



DATE: November 13, 2019

TO: City Finance Committee

FROM: Matt Wachter, Manager - Office of Real Estate Services

RE: Staff recommendation on Truman Olson selection process

### **Introduction**

#### Property Purchase

In 2012, the City of Madison purchased the former Truman Olson United States Army Reserve facility located at 1402 South Park St (the "Property") from the Federal Government for \$1,078,000 using funds from TID 42. As the City used TIF funds to purchase the Property, selling the Property for anything less than the purchase price of \$1,078,000 must be considered TIF assistance per TIF Law. An appraisal of the property dated Oct 26, 2017, concluded that the market value of the property was between \$1.875 and \$2.125 million, depending upon the final alignment of a Connector Street through the Property.

#### Request for Proposals (RFP)

On May 17, 2019, the Common Council authorized a RFP be issued to redevelop the former Truman Olson United States Army Reserve Center (the "Property") located at 1402 South Park Street and established a process for the review of responses to the RFP and selection of a buyer for the Property. This resolution (Legistar #55522) can be found at the link below:

<https://madison.legistar.com/LegislationDetail.aspx?ID=3928385&GUID=284D913D-3E67-440D-B0DC-1DF43038EE4F&Options=ID|Text|&Search=55522>

The link to the RFP document is:

<https://www.cityofmadison.com/dpced/economicdevelopment/documents/11385%20Truman%20Olson%20Site%20RFP%202019%205-15%20FINAL.pdf>

The RFP included two minimum requirements for any successful proposal. Those minimum requirements are:

- Preserve food access by constructing a grocery store that will serve the multiple neighborhoods in the vicinity of the Property or nearby;
- Complete the eastern portion of a street connection ("Connector Street") from Park Street to

On Friday, August 9, 2019, the City receive four responses to the RFP from the following development teams:

**Gorman (Oregon, WI) Maurer’s Markets (Janesville, WI)**

[https://www.cityofmadison.com/dpced/economicdevelopment/documents/Response\\_Truman%20Olson%20City%20RFP%208832-0-2019.pdf](https://www.cityofmadison.com/dpced/economicdevelopment/documents/Response_Truman%20Olson%20City%20RFP%208832-0-2019.pdf)

**Rule Enterprises (Milwaukee WI)**

<https://www.cityofmadison.com/dpced/economicdevelopment/documents/Rule%20Enterprises%20Truman%20Olson%20RFP%20compressed.pdf>

**Welton Enterprises (Madison, WI)**

[https://www.cityofmadison.com/dpced/economicdevelopment/documents/2019\\_08\\_09%20Welton%20Response%20to%20Truman%20Olson%20RFP\\_Final%20w%20Financials.pdf](https://www.cityofmadison.com/dpced/economicdevelopment/documents/2019_08_09%20Welton%20Response%20to%20Truman%20Olson%20RFP_Final%20w%20Financials.pdf)

**Baehr Inc (Sun Prairie, WI), Valeo (Coto de Caza, CA), McShane Construction (Rosemont, IL) and Habitat for Humanity (Madison, WI)**

[https://www.cityofmadison.com/dpced/economicdevelopment/documents/Truman%20Olson%20City%20Submittal%2008\\_12\\_2019.pdf](https://www.cityofmadison.com/dpced/economicdevelopment/documents/Truman%20Olson%20City%20Submittal%2008_12_2019.pdf)

## **Key Elements of the Proposals**

**Gorman / Maurer** proposes to build a 24,000 square foot grocery store on the first floor and 93 apartment units on floors 2-5 above it. The apartment units would be financed using 9% WHEDA (Wisconsin Housing and Economic Development Authority) Low Income Housing Tax Credits (LIHTC). Units would be targeted to residents making between 30% and 60% of Area Median Income (AMI), along with 15% market rate units. The preliminary plan for the WHEDA financed units would include the following unit types: (1 BDR – 38, 2 BDR – 37, 3 BDR – 18). In addition, there would be seven (7) townhome style units fronting on South Park St. The project would include 85 surface parking stalls and approximately 90 underground parking stalls. Gorman is requesting \$1.85 million of Affordable Housing Funds (“AHF”) from the City of Madison. Gorman is proposing to purchase the Property for \$1, which, as noted above, the City must consider as a request for \$1,078,000 of TIF assistance. The total requested assistance from Gorman for the project is \$2,928,000.

**Rule Enterprises** proposes to construct a two phase development on the Property. The first phase would consist of a grocery store of approximately 30,000 square feet and 150 units of rental housing that would be financed using 4% federal tax credits and 4% State tax credits both of which are administered by WHEDA. Some units would be targeted to residents with incomes between 30% and 60% of AMI. The remaining units would be targeted to residents with incomes between 60 and 80% AMI. The preliminary plan for the WHEDA financed units would include the following unit types: 1 BDR – 75 units, 2 BDR – 50 units, 3 BDR – 25 units. Phase I would include the construction of a 345 stall parking structure that would serve the grocery, the Phase I residential units, and the residential units in Phase II. Phase II would consist of 80 units of apartment housing that would be financed using 9% WHEDA tax credits, and would sit atop the structured parking. Rule is requesting \$2 million of AHF from the City of Madison, for Phase I, with an additional request possible for Phase II. Rule is proposing to purchase the Property for \$1.5 million.

**Welton Enterprises** proposes to redevelop both the Property, and the adjacent Pick N Save grocery store (located at 1312 South Park St). This analysis only considers the proposal to redevelop the Property, as the City does not control the site at 1312 South Park St, which is also owned by Welton. In Phase I, Welton proposes to construct a four story building with a 20,088 square foot grocery store, 92 units of market rate apartments, 90 stalls of underground parking, and 89 stalls of surface parking. The preliminary plan for the market rate housing would include the following unit mix: Efficiency – 20 units, 1 BDR – 47 units, 2 BDR – 25 units. Phase II would include approximately 94 units of affordable and market rate housing. Welton is proposing to purchase the Property for \$1, which, as noted above, the City must consider a request for \$1,078,000 of TIF assistance. Welton is also requesting an additional \$2 million in direct TIF assistance. The total TIF request from Welton, including the land write down and direct TIF assistance is \$3,078 million.

**Baehr Inc / Valeo / McShane / Habitat for Humanity / Capitol Centre Market (Valeo)** proposes to construct a 30,000 square foot grocery and three level, 450 stall parking structure, with a four story 227 unit (649 bed) student housing apartment structure on top of it for a total of seven (7) stories of building. In addition, the project would include 17 townhomes that would be built and owner occupied by families through Dane County Habitat for Humanity. The preliminary plan for the student housing units would include the following unit mix: 1 BDR – 26 units, 2 BDR – 75 units, 3 BDR – 31 units, 4 BDR – 95 units. In addition, there would be 17 units constructed for Habitat for Humanity families that would be 3 BDR / 2.5 bath townhome style structures. Valeo is proposing to purchase the Property for \$1.08 million.

| Team                    | Key Partners  | Key Project Elements  | Key Financial Elements   |
|-------------------------|---|---|--|
| <b>Gorman</b>           | Gorman Companies, Oregon, WI; Maurer’s Markets, Janesville, WI; (property manager: Gorman)  | <ul style="list-style-type: none"> <li>• 24,000 SF grocery store</li> <li>• 93-unit apt development</li> <li>• 79 affordable units ranging from 30-60% AMI</li> </ul>   | <ul style="list-style-type: none"> <li>• Total Project Cost of \$22.8M</li> <li>• Assessed value of \$12M*</li> <li>• \$1.85M of City AHF</li> <li>• \$1 purchase price</li> <li>• Total assistance requested: \$2.928M</li> </ul> |
| <b>Rule Enterprises</b> | Rule Enterprises, Milwaukee, WI; Catalyst Construction, Milwaukee, WI; ARC-INT Architecture, Milwaukee, WI; Baker Tilly, Chicago, IL; Foley & Lardner, LLP, Madison, WI; (property manager: Lutheran Social Services (“LSS”)) | <ul style="list-style-type: none"> <li>• 30,000 SF grocery store</li> <li>• Phase I - 150-unit apt development and 345 structured parking stalls, 80 affordable units ranging from 30-60% AMI</li> <li>• Phase II – 80 unit apt development using 9% WHEDA LIHTC funds; 85% affordable units ranging from 30-60% AMI</li> </ul> | <ul style="list-style-type: none"> <li>• Total Project Cost of \$41.3M</li> <li>• Assessed Value of \$19.7M*</li> <li>• \$2M of City AHF</li> <li>• \$1.5M purchase price</li> <li>• Total assistance requested: \$2M</li> </ul>   |

|  |  |  |   |
|--|--|--|---|
| <b>Welton (Truman Olson site only)</b> | Welton Enterprises, Madison, WI; Ideal Builders, Madison, WI; Burse Surveying and Engineering, Madison, WI; Knothe & Bruce, Madison, WI; Wisconsin Management Company, Madison, WI; Evergreen Consulting, Inc, Middleton, WI | <ul style="list-style-type: none"> <li>• 20,088 SF grocery store</li> <li>• 92 units of market rate apts</li> <li>• 89 stalls of surface parking and 90 stalls of underground parking</li> </ul>                               | <ul style="list-style-type: none"> <li>• Total project cost of \$24.5M</li> <li>• Assessed value of \$17.1M*</li> <li>• \$2M of direct TIF assistance</li> <li>• \$1 purchase price (equates to an additional \$1.078M of TIF)</li> <li>• Total assistance requested: \$3.078M</li> </ul> |
| <b>Valeo</b>                           | Baehr Inc, Sun Prairie, WI; Valeo, Coto de Caza, CA; McShane Construction, Rosemount, IL; Capital Centre Market, Madison, WI   | <ul style="list-style-type: none"> <li>• 30,000 SF grocery</li> <li>• 227-unit apt development (649 bedrooms)</li> <li>• 17 Habitat for Humanity owner-occupied row houses</li> <li>• 450 structured parking stalls</li> </ul> | <ul style="list-style-type: none"> <li>• Total Project Cost of \$87.7M</li> <li>• Assessed value of \$70.8M*</li> <li>• \$1,080,000 purchase price</li> <li>• Total assistance requested: No taxes during construction and City construction of Cedar St extension</li> </ul>             |

\* Estimate provided by City Assessor based on RFP response

### Proposal Evaluation Process

*Completeness and Compliance:* City Staff in the Office of Real Estate Services (ORES) conducted an initial review for completeness and compliance with the RFP guidelines of all proposals that were submitted by the deadline. The ORES Staff team consisted of Matt Wachter – ORES Manager and Dan Rolfs (Community Development Project Manager). Additional City Staff provided specific expertise related to areas such as stormwater, traffic engineering, engineering, and planning.

Section Three (page 4) includes the RFP’s Minimum Requirements, as previously outlined in this report. Section Twelve (page 11) includes the General Selection Criteria and Process for the RFP. The RFP indicates, “The ORES Manager shall prepare a comparative summary of the proposals, based upon the criteria below, and make a recommendation to the Common Council regarding which response to the RFP the City should select”. The criteria in question are:

- Meets minimum requirements identified in this RFP;
- Grocer / Development team’s expertise, experience, and financial capacity;
- Quality of the proposed development;
- Economic feasibility of the proposed development;
- Adherence to adopted plans and design guidelines for the Property;
- Tax base and employment;
- Purchase price and financing terms and conditions for the purchase of the Property;
- The length of time required to implement all phases of the redevelopment of the Property.

City Staff believes that each team submitted a complete response and substantially complied with the guidelines contained in the City’s RFP. While each proposal contains similar elements, they are substantively different in how they deliver each component.

*Next Steps:* The City Finance Committee will make the final recommendation for the Common Council’s consideration. The schedule review and action on this Staff recommendation is as follows:

|   |   |
|---|---|
| RFP submissions due:                          | April 15, 2019                                    |
| City staff review:                            | April/May   |
| Finance Committee review and recommendations: | Nov 11 / Nov 25, 2019                             |
| Council action on developer selection:        | Nov 19 / Dec 3, 2019                              |
| Final deal negotiation:                       | Dec 2019 – Feb 2020                               |
| Community Development Block Grant Committee:  | Jan 9, 2020 (presentation)                        |
| Community Development Block Grant Committee:  | Feb 6, 2020 (review recommendation for AHF award) |
| Council action on development agreement:      | March – May 2020                                  |
| Execution of development agreement:           | May 2020  |

### **Key Issues for Consideration**

City Staff have focused on the two critical minimum requirements outlined in the RFP; ensuring that whichever developer the City selects is able to successfully deliver a grocery store as a component of their development, and that the extension of Cedar St is completed to the specifications of City Traffic Engineering and City Engineering. Each development team has proposed a project that would include both of these elements, while also including a variety of housing and financing options. To ensure that whichever developer is selected is able to complete the proposed project, City Staff also places a high emphasis on feasibility, both financial and practical.

*Grocery:* The original focus and purpose of the RFP was to find a replacement grocer for the Pick N Save that is currently located at 1312 South Park St. City Staff and the property owner (Welton Enterprises) have known for some time that the parent company of Pick N Save (Kroger) wishes to close the grocery store. This would create a challenging situation for many residents of South Madison to acquire their groceries and could create a “food desert” situation. It is City Staff’s understanding, based upon conversations with Welton Enterprises that they and Kroger have a three-year lease in place, with both lessor and lessee retaining the ability to exit the lease by giving a six-month notice to the other side. Given this lease arrangement, the Pick N Save could close as late as 2022, but could also close earlier if either side determines it is in their best interests to exit the lease.

*Cedar Street Extension:* The City of Madison has identified the extension of Cedar St as critical to the further redevelopment of the Wingra Triangle and South Park Street. City Traffic Engineering identified a preferred option for the location of the Cedar Street extension as a part of this RFP process. Each development team responded with a proposal that incorporates this street extension. Once the Common

Council selects a developer, City Staff will work with that development team to finalize the layout and design of the Cedar Street extension and its interface with South Park St, Cedar Street, and Beld Street.

*Feasibility:* The City placed a high priority securing a replacement grocer for the existing Pick N Save. This will ensure that South Madison does not become a food desert. City Staff considered multiple issues related to feasibility as they conducted this analysis. These issues include:

- Financial feasibility – Each project has a separate set of financial assumptions, including project financing and assistance for City and other public financial support. Developer responses included financing that used different combinations of private first mortgage debt, developer equity, WHEDA LIHTC funds (both State of WI 4% as well as federal 4% and 9% tax credits), City of Madison TIF assistance, and City of Madison Affordable Housing Funds (“AHF”). A note concerning the 4% and 9% WHEDA LIHTC funds: the 4% federal tax credits plus 4% State tax credits provide a slightly lower level of support for the construction of affordable housing, and as such, they do not provide quite as deep a subsidy to renters as do the 9% WHEDA LIHTC funds.
- Development / Design feasibility – Each project consisted of different densities and designs. The Property sits within Urban Design District #7 (UDD 7). UDD 7 requires that redevelopment projects on the Property are at least two (2) stories high as they front on South Park Street. Developers met this requirement in different ways by different projects, but overall, it increased the density and financial complexity of the project. In addition, the City of Madison is preparing to implement new requirements for stormwater retention through amendments to MGO Chapter 37. Each of these components impacts the feasibility of a project.

*Public Input:* The RFP process included multiple points for the public to provide input. In fact, the initial attempt by the City to sell the Property, which was ultimately unsuccessful, included nearly a yearlong committee led process that offered multiple points for public input. City Staff and development teams met with the public both at the request of the community (on July 23, 2019) and as a formal part of the RFP process (on September 26, 2019). Over 100 people, plus City Staff, development teams, and elected officials were present at each of these two meetings. City Staff and development teams discussed the RFP process

The results of the public input can be broadly broken down into several categories, shown below:

- Items that can be addressed during this RFP process, including:
  - The need for as larger, full service grocery store;
  - The desire to ensure that there is no gap in grocery service to South Madison;
  - The desire to ensure whatever grocer is selected is financially able to keep the store open over the long-term;
  - The selection of a local developer;
  - The type of housing attached to the redevelopment project (affordable, market rate, student, etc.)
- Items that can be addressed once a developer is selected, including:

- The layout of the grocery store;
- The final design of the Cedar Street extension;
- A commitment to work with the community on the product selection in the grocery store;
- Overall density;
- Density of housing (to a certain extent);
- Design of the building and the interaction with South Park Street and the extension of Cedar Street;
- Items that are either outside of the RFP process or should continue to be considered as South Madison continues to develop:
  - The need for more housing at multiple income levels, especially for residents of very low income;
  - The need for housing for students at Madison College;
  - The need for family supporting jobs;
- General feedback:
  - The desire for more density versus a desire for less density;
  - Support for all types of housing proposed (market rate, affordable at multiple levels, and student housing);
  - The desire to ensure that construction workers on the project and workers at the grocery store receive a living wage and / or union workers;
  - The desire for a greater level of affordability in the housing options;
  - A desire to move the process faster to ensure that there is no gap in grocery service;
  - A desire for different types of parking, including both more and less structured parking and more and less surface parking.

City Staff reviewed nearly 100 additional written comments and emails, along with multiple meetings with community members, development teams, and policy makers. City Staff took note of all comments and considered input provided by the community.

### **Proposal Analyses: RFP Minimum Requirements**

#### *Grocer*

#### Gorman

Gorman proposes to collaborate with Maurer’s Markets to construct a 24,000 SF grocery store on the first floor of their proposed development.

#### Rule

Rule proposes to construct a 30,000 SF grocery store with a grocer to be named later. While they did identify multiple grocers that they have engaged in discussions about potentially operating a store in this space, they did not identify a final grocer partner.

## Welton

Welton proposes to construct a 20,088 SF grocery store with a grocer to be named later. While Welton did not identify a grocer, they have been involved with this RFP process longer than any of the other respondents, as they submitted a response to the City's first RFP.

## Valeo

Valeo proposes to collaborate with Capitol Centre Foods to construct a 30,000 SF grocery store on the first floor of their proposed development.

## *Cedar Street Extension*

### Gorman, Rule, Welton, and Valeo

Each of the four development teams proposes to locate the extension of Cedar Street along the northern boundary of the Property. Once the Common Council selects a development team, City Staff will work with the selected team to finalize a design of the road extension, its intersection with South Park Street and Beld Street, and to finalize the design and implement construction. There are funds budgeted for the construction of the Cedar Street extension in the 2020 Capital Budget, as of the drafting of this Staff report. These funds include \$1.2M of special assessments and \$800k in TIF funding. Note that Welton proposed an alternative route that was not acceptable to Traffic Engineering Staff, which City Staff does not consider a viable option.

## **Proposal Analyses: RFP Selection Criteria**

### *Grocer / Development Team's Expertise*

Gorman has an extensive level of experience in development, both within the City of Madison, and utilizing WHEDA tax credits to complete projects. They have completed projects at Union Corners, Allied Drive, and elsewhere in the City and throughout the State. Their grocer partner, Maurer's Market runs multiple grocery outlets throughout Wisconsin and appear to have the capacity to complete the proposal. Additional information can be found here: <https://www.gormanusa.com/>.

Rule has completed the fewest projects of each of the respondents. Rule has three projects in Milwaukee that utilized a mix of funding to construct apartment units at varying levels of affordability. Additional information can be found here: <http://ruleenterprisesllc.com/>

Welton enterprises has a lengthy history in and around Dane County. They have worked on many build to suit projects throughout the County and region. Additional information can be found here: <https://buildtosuit.com/>

Valeo focuses primarily on for-sale housing and single purpose, off campus student housing for private investors within the western United States. Additional information can be found here: <http://www.valeogp2.com/home.html> Habitat for Humanity's stated goal is "A world where everyone has a decent place to live". They provide opportunities for residents throughout Dane County to build an owner-occupied home for themselves and their family. Additional information can be found here: <https://habitatdane.org/about/> . Capitol Centre Market owns and operates a grocery located at 111 North Broom Street in Madison, WI. They have been in business since 1983, and additional information can be found here: <http://www.capcentremarket.com/> .

### *Quality of the Proposed Development*

City Staff from multiple departments have reviewed the proposals from each of the teams. The comments below from Planning Staff are based upon the original submittals from each development team:

Gorman – City Staff have concerns about the townhouses fronting on South Park Street, as this may be a design challenge. There is a desire for the grocery store to front on South Park Street, as well as to activate the newly extended Cedar Street.

Rule – City Staff believe that the above grade portions of Phase I and Phase II should be broken up to break up the massing of the building(s).

Welton – City Staff believe that the project needs to orient to Cedar Street, and that the South Park Street façade should be activated.

Valeo – City Staff have concerns that the project may be too tall for the Property. Staff has additional concerns regarding the feasibility of locating student housing on the Property. Additionally, Staff is concerned that the Habitat for Humanity homes may be a design challenge given their proximity to the parking ramp.

### *Economic Feasibility & Purchase Price / Financing Conditions*

#### Gorman

Gorman proposes to pay the City \$1 for the purchase of the Property. This \$1,078,000 of land write down must be considered a request for TIF assistance, as outlined at the beginning of this memo. This request for TIF assistance represents 71% of the net present value of the estimated TIF revenue that would be generated by the proposed project. City TIF Policy provides that projects that request more than 55% of the Net Present Value of the increment generated by that project will require approval from the Finance Committee prior to the completion of a term sheet. While the request for 71% of the TIF generated by the project exceeds the City's adopted TIF policy, City Staff believes that it could be possible to find the approximately \$322,000 of either project savings or developer equity to get this project to comply with TIF Policy. In addition, Gorman is requesting \$1,850,000 of City AHF to assist with the construction of the

93 units of 9% WHEDA LIHTC housing. The total assistance requested by Gorman, including both TIF and AHF funds, is \$2,928,000.

The use of 9% WHEDA LIHTC funds requires that the proposed project submit an application to WHEDA by the deadline of December 2020 for these LIHTC funds. Results of this application for LIHTC funding would not be known until the spring of 2021. While Gorman does have an excellent record of accomplishment of receiving 9% WHEDA LIHTC funds, the use of this funding mechanism provides an additional level of uncertainty to this proposal, as the City does not have any ability to influence the WHEDA funding process. In addition, the use of 9% WHEDA LIHTC funding pushes the completion of the project until sometime in late 2022 and possibly as late as 2023. Given that the current Pick N Save lease ends in early 2022, this could lead to a gap in grocery service to South Madison.

### Rule

Rule proposes to pay the City \$1,500,000 for the purchase of the Property. Rule is requesting \$2,000,000 of City AHF to assist with the construction of 150 units of rental housing. Phase I of Rule's proposed project requires the use of 4% federal LIHTC funds and 4% State tax credits, both administered by WHEDA. The funding application for the non-competitive federal 4% LIHTC funds is a rolling deadline. However, when applying for State 4% LIHTC funds, applications are due to WHEDA on January 16, 2020.

Assuming the Council accepts the recommendation of this Staff report on or before December 3, 2019, Rule will be able to make an application to this program in January 2020 and move this project forward. Staff estimates that this financing will lead to completion of the first phase of construction, which includes the grocery store, in spring / summer 2022.

Rule proposes to include a second phase of 80 apartment units of 9% WHEDA LIHTC housing on the Property. These units would be built on top of the parking ramp that would be built to serve Phases I and Phase II. Rule has indicated to City Staff that Phase I is not contingent upon the completion of Phase II, and could stand on its own financing. Rule's City AHF financing request of \$2M would only be used for Phase I.

### Welton

Welton proposes to pay the City \$1 for the purchase of the Property. This purchase price represents a TIF request of \$1,078,000. Welton is also requesting an additional \$2,000,000 of additional direct TIF assistance. Welton's total TIF request is \$3,078,000. This represents 129% of the TIF that Welton's project would generate. Welton proposes to construct 92 market rate unit apartments, 90 underground parking stalls, and a 20,088 SF grocery store on the Property. Welton's proposal uses a combination of first mortgage debt, private equity, and TIF funding. The estimated completion date for the project is late 2021.

Separately, Welton proposes to build a second project on the existing Pick N Save lot, directly north of the Property. This project as proposed by Welton, would consist of 94 unit apartment 9% WHEDA LIHTC project with 70 stalls of underground parking and 77 surface stalls. This project is separate from the redevelopment of the Property and should be considered on its own merits.

#### Valeo

Valeo proposes to pay the City \$1,080,000 for the purchase of the Property. In addition, Valeo requests that the City pay for the construction of the road, which the City will complete as part of the 2020 Capital Budget. In addition, Valeo is requesting that their project not pay property taxes during the construction period. Valeo is proposing to construct a 30,000 SF grocery store, a 227 unit (649 bed) student housing project, and 17 owner-occupied Habitat for Humanity row houses.

The purchase price is within the City's minimum required price and does not represent any direct TIF assistance. The request from Valeo to not pay any property taxes during construction is not legal under Wisconsin State Statutes. Given the size of the project and their requests, Valeo would not require any public financial assistance to construct their project.

#### Appraisal

The City commissioned an appraisal of the Property, which was completed on Oct 26, 2017. The appraisal valued the entire 151,858 SF Property at \$2,125,000, or \$13.99 / SF. The four proposals offered to purchase the Property for varying amounts, ranging from \$1 (Welton and Gorman) to \$1,080,000 (Valeo) to the highest offer of \$1,500,000 (Rule). This significant difference of purchase price and request for City financial assistance between the proposals is most likely due to several factors, including:

- The rate of return expected by each Developer and the method that they use to calculate that rate of return (Cash-on-Cash, versus Internal Rate of Return);
- The method by which each development team earns their return:
  - Projects using WHEDA LIHTC funds (Gorman and Rule) earn most of their return from the fees that WHEDA allows under its funding formula. Because rents are restricted to provide for the creation of affordable housing units, the rate of return they generate is minimal. Developers traditionally earn their return at the beginning of the project and then either manage them themselves, or contract with an outside management company to ensure compliance with the land use restrictions that are attached to the project as a condition of the receipt of LIHTC.
  - Projects using traditional first mortgage debt (Valeo and Welton) earn their return through rents generated by market rate apartment units. This stream of cash flow from rents collected over time represents the first return that investors to these projects see. The second large return that investors in these projects see is when the project is completed, leased, and then sold for a profit. This generally takes place when the investor's equity is returned, and the investor sees a large influx of cash upon sale.

The Rule proposal offers the highest purchase price of the Property, at \$1,500,000 while also proposing to construct 150 units of 4% WHEDA LIHTC housing in Phase I, with the potential for an additional 80 units of 9% WHEDA LIHTC housing in Phase II. Rule is requesting \$2,000,000 of City AHF to assist with Phase I. The Rule proposal represents largest purchase price, but only the second highest net total dollars to the City of Madison of (-\$250,000), when accounting for City AHF. The estimated final assessed value of Rule's proposal is \$19.7M, which is the second highest assessed value of the four proposals. Rule proposes to construct a 30,000 SF grocery store, but has not yet secured a grocer. Should the Common Council select Rule, City Staff recommends providing Rule with a deadline of January 16, 2020 to identify a grocer and bring a signed Letter of Intent (LOI), with an agreed upon lease rate, to the City as evidence that they have secured a grocer.

The Valeo proposal offers a purchase price of \$1,080,000. Valeo's only legal financial request of the City is the construction of the Cedar Street extension. The Cedar Street extension will occur in 2020, assuming the Common Council selects a development team in time to move this process forward. City staff have rejected Valeo's request that their project pay no property taxes during the construction period, as this is not legal under WI State Statutes. The Valeo proposal contemplates building 227 units (649) beds of student housing, and 17 owner-occupied Habitat for Humanity row houses, which would be valued at an estimated \$70.8M. This represents a new taxable value nearly three and a half times larger than the next largest estimated assessed value (Rule at \$19.7M). The construction of a project of this size would benefit TID 42 and allow the City to make additional investments in the South Madison area that it might otherwise not be able to undertake. Valeo proposes to construct a 30,000 SF grocery store, with Capitol Centre Market as their grocer.

The Gorman proposal offers a purchase price of \$1, which results in a TIF request of \$1,078,000. In addition, the Gorman proposal requests \$1,850,000 of City AHF. This represents a total request of \$2,928,000 of City assistance to complete the 93 units of 9% WHEDA LIHTC apartments. The estimated assessed value of the Gorman proposal is \$12.3M. Gorman also proposes to construct a 24,000 SF grocery store, with Maurer's Market as their grocer.

The Welton proposal offers a purchase price of \$1, which results in a TIF request of \$1,078,000. In addition, the Welton proposal requests an additional \$2,000,000 of TIF assistance. This represents a total request of \$3,078,000 of City TIF assistance to complete the 92 units of market rate apartments. The estimated assessed value of the Welton proposal is \$17.1M. Welton also proposes to construct a 20,088 SF grocery store but has yet to secure a grocer. Should the Common Council select Rule, City Staff recommends providing Rule with a deadline of January 16, 2020 to identify a grocer and bring a signed Letter of Intent (LOI), with an agreed upon lease rate, to the City as evidence that they have secured a grocer.

While all four proposals meet the minimum requirements from the RFP, in that they propose to deliver a grocery and will accommodate the extension of Cedar Street, the Gorman and Rule proposals meet another City goal in their provision of affordable housing. However, because of Gorman's use of 9% WHEDA LIHTC financing, their delivery of the grocery and a completed project is on the longest timeline. Rule's overall proposal includes higher density, and Rule's Phase I most likely delivers the grocery and first 150 units on a slightly more accelerated timeline than Gorman's project.

The level of overall City financial support also varies amongst the proposals. While Welton requests the largest level of financial assistance (\$3,078,000), their proposal does not deliver any affordable housing units until the second phase on the existing Pick N Save site they own at 1312 South Park Street.

Valeo’s proposal provides an interesting option in their proposal for market rate student housing and the affordable owner-occupied Habitat for Humanity row houses. However, Staff is concerned that student housing may be infeasible at this location. While Valeo does provide the City with the lowest overall request for assistance and the highest estimated taxable value, Staff questions whether its mix of uses is compatible.

Comparison of Financial Terms Proposed to the City

| <b>Respondent</b>                                | <b>Valeo</b>                                    | <b>Gorman</b>          | <b>Rule</b>  | <b>Welton</b>                                 |
|--|---|------------------------|--|---|
| <b># of Units</b>                                | 227 student (649 beds), 17 Habitat for Humanity | 93 WHEDA 9% LIHTC apts | 150 Phase I (WHEDA 4% LIHTC apts); 80 Phase II (WHEDA 9% LIHTC apts) | 92 Market Rate Units (Truman Olson site only) |
| <b>Estimated Value at completion</b>             | \$70.8M   | \$12.3M                | \$19.7M  | \$17.1M                                       |
| <b>Purchase Price</b>                            | \$1,080,000                                     | \$1                    | \$1,500,000  | \$1   |
| <b>TIF Request (including land write down)</b>   | \$0   | \$1,078,000            | \$0  | \$3,078,000                                   |
| <b>Percentage of TIF requested</b>               | 0% (N/A)  | 71%                    | 0% N/A   | 129%  |
| <b>Affordable Housing Funds requested</b>        | \$0   | \$1,850,000            | \$2,000,000  | \$0   |
| <b>Total Assistance requested</b>                | \$0 (road construction only)                    | <u>\$2,928,000</u>     | <u>\$2,000,000</u>   | <u>\$3,078,000</u>                            |
| <b>Does TIF request comply with TIF Policy?</b>  | N/A   | No                     | N/A  | No  |
| <b>Parking Stalls – Structured / Underground</b> | 450   | ~90                    | 345  | 90  |
| <b>Parking Stalls – Surface</b>                  | Unknown   | 85                     | None   | 89  |
| <b>Other assistance</b>                          | Construct road, no taxes during construction    | Construct road         | Construct road   | Construct road                                |
| <b>UDD #7 Guidelines met</b>                     | Yes   | Yes                    | Yes  | Yes   |
| <b>Grocery Size</b>                              | 30,000  | 24,000                 | 30,000   | 20,088  |
| <b>Grocer</b>                                    | Capitol Centre Market                           | Maurer’s Market        | None identified  | None identified                               |

### *Adherence to adopted plans and design guidelines*

All four proposals generally conform with Urban Design District #7 (Confirm with Planning). However, any selected proposal will be required to go through the City's land use approval and urban design processes.

### *Tax Base*

The City Assessor has estimated that the Gorman project will be valued at approximately \$12.3 million, Rule will be valued at approximately \$19.7 million, Welton will be valued at approximately \$17.2 million and Valeo will be valued at approximately \$70.1 million of assessed property value. The Gorman, Rule, and Welton projects do not have a significant difference in overall final value. The Valeo project is significantly higher, as it has a much higher number of both units and bedrooms, and is aimed at the market rate student rental customer.

### *Length of time to implement all phases*

City Staff estimate that the Gorman proposal will be complete in late 2022, the Rule proposal (Phase I only) in early 2022, the Welton proposal in late 2021, and the Valeo proposal in late 2021. The major different between the proposals, as discussed elsewhere in this report, is the reliance of both Gorman and Rule on WHEDA LIHTC funding. The complexity of this financing tool requires adherence to WHEDA's as well as other affordable housing finance funding timelines (FHLB-AHP, Dane County, WEDC, etc.). This inherently creates a lengthy pre-development process and provides a measure of inflexibility that neither the City nor developer controls. Staff estimates that the Valeo proposal will take longer to construct than the Welton proposal given its sheer size.

## **Other Considerations**

### *City of Madison Ch 37 Stormwater Considerations*

#### Gorman, Rule, Welton, and Valeo

All proposals show a dedicated stormwater control area. Developers should note that this site is within the Rock River TMDL area. Additionally, this site is considered by City of Madison Engineering to be within a flood-prone area. As such, stormwater controls shall be required to meet all applicable City of Madison updated Ch 37 ordinances, including but not limited to peak detention control, volume control, TSS reduction and oil and grease. The updated Ch 37 ordinances, currently in draft form, shall become final when adopted by the City of Madison Common Council. City Staff recommends requiring the selected development team to draft a stormwater plan that demonstrates the ability of the proposed development to meet the City's new Ch 37 ordinance requirements prior to January 16, 2020.

## **Recommendation for the Finance Committee's Consideration**

The RFP requires the ORES Manager to make a recommendation to the Common Council, based upon the criteria below.

- Meets minimum requirements identified in this RFP;
- Grocer / Development team's expertise, experience, and financial capacity;
- Quality of the proposed development;
- Economic feasibility of the proposed development;
- Adherence to adopted plans and design guidelines for the Property;
- Tax base and employment;
- Purchase price and financing terms and conditions for the purchase of the Property;
- The length of time required to implement all phases of the redevelopment of the Property.

### *Context for the Recommendation*

The desire to ensure that a grocery store be present in South Madison to serve the residents of this part of the City has been the building block for the entire RFP process, while the goal of extending Cedar Street through the Property was the original rationale behind the acquisition of the Property. In contrast to these two minimum requirements of the RFP, the addition of housing, either market rate or affordable, has only recently come to the forefront in this design and decision making process. The addition of housing, be it affordable or market rate, provides each development team with the ability to make financing work for the remainder of the project, in particular, the grocery.

It is within this backdrop and the need to balance the inherent embedded trade-offs of these outcomes that the ORES Manager reviewed and analyzed the proposals with the assistance of City Staff.

### Public Input

The ORES Manager has reviewed the record from multiple public meetings, including those sponsored by the City as a formal part of this RFP process, and those meetings held by the greater South Madison community. In addition, the ORES Manager has reviewed this recommendation with City Staff, as well as policy makers, including the District 13 and District 14 alders and the Mayor.

### **Recommendation**

Very importantly, it needs to be recognized that the City received four proposals that all meet the minimum requirements the City is seeking: to preserve food access for South Madison and to provide for the extension of Cedar Street through the Property. The purpose of this report and recommendation has been to clearly define the risks and returns to the City for each proposal and to evaluate and recommend the proposal that the ORES Manager, working in consultation with City Staff, believes will ensure that the two primary goals of the RFP are met.

Outside of the two minimum requirements of the RFP (providing a grocery and extending Cedar Street), there is a relatively wide range of housing options and density levels proposed by the four development teams.

The proposals can be succinctly summarized as:

- Gorman has proposed a project that delivers a grocery, with an identified grocery partner (Maurer’s Market), while also developing housing at a modest level of density (93 units), but at a higher level of affordability that the 9% WHEDA LIHTC financing can provide. The Gorman proposal contains surface parking and a request for \$2.928M of total City financial assistance, including a land write down of \$1.078M and \$1.85M City AHF.
- Rule proposes to develop a project that delivers a grocery, however they have yet to identify a grocery partner, while also delivering a very dense project (230 units). Phase I provides 150 residential units at a lower level of subsidy (a 4% WHEDA LIHTC project), with Phase II potentially providing an additional 80 units at a higher level of subsidy (a 9% WHEDA LIHTC project), all over structured parking. It should be noted that Rule’s proposal to build a 4% WHEDA LIHTC project that includes a grocery and structured parking would represent a new product mix that to date, has not been built in the City. While other tax credit projects have been built with structured parking, they have traditionally required extensive TIF assistance. Rule proposes to pay the City \$1.5M for the Property, while requesting \$2M of City AHF.
- Welton proposes to develop a project that delivers a grocery, however they have yet to identify a grocery partner, while also delivering housing at a modest level of density with no requirements for affordability in their proposal for the Property (92 market rate units). The Welton proposal contains surface parking and a request for \$3.078M of total City financial assistance, including a land write down of \$1.078M and an additional \$2M of direct TIF assistance. The Welton proposal is unique as Welton is the owner of the adjacent Pick N Save site, allowing better coordination for development.
- Valeo proposes to develop a grocery, with an identified grocery partner (Capitol Centre Market), while developing a very dense project (227 student units, 17 Habitat for Humanity units), but with only the Habitat units being set aside to specifically address affordable housing. The Valeo proposal contains structured parking, a purchase price of \$1.080M, and requires no City financial assistance.

After considering all aspects of the project and consulting with City Staff, the public, and policy makers, the ORES Manager recommends that the Finance Committee and Common Council select Rule Enterprises as the Truman Olson developer and proceed to negotiate a development agreement. The ORES Manager also recommends that the Finance Committee and Common Council set a series of deadlines for Rule Enterprises, to ensure the project is successful, and should negotiations fail, that the City can swiftly move to a second respondent. The conditions and deadlines Staff recommends include:

- The Rule provides a Letter of Intent (“LOI”) to the City of Madison between Rule and a grocer that identifies a lease rate, square footage, lease term, and any tenant improvements for a grocer to occupy the Project as a tenant, prior to January 16, 2020;
- That Rule submit an application for, and receive financing, from the Wisconsin Housing and Economic Development Authority (“WHEDA”) for 4% tax credits to finance the Project, and that this application shall be submitted to WHEDA no later than January 16, 2020;
- That prior to 4:00 PM on January 16, 2020, Rule sign a term sheet with the City of Madison that contains the terms and conditions for the sale of the Property from the City to Rule;
- That Rule come to terms with the City regarding the design and layout of the extension of Cedar Street, as described in the RFP, through the Property;
- That no later than January 16, 2020, Rule come to terms with the City regarding any funding provided to the Project from the City’s Affordable Housing Initiative (“AHI”) Fund.

The ORES Manager also recommends that, to the extent a development agreement cannot be successfully negotiated between the parties by the deadlines suggested above, that the City further consider Gorman to the develop the Property.

## **ADDENDUM – Draft Common Council Resolution**

### A Resolution

Approving the Selection of a Truman Olson  
Development Team With Whom to Commence  
Negotiations and Directing Further Actions

Introduced: Direct Legislation

Sponsors: Mayor Satya Rhodes-Conway, Alder Evers, Alder Carter

Fiscal Note:

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WHEREAS, on May 14, 2019, the Common Council adopted RES-19-00386 to approve the issuance of a Request for Proposals (RFP) for the sale of 1402 South Park Street, the former Truman Olson United States Army Reserve Center, (the “Property”) and establishing a process for the review of responses to the RFP and selection of a buyer for the Property; and

WHEREAS, on May 15, 2019, the City issued the RFP, with a due date of August 9, 2019; and

WHEREAS, on August 9, 2019, four proposals were received by the City of Madison from Gorman Companies of Oregon, WI, Rule Enterprises of Milwaukee, WI, Welton Enterprises of Madison, WI, and Baehr / Valeo of Sun Prairie, WI and Coto de Caza, CA; and

WHEREAS, on DATE , 2019, the Finance Committee received and reviewed the informational report from the ORES Manager; and

WHEREAS, on November 25, 2019, the Finance Committee considered all the information received throughout the process and recommended that the City proceed with negotiations with Rule Enterprises;

NOW, THEREFORE BE IT RESOLVED, that the Common Council does hereby approve the selection of Rule Enterprises of Milwaukee, WI as the selected developer (the “Developer”) to undertake the redevelopment of the Property, as generally shown in the attached response (the “Project”) to the City’s Request for Proposals (“RFP”);

BE IT FURTHER RESOLVED that the City of Madison grants exclusive rights to the Developer to negotiate for the Property, provided that the conditions below are met:

- The Developer provides a Letter of Intent (“LOI”) to the City of Madison between the Developer and a grocer that identifies a lease rate, square footage, lease term, and any tenant improvements for a grocer to occupy the Project as a tenant, prior to January 16, 2020;
- That the Developer submit an application for, and receive financing, from the Wisconsin Housing and Economic Development Authority (“WHEDA”) for 4% tax credits to finance the Project, and that this application shall be submitted to WHEDA no later than January 16, 2020;
- That prior to 4:00 PM on January 16, 2020, the Developer sign a term sheet with the City of Madison that contains the terms and conditions for the sale of the Property from the City to the Developer;
- That the Developer come to terms with the City regarding the design and layout of the extension of Cedar Street, as described in the RFP, through the Property;

- That no later than January 16, 2020, the Developer come to terms with the City regarding any funding provided to the Project from the City's Affordable Housing Initiative ("AHI") Fund.

BE IT FURTHER RESOLVED that Staff from the Office of Real Estate Services are to provide monthly updates to the Finance Committee during the negotiation process between the City and Developer;

BE IT FURTHER RESOLVED that to the extent a final development agreement cannot be completed with the Developer by the deadlines set forth in this resolution, City Staff shall return to the Finance Committee, at which time the Finance Committee is hereby authorized to terminate negotiations with Developer and to commence negotiations with Gorman Companies, and under what terms those negotiations shall take place.

BE IT FURTHER RESOLVED that the Mayor and Clerk are authorized to sign any and all documents needed to carry out the intent of this resolution in a form approved by the City Attorney.