor takes some responsibility for property upkeep and improvements to leased property. However, after the last series of public meetings, it became apparent that this was a matter of concern to many residents, and in response, the paving project financing was changed to the loan detailed above. Shorewood Hills is embarking on a major street reconditioning project on the west side of the Village and economies of scale have provided attractive bids. Due to time constraints the Village and the BCC may enter into an agreement to have the parking lot project accomplished before the new lease is in effect.

The Village Board began this process with the premise that it is in the interest of Shorewood Hills to keep the BCC in operation, and has done its best over many meetings to negotiate a lease that it thinks is fair to both parties. Often the day-to-day work of the Village is accomplished by the staff, with periodic direction from the Board. In this case, the situation was reversed; the Trustees rolled up their sleeves, did the nuts and bolts work with assistance from staff, and of course Legal Counsel was engaged and present at almost all sessions to provide guidance and to write the actual language of the lease. We leave it to you to decide whether our efforts resulted in a balanced product.

Additional background information is available on the Village website (www.shorewood-hills.org) and you should, of course, feel free to consult other resources including the Trustees, Village Administrator Karl Frantz or me.

I encourage you to go to the polls and vote on April 7.

Sincerely,



Mark L. Sundquist
Village President