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ITEM #3.
HAND-OUT



Staff Report to Common Council on the Proposed Capitol East District Parking Structure: *Project Background and Summary Steps Needed to Move Forward*

Prepared By: Economic Development Division Staff
DRAFT: For Transit and Parking Commission Meeting on 03/09/2016

PURPOSE AND OVERVIEW

This report is intended to brief the Madison Common Council and other stakeholders on the status, process, and next steps involved in implementing the proposed Capitol East District Parking Structure at the corner of E. Main Street and S. Livingston Street. This proposed structure would serve the future "Cosmos" project on the 800 S. Block of East Washington Avenue (slated to incorporate StartingBlock Madison, office space for American Family Insurance, a music venue, and other uses), while also providing public parking opportunities to meet the growing demand for parking in the district for events, festivals, restaurants, etc. The 2016 & 2017 Capital Budgets allocate \$13 million for this project. The City anticipates utilizing future revenue from TID #36 to finance the capital cost of the structure, which the Parking Utility would then operate.

This report consists of **Two Parts**:

- **Part 1:** Background information on the Capitol East District, summary of the proposed "Cosmos" project, and information on the purpose of the proposed structure.
- **Part 2:** Summary of the series of agreements, approvals, and transactions that are necessary for the project to be implemented.

PART 1: BACKGROUND AND NEED

THE CAPITOL EAST DISTRICT:

For over ten years, the City of Madison has steered an ongoing initiative focused on economically repositioning and redeveloping an area of the City dubbed the "Capitol East District." This District is an eighteen-block long and four-block wide commercial corridor extending from the Capitol Square to First Street. The primary roadway corridor through the district is East Washington Avenue – one of the main arterial streets into the city with over 60,000 vehicles per day. The Capitol East District is a legacy manufacturing corridor that was once the industrial heart of Madison but for decades was characterized by blighted and underutilized properties.

In 2008, the Common Council adopted the *Capitol Gateway Corridor Plan* which articulated a long range vision for this district. That vision was for redevelopment of the corridor as a compact, transit-oriented district with innovation-driven businesses providing employment opportunities, as well as a place for additional urban residences and amenities. Care was taken in the development of the Plan to protect and enhance the character of existing residential neighborhoods and mixed-use corridors on

either side of the District. Since the plan was adopted, the City has worked closely with elected officials, neighborhood groups, the development community, property owners, consultants, and businesses to begin implementing this vision.

As a result of this effort, the Capitol East District is in the midst of a dramatic transformation. Blighted or vacant properties, underutilized surface parking lots, and deteriorating buildings have been replaced with mixed-use redevelopment projects. New employers have come to the district (including technology companies like Google and ShopBop - a subsidiary of Amazon), along with a plethora of new restaurants, artisan food production business, and a full-service grocery store. Hundreds of new apartments for a wide range of household types are or will soon be under construction. Importantly, some of the long term businesses and entrepreneurial efforts that pre-dated City involvement have strengthened their presence as well. In summary, the quickly evolving District is significantly increasing the opportunities for living and working in the popular and vibrant Isthmus area.

PROJECTED GROWTH:

The City has been working with Vandewalle & Associates on projecting future development activity in the Capitol East District. Based on the City's adopted plans and current growth trajectory, this report lays out projected growth in three phases (Phase 1: 2015-2020, Phase 2: 2020-2030, and Phase 3: beyond 2030). Based on these projections (again, which are rooted in the City's already approved plans), the Capitol East District will likely add over 2,000 apartment units and approximately 2.5 million square feet of commercial space over the next two decades. This projected growth will bring with it approximately \$500,000,000 in new tax base, as well as hundreds of new jobs and residents. With this growth trajectory, the city will benefit from thoughtful, intentional, and forward-looking strategies for the implementation of public facilities, infrastructure, transportation services, and amenities that will allow this growth to occur in ways that positively contribute to surrounding neighborhoods and the City as a whole.

Projected Development in Capitol East District (from 2015 Vandewalle & Associates analysis)						
Total Development Projections		New Construction			Rehab	Totals
		Phase 1 2015-2020	Phase 2 2020-2030	Phase 3 2030-	(50% Phase 1 50% Phase 2)	
Commercial	Sq ft	430,000	810,000	1,105,000	252,000	2,597,000
	Parking	860	1,620	2,210	504	5,194
	Employees	1,720	3,240	4,420	1,008	10,388
Residential	Units	1,028	801	225	0	2,054
	Parking	1,028	801	225	0	2,054
	Residents	2,056	1,602	450	0	4,108
Projected Potential Value		\$166,360,000	\$177,120,000	\$137,500,000	\$25,200,000	\$506,180,000

PROJECTED PARKING DEMAND

Over the last several months, the City has been working on a detailed parking analysis utilizing Kimley Horn's "Park+" modeling tool. This model is being used to evaluate future demand for parking in the Capitol East corridor and then identifying potential locations for public structures that could accommodate this demand. The inputs into the model include the previously mentioned development projections and a set of assumption about the behaviors and preferences of residents, employees, and visitors in the district.

Even with aggressive assumptions that more and more residents and employees in the Capitol East District will walk, bike, or use transit for their daily transportation needs, the model shows that significant new parking supply will be needed in the District as development occurs. Over time, the supply of on-street parking will be insufficient to meet the growing needs of the district.

NEW STRATEGY TO MEET PARKING NEEDS EFFICIENTLY AND WITH PUBLIC BENEFIT

It is clear that as the transformation of the Capitol East District continues, parking on this narrow isthmus of land will be a central challenge. To meet growing parking demand, the City and the development community will need strategic parking solutions in the District that facilitate continued development, while moving toward more efficient and consolidated parking systems, as well as a more multi-modal future.

With the area's planned compact development pattern, projects in the Capitol East District require investing in structured parking. On-street parking and surface lots are not sufficient for the project growth and density. For recent development projects, the City and developers have accommodated the need for structured parking through Tax Increment Financing (TIF) investments into individual projects. In this model, the City is effectively paying for the private parking within individual private development projects by borrowing against future tax revenue from the project.

Moving forward, the City is interested in a new model. Rather than supporting private parking on a project-by-project basis, the new model would create public parking facilities that are strategically located in the District and can serve private development needs as well as public parking needs for events and amenities in the area. From a financing standpoint, rather than investing TIF dollars into private parking in individual projects, TIF would instead be used to construct strategically-located public parking structures that could more efficiently meet the needs of individual development projects, while also serving the public at large.

THE "COSMOS" PROJECT

One key to the City's success in repositioning the Capitol East District was a strategic land acquisition several years ago. In 2010, the City invested \$5.8 million to purchase approximately 10-acres. Formerly a large car dealership, this acquisition encompassed three key corner sites in the East Washington corridor. The City partnered with a local developer (Gephardt Development) to undertake two major projects that are transforming the first two of these three sites. Gebhardt completed the "Constellation" project in 2014 and the first phase of the "Galaxie" project is in the final stages of construction. Together, these two 12- and 14-story buildings alone include projects include nearly 500 apartments, office space, restaurants, and a full service 55,000 square foot grocery store.

As these projects near completion, the City and Gebhardt are partnering again on the third and final parcel from the 2010 acquisition, which will be the "Cosmos" project. Located on the 800 South Block of East Washington Avenue, The Cosmos project will consist of two buildings.

- **American Family Building** - The first building will be an approximately 100,000 square foot building owned by American Family Insurance. This building will include StartingBlock Madison as well as office space for American Family Insurance. StartingBlock is a planned collaborative entrepreneurial center that is bringing together a variety of partners to create a multi-use hub for entrepreneurship, education, and innovation. StartingBlock's anchor partners include Gener8tor (a proven program that accelerates technology businesses), Capital Entrepreneurs (a networking organization with over 350 members from 200 Madison-area start-up companies), and Sector 67 (a nationally recognized community "makerspace" with a focus on inspiring youth toward technology and a focus on women technology entrepreneurship). American Family Insurance is a Madison-based Fortune 500 Insurance Company. With headquarters in the American Center on the far east side, American Family is investing in StartingBlock Madison and investing in having their own office space and workforce in the Capitol East District.

- **Gebhardt Building** - The second building will be approximately 100,000 square feet. This building will include a music venue operated by Frank Productions, potentially a culinary training center, office space, and other retail or commercial uses.

With this mix of employment, entrepreneurship, and entertainment - anchored by one of Madison's stalwart companies while simultaneously supporting the growth of Madison's next generation of businesses - the Cosmos project is a high priority economic development initiative for the City of Madison.

THE PROPOSED CAPITOL EAST PARKING STRUCTURE

The City's adopted 2016 and 2017 Capital Budgets include \$13 million to build a parking structure in the Capitol East District (with costs anticipated to be split across 2016 and 2017). Based on the projected development in the area, the Park+ analysis, and the economic development opportunity of the "Cosmos" project, the intent of this funding is to provide for the growing parking needs of the district. Part of the idea is also that this structure will be the City's first application of the new model for providing parking in the District by consolidating it into a few public structures rather than subsidizing private parking on a project-by-project basis.

In 2015, Madison Gas and Electric (MGE) approached the City about the possibility of making available their property located at E. Main and S. Livingston as a site for the proposed Capitol East Parking Structure. MGE recognized the opportunity to use this site for parking that could serve the daily needs of the Cosmos project while also providing public parking for the area. MGE saw this as a way to continue their ongoing support for the StartingBlock Madison and to support economic development in the Capitol East District. The City is currently in discussions with MGE about the project. Though the terms are not yet finalized, it is important to note MGE's key role in coming to the table with this site and their recognition of the economic opportunity that could be unlocked by utilizing a portion of their property for this parking structure.

Anticipated Use

- **Daytime, Weekday Use** – The primary daytime/weekday use of the parking structure will be to serve the needs of tenants within the "Cosmos" project on the 800 S. Block of East Washington Avenue. These users will include office employees, some StartingBlock Madison users, and tenants of the additional office space or other users within the Gebhardt Development component of the project.
- **Evening/Weekend/Event Use** – In the evenings and on the weekends, the structure will be available to the general public. With several new restaurants in this area, the proposed entertainment venue, new activities at Breese Stevens Field, increasing usage of Central Park, and other amenities and events in this area, the City anticipates that this structure will see robust and growing demand for public usage during periods when it is not used by daily parkers.

PART II: DEAL STRUCTURE

The proposed Capitol East Parking Structure and the proposed Cosmos project are mutually dependent (the Cosmos project will need parking to move forward and the parking structure needs anchor users). As such, these two projects are bound together as a single, complex project that will require numerous agreements among several parties. For the project to move forward, the City and its partners need to finalize and approve a series of agreements and transactions. It is important to note that all of these agreements will require further Council authorization. The purpose of this report and the accompanying resolution is to communicate the "big picture" of the project and layout the structure of the multi-party deal.

AGREEMENTS, & TRANSACTIONS NECESSARY TO MOVE FOREWORD

1: City/Parking Utility Purchase or Ground Lease of MGE property

The City and Parking Utility are currently working with MGE to negotiate an agreement to utilize the MGE-owned site at E. Main and S. Livingston to build the proposed parking structure. That agreement would be done in one of two ways:

- **Option 1: Ground Lease** – The City could enter into a long term ground lease for the MGE site. This would allow the City/Parking Utility to build and own the parking structure while leasing the underlying land. This ground lease would require the City to make an annual rent payment to MGE. This rent cost would need to be incorporated into the operations of the Parking Structure.
- **Option 2: Purchase** – The second option would be for the City to purchase the site from MGE. Given the location of the property and its adjacency to other MGE-owned land and facilities, MGE would need to maintain some degree of control over the land through a deed restriction attached to the sale.

MGE and a staff team including the Parking Utility, Economic Development Division, and City Attorney's office are in the process of negotiating an agreement through one of these two options. As a local partner committed to economic development in Madison, MGE approached the City with this opportunity to use the site for a parking facility that will help facilitate the Cosmos project and support the ongoing transformation of the Capitol East District. However, the agreement to allow the city to use or purchase this site will need to be sensitive to MGE's responsibility to maintain viable operations for their customers and shareholders.

2: Letter of Intent and Purchase and Sales Agreement to Sell City-Owned Property to Gebhardt Development

The City currently owns the 800 S. Block site, slated for the Cosmos project. As noted above, this is the final property that the City purchased through the Don Miller acquisition in 2010. Gebhardt Development was selected in 2015 as the master developer of a project on this property, which has since been dubbed the "Cosmos." The City is currently working with Gebhardt Development to finalize a Letter of Intent for the sale and purchase of this site from the City to Gebhardt Development. This agreement is structured similarly to the previous agreements between Gebhardt and the City. The

agreed upon price for the land is \$1,399,792.00 (\$18.00 per square foot multiplied by the number of square feet (87,487)). The City is moving toward a final purchase and sales agreement that would come to the Common Council for approval later in the spring on 2016.

3: Adjustment Parking Structure PILOT

The Parking Utility's existing downtown parking structures provide the City a Payment in Lieu of Taxes (PILOT) to offset the revenues the City could earn from these sites if they were privately developed. This PILOT payment is based on the assessed value of the structures, which is driven by their net revenues. It is important to note the differences between the Parking Utility's existing downtown structures and the proposed Capitol East Structure. The Downtown structures are all several decades old and located on high-value sites in the heart of the downtown. They are within high-density areas where parking is scarce and where they can command high rates for long term and short term parking. In contrast, the proposed Capitol East Structure will be located in a redeveloping area of the City and is adjacent to a power plant.

The Capitol East Parking Structure's operating model will require that users pay lower rates for parking. With lower rates for parking, the net revenue from this facility will be significantly less than the downtown structures. With less revenue compared to other structures, the Capitol East Parking Structure will not be able to pay as much PILOT as the Parking Utility's other downtown structures. An income valuation approach to the Capitol East Garage is an option that would result in a substantially lower PILOT payment, and which would increase over time as revenues increase. This approach would allow the Capitol East Garage to operate revenue neutral, and PILOT would be no greater than what the facility could support without operating at a net loss. At such time that the Capitol East Garage could support the full PILOT using the cost approach used for other Parking Utility garages, the valuation approach would be changed to be consistent with other Parking Utility structures. The City Assessor will assess the Capital East Garage each year using both approaches to be able to determine the point in time at which the facility can transition to paying the higher PILOT. A resolution will be drafted to memorialize this approach and the intent for the valuation approach to change when the Capitol East Garage is able to support the higher PILOT payment without operating at a loss.

4: TIF #36 Project Plan and Boundary Amendment

The City's adopted 2016 capital budget includes \$13 million to build a parking structure in the Capitol East District (with costs anticipated to be split across 2016 and 2017). To fulfill this directive, the City is currently soliciting bids from architecture/engineering firms to design an approximately 450-stall structure. The exact costs of this structure will be determined through the design process but the Parking Utility's initial estimates are that a 450-stall facility would cost around \$12 million. The City intends to utilize projected increment from TID #36 as the source of financing for the structure.

TID #36 is performing well and anticipated to continue generating increment. However, it has reached the maximum amount of spending called for in its initial project plan. Also, TID #36's current boundary does not include several underutilized sites with redevelopment potential. This includes the proposed Stonehouse development project on the former Madison Dairy site. Although the Madison Dairy site is not currently within TID #36, the City has already negotiated a TIF agreement with the developer that is contingent on amending the boundary to bring the site into the District. As such, City is currently

working on a project plan amendment and boundary amendment that will increase the total area of TID#36 and increase its potential resources. This amendment is necessary for the Capitol East Parking Structure.

With the amendment to TID #36, sources of increment for the parking structure would include increment generated by the Cosmos project itself, surplus increment that will come from the previous two Gebhardt projects, and increment created by development projects currently in the pipeline. City Staff is continuing to evaluate whether the amended TID #36 could cover the capital cost of the project.

5: Parking Utility Master Lease with Gebhardt Development and American Family

The City/Parking Utility are in the process of negotiating lease terms for monthly parking within the Capitol East Structure. Basically, Gebhardt Development and American Family will master lease all of the stalls in the parking structure on Monday through Friday from 6am to 6pm. They will pay a flat monthly rate of \$70 per stall per month to cover the operating costs of the structure. Anytime after 6pm on weekdays and anytime on weekends, these stalls will be available for public use at an hourly rate. These leases are still being finalized.

6: Parking Structure Design

As directed by Council Resolution #41172 (adopted on Feb 2, 2016), the Parking Utility has released a Request for Proposals (RFP) to engage a qualified architecture/engineering firm to design the Capitol East Parking Structure. Under the scope of work in the RFP, the selected firm will be directed to work with the City/Parking Utility to design an approximately 450-stall parking structure on the site. One complicating factor in the design is that there is a large American Transmission Company (ATC) easement for an underground transmission line running along the Livingston frontage of the site. The City and MGE have been working with ATC and have a preliminary plan for how the parking structure can be designed in a way that provides ATC with access to the underground line in the rare even that they need to service the line. Another factor in the design of the structure is the desire to activate Main Street. The City and Parking Utility will work with the selected design consultant to incorporate a commercial use into the Main Street frontage of the structure. As with most large parcels in the Capitol East District, the site also has some environmental contamination. MGE has commissioned Phase 1 and Phase 2 assessments and will work with the City on a remediation plan for the site. Any necessary remediation work will be incorporated into the design and construction process, with the City and MGE splitting the costs.

7: Parking Structure Operations

The operating model for the proposed Capitol East Parking Structure will be streamlined to allow for the facility to be revenue neutral. As mentioned, the lease rates for monthly parking and the hourly rates for evening and weekend parking in the structure will be lower than the downtown facilities given. As such, the operating costs of the structure need to be in-line with the revenue it produces. To accomplish this, the Parking Utility will have limited staffing at the garage, and fully automated ticketing and payment system.

8: Land use approval processes for Cosmos and Parking Structure

Both the Cosmos Project and the Capitol East Parking Structure will go through the City's land use approval processes. This will include working with the adjacent neighborhoods and seeking all necessary Urban Design and Plan Commission approvals. That process will begin later, once the other agreements are finalized.

Next Steps:

The City and the various partners and stakeholders involved in this process are moving forward with the agreements described above. A "project team" consisting of all of the involved parties is meeting regularly to review progress. As these agreements come together in more detail, they will come before the Council for individual approval. Further, once the agreements and financing are in place, the Cosmos project and the parking structure will both begin the land use entitlement process which will include public outreach and will require all necessary land use approvals.

Summary of Approvals/Agreements/Transactions				
Approvals, Agreements, and Transactions	Next Step	Upcoming Policy Decision Points	Financial Implications	
1 City/MGE lease/sale of parking site	finalize whether sale or lease, terms, and price	<ul style="list-style-type: none"> Approve Agreement 	City annual lease payment or purchase of site	
2 City/Gebhardt land sale	finalize LOI for land sale	<ul style="list-style-type: none"> Approve LOI & Purchase and Sales Agreement 	Gebhardt Development payment of \$1.4 million to City	
3 PILOT adjustment	Determine likely PILOT payment and ordinance amendment language	<ul style="list-style-type: none"> Approve Ordinance Change 	No direct impact - City will receive a reduced or phased-in PILOT	
4 TID amendment and plan	Work on TID project plan and boundary amendment	<ul style="list-style-type: none"> Approve TID #36 boundary and project plan amendment Approve funding for project 	TID #36 will fund the construction cost of approximately \$12 million to build the Structure.	
5 Parking stall master leases	Parking Utility, Gebhardt, and American Family finalize leases for parking	<ul style="list-style-type: none"> Approve lease terms 	Gebhardt Development and American Family will pay Parking Utility \$70 per month per stall (\$378,000 annual revenue)	
6 Parking structure design	Design Structure, BID Construction, and Construction	<ul style="list-style-type: none"> Authorize engaging A/E firm Authorize Releasing BID Authorize Construction 	A/E costs of up to \$750,000, following by construction cost	
7 Parking Structure Operations	Create operating plan for the structure	<ul style="list-style-type: none"> Approve Operating Plan 	Parking Utility will achieve break-even point operating the structure	
8 Land use approvals	Submit plans and start process	<ul style="list-style-type: none"> UDC Plan Commission Council 	non	