



DATE: May 23, 2019

TO: City Finance Committee

FROM: Judge Doyle Project Negotiating Team

RE: Informational Report on the Block 88 RFP Responses Received on April 15, 2019

Introduction

On February 26, 2019, the Common Council authorized a Request for Proposals (RFP) be issued to develop the air-rights above the City's new municipal garage on Block 88 behind the Madison Municipal Building. The project is part of the Judge Doyle Project, a two-block redevelopment effort initiated by the City to unite the vibrant Capitol Square and the Monona Terrace Community and Convention Center with a significant mixed-use development opportunity to be comprised of commercial, hotel, residential, retail, and restaurant uses combined with parking and bicycle facilities, including the replacement of the City-owned Government East public parking ramp. The link to the RFP document is:

https://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Judge_Doyle_Square-Block_88-RFP.pdf.

On Monday, April 15, 2019, the City received three responses to its RFP from the following development teams:

Gebhardt Development of Madison, WI

(https://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Judge_Doyle_Project-RFP_Response-Gebhardt_Development-2019_04_15.pdf)

Mandel Group of Milwaukee WI

(https://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Judge_Doyle_Project-RFP_Response-Mandel_Group-2019_04_15.pdf)

Stone House Development of Madison, WI

(https://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Judge_Doyle_Project-RFP_Response-Stone_House_Development-2019_04_15.pdf)

Key Elements of the Proposals



Gebhardt Development proposes to build a 196-unit apartment development and 26,000 square feet of creation/office space and amenities above the Podium, and 7,000 square feet of retail space in the Podium, with a total development cost estimated at \$52.0 million. The building would be built utilizing a wood construction technique. Seventy-eight units would be income

restricted at or below 60% of Dane County median income. Gebhardt is requesting \$1.75 million of affordable housing funds from the City of Madison and has proposed to pay a net of \$6.8 million to purchase the air-rights and the Podium subject to structural modifications to the Podium. An option was also provided to build the building as a post-tension concrete structure if the wood construction approach isn't feasible.



Mandel Group proposes to build a 150-unit apartment development and 7,000 square feet of retail space in the Podium with a total project cost estimated at \$38.2 million. Thirty units would be income restricted at or below 80% of Dane County median income. Mandel Group is requesting approximately \$1.0 million in affordable housing funds. Mandel Group has proposed a lease-purchase

arrangement for the Podium, and a future purchase of the air-rights for \$1.0 million within ten years of the occupancy.



Stone House Development proposes to build a 159-unit apartment development and 7,000 square feet of retail space in the Podium with a total project cost estimated at \$40 million. Thirty-seven units would be income restricted; twenty units at 60% of Dane County median income and seventeen at 80% of Dane County medium income. Stone House is requesting \$600,000 of affordable housing funds from the City of Madison and

has proposed to pay \$5.0 million to purchase the air-rights and the Podium.

Team	Key Partners	Key Project Elements*	Key Financial Elements
Gebhardt	Gebhardt Development, Madison, WI; Iconica, Madison, WI; Oakbrook Corp, Madison, WI; Redstone Solutions LLC; Key Commercial, Madison, WI	<ul style="list-style-type: none"> • 196-unit apt development • 78 affordable units averaging 60% of AMI • 26,000 sf office space 	<ul style="list-style-type: none"> • Total Project Cost of \$52M • Assessed value of \$28M** • \$1.75M of City Affordable Housing (AHF) funds • \$6.8M net purchase of the air-rights and Podium subject to structural modifications
Mandel Group	Mandel Group, Milwaukee, WI; InSite Consulting Architects, Madison, WI; KTG Architecture, Chicago, IL; CD Smith, Madison, WI; Underground Food Collective, Madison, WI	<ul style="list-style-type: none"> • 150-unit apt development • 30 affordable units at 80% AMI 	<ul style="list-style-type: none"> • Total Project Cost of \$38.2M • Assessed Value of \$26M** • \$1M of City AHF funds • 10-year lease of Podium for projected net operating income with a purchase of \$4.0 - \$4.5M in Year 10 • Purchase air-rights for \$1.0M upon sale or refinancing. Share 25% of net savings on project delivery and share 25% of the excess value created above and beyond the private equity benchmark on sale with the City
Stone House	Stone House Development, Madison, WI; Potter Lawson, Madison, WI; Knothe and Bruce, Madison, WI; Stevens Construction, Madison, WI	<ul style="list-style-type: none"> • 159-unit apt development • 37 affordable units for a mix of 60% to 80% of AMI 	<ul style="list-style-type: none"> • Total Project Cost of \$40M • Assessed Value of \$27M** • \$.6M of AHF funds • \$5.0M purchase of the air-rights and Podium

* Each proposal would develop the 7,000 square feet (sf) of retail space in the Podium

** Estimate provided by City Assessor based on RFP response

Proposal Evaluation Process

Completeness and Compliance: Received proposals were first reviewed by the City Negotiating Team for completeness and compliance with the RFP guidelines. The Block 88 City Negotiating Team is comprised of George Austin - Judge Doyle Project Director, David Schmiedicke - Finance Director, Matt Wachter - Office of Real Estate Services Manager, and Kevin Ramakrishna - Assistant City Attorney. Additional City staff provide targeted expertise. For the Block 88 project, David Schaller of the City Engineering Division has been added to the team due to the complicated construction-related issues of the air-rights development.

Section Two (Page 6) of the RFP contains the requirements for developer responses. The chart below summarizes the respective requirements.

Item #	Proposal Requirement/Priority
#1	Propose on only Block 88
#2	Housing or mixed use with workforce housing
#3	Compatibility with MMB
#4a	Maximize tax base
#4b	Straight-forward dev framework
#4c	Use sustainable concepts
#5	Lease or purchase air-rights at FMV

The City Negotiating Team believes that each team submitted a complete response and substantially complied with the guidelines contained in the City's RFP. Each proposal is different, and the evaluation process will analyze these relative differences in the proposals.

Reference Checks: The City Negotiating Team has also checked the references of each of the teams using a standard interview form. Based on the reference checks, the City Negotiating Team concluded that each of the teams has solid credentials, having successfully built projects of similar scope and complexity. The team believes each team submitted "convincing evidence that all team members have sufficient understanding and experience with similar projects to be able to manage the project in the initial stages and throughout the term of the relationship" (Section 2 (Page 6) #7 of the RFP).

Technical Interviews: Following an initial review of the proposals, the City Negotiating Team conducted a technical interview of each team on May 7 and 8, 2019. Each team was presented with questions ranging from financing, constructability to affordable housing strategy in advance of the technical interview. The teams updated their proposals with additional information as a follow-up to the interviews.

Finance Committee Interviews: To familiarize itself with the proposals and the development teams and to allow the teams to present themselves to decision-makers, the City Finance Committee conducted face-to-face interviews of each team on May 16, 2019.

City Negotiating Team Analyses and Recommendations: Utilizing the information gleaned from the proposals, interviews and reference checks, the City Negotiating Team is presenting this report to the City Finance Committee on May 28. In making its recommendations, the Negotiating Team has applied the selection criteria as stated in the Project Requirements Section of the RFP (Page 6) #7.

The City of Madison intends to select a development team based on: RFP proposals that (1) are most responsive to the Project Goals found in Section 1 and Project Requirements found in Section 2 of the RFP, and (2) contain the combination of features and attributes offering the best overall value to the City. The City will determine the potential best overall value by comparing differences in project features and feasibility, and development team attributes, striking the most advantageous balance for achieving the City's goals for the Judge Doyle Project.

Next Steps: The City Finance Committee will make the final recommendation for the Common Council's consideration. The schedule for the review of the Block 88 responses is as follows:

RFP submissions due:	April 15, 2019
City staff review:	April/May
Finance Committee review and recommendations:	May 28/June 10
Council action on developer selection:	June 11/June 18/July 2
Final deal negotiation:	June-July
Council action on development agreement:	September 3
Execution of development agreement:	September

Key Issues for Consideration

The City Negotiating Team has focused its work on assessing overall project risk within the context of the value to be derived by the City from the Block 88 development. In large measure, three key areas contribute to a successful execution of the project: workforce housing; the financial terms; and a straight-forward development framework.

Workforce Housing: In crafting the Block 88 RFP, the City identified a specific opportunity to provide workforce housing in the heart of the downtown core and made it a project requirement. For this RFP, workforce housing is defined as housing to households making less than 80% of Area Median Income (AMI) based on the number of persons per household. The City of Madison requires that some portion of units within the Block 88 development be reserved long-term (30-years) as workforce housing. The City anticipates that financial assistance for workforce housing in the Block 88 project may be available through the City's Affordable Housing Fund. The City Negotiating Team has focused on the financing of the workforce housing units and the efficient use of the City resources to this end.

Financial Terms: The City of Madison has invested public dollars from the Parking Utility reserves to construct the Podium which must be repaid to the Parking Utility with interest. By taking on this responsibility, the City ensured that the Podium would support a significant air-rights development in the future to generate significant new property tax revenue. In addition, the cash flow from the lease and/or purchase of the air rights development was committed by the City to repay, in part, the investment made with the Parking Utility. The City Negotiating Team has focused on understanding the financial terms being offered by the development teams and maximizing the return to the City. The financial terms for the lease and/or purchase of the Podium and the air-rights is an important success factor for the project.

Straight-Forward Development Framework: The City placed a priority on development plans that can be executed in a timely fashion. The Judge Doyle project has a long history that has been made more difficult by the complexity of the two-block development. Projects that are straight-forward in their execution to take advantage of the unique site conditions on Block 88 is important for two reasons. The underground garage and Podium structure are under construction and scheduled for completion this fall. There is an opportunity for potential cost savings to the City related to how the City's element meets the air-rights element. If a developer is selected on a timely basis, there is a greater opportunity to reap some savings. Further, the constructability of the project in terms of the structural impacts and resulting cost impacts on the City element below the air-rights is a key consideration. The City Negotiating Team has focused on the level of complexity embedded in the proposals to increase the likelihood of the project's successful completion.

City Negotiating Team Analyses

Workforce Housing

Gebhardt

The Gebhardt team proposes to provide 78 units with income and rent restrictions for low-income households averaging 60% of Area Median Income. To pay for this affordability, Gebhardt plans to utilize the 4% tax credit program through WHEDA. This program is not competitive but does have a number of technical and legal requirements, which may add time and cost to the transaction. Additionally, Gebhardt is requesting \$1.75 million or roughly \$22,436 per unit in Affordable Housing Funds (“AHF”) from the City. This level of subsidy is generally in line with other projects funded by AHF.

Mandel

The Mandel team proposes to provide 30 units with income and rent restrictions for low-income households at or below 80% of Area Median Income. To pay for this affordability, Mandel is requesting approximately \$1 million or roughly \$33,333 per unit in assistance from the City, likely from AHF. This level of subsidy is at the top end of what AHF has typically provided, while serving higher income households than the program typically has served. The Mandel team has indicated an openness to pursuing alternative financing that may further leverage the City funds.

Stone House

The Stone House team proposes to provide 20 units with income and rent restrictions for low-income households at or below 60 % of Area Median Income and 17 units below 80%. To pay for this affordability, Stone House plans to utilize a low interest loan through WHEDA. This program is not competitive and is relatively straightforward. Additionally, Stone House is requesting \$600,000 or roughly \$30,000 for 60% units and \$0 for 80% units in AHF from the City, averaging \$16,216 per workforce housing unit. This level of subsidy is generally in line with other projects funded by AHF. The Stone House team is also pursuing additional social equity financing to further increase the number of affordable units. While the terms of this financing have yet to be negotiated, Stone House has indicated that it may be possible to deliver as many as 64 units at 60% of AMI.

		Gebhardt	Mandel	Stone House
Total Residential Units		196	150	159
Affordable Units				
	60% AMI	78		20
	80% AMI		30	17
City Subsidy		\$1.75 million	\$1 million	\$600,000
Subsidy Level / Unit				
	60% AMI	\$22,436	-	\$30,000
	80% AMI	-	\$33,333	\$0

Financial Terms

The table on Page 11 compares the three projects on a financial basis. The City required that the developers make proposals on the purchase or lease of the Podium and the developable air-rights above the Podium. All three developers complied with this requirement. Overall, the proposals are similar, with Gebhardt offering a slightly larger facility with more residential units and commercial space that is dependent on a number of construction assumptions.

Gebhardt

Gebhardt proposes paying the City between \$5.5 million and \$6.8 million for the Podium and air-rights. The range of possible payments is dependent on their ability to maximize square footage, which, in turn, is dependent upon the ability to implement certain construction assumptions in the air right, as well as alterations to the Podium to support the larger mass above. In the technical interview, Gebhardt expressed strong preference for purchasing rather than leasing the Podium and air- rights.

Mandel

Mandel proposes a lease structure for the Podium, with a right to purchase at any time during the lease period. The purchase amount of \$4.4 million at year 10 assumes a 7.5% capitalization rate, however Mandel proposes it be able to purchase the Podium at any time based on an appraisal performed at that time. The table shows the net present value of the proposed lease, assuming a purchase in year 10 and lease estimates provided by Mandel. These amounts could change based on actual lease revenues received by Mandel from use of the Podium commercial and parking space.

Regarding the air-rights, Mandel proposes a \$1 million payment upon sale of the development or refinancing of debt issued to finance the development, along with a 25% share of any excess incremental value and any excess capitalization. In other words, the City would receive a share of any “savings” from the project coming in under budget and a share of the assessed value in excess of what would be assumed from an 18% internal rate of return for the developer. The potential stream of payments from this structure cannot be quantified at this time, but is not expected to be significant, particularly with an 18% internal rate of return threshold.

Stone House

Stone House proposes paying the City \$5 million for the Podium and air-rights. This amount would increase if fewer affordable units were included in the project. During the technical interviews, Stone House expressed a willingness to explore a lease arrangement for the Podium and air-rights. During the interviews with the Finance Committee, Stone House shared a revised proposal to increase the affordable units from 20 at 60% and 17 at 80% to 64 units at 60%. The increase in affordable units and the decrease in the income threshold is dependent upon securing locally-sourced social equity financing of \$2.5 million. The Podium and air-rights purchase amount would remain \$5 million under either alternative.

Comparison

As part of analyzing proposals to purchase the air-rights and Podium, the City commissioned an appraisal of both. That appraisal concluded that the air-rights had a value of \$5.7 million and the Podium had a value of \$5.9 million at completion of construction and \$6.8 million at stabilization (i.e., parking and retail leases fully utilized). Within the Podium, the parking was appraised at \$2.9 million at completion and \$3.1 million at stabilization. Retail was appraised at \$3.0 million at completion and \$3.7 million at stabilization. The combined appraised value of the air-rights and Podium is \$11.6 million at completion and \$12.5 million at stabilization.

All three proposals are offering a purchase or lease value that is relatively close to the appraised value of the parking, with Stone House having the greatest variance (\$2.2 million purchase compared with \$2.9 million appraised value at completion). All three proposals are well below the appraised value of the retail and air rights.

A significant amount of the difference in the proposer compensation amounts compared to the appraisal can be attributed to the affordable housing component of the RFP conditions and commensurate proposer responses. The appraisal is based on use of the air-rights for market-rate apartments in downtown Madison, which command top of market rents. When viewed on a per unit basis, affordable housing units typically pay significantly less for land and the requirement to restrict rents on some number of units to ensure affordability will reduce the value of the air rights accordingly. When viewed on a per square foot basis, the proposals only build on a portion of the air rights because expanding their footprint requires significant changes to the underlying Podium. Differences in the retail component are more difficult to identify but may be based on uncertainty regarding the ultimate highest and best use of the space.

The benefit of an outright purchase is immediate receipt of proceeds and commensurate mitigation of risk from failure to pay on a long-term ground lease. The benefit of a long-term lease is a stream of revenue that would initially repay the Parking Utility for the cost of the ground lease and then be available for other purposes. Once a developer is selected, purchase and lease amounts would be defined through a development agreement.

Under the resolutions adopted by the Council authorizing construction of the Podium, the \$11 million Podium cost to the City is being internally financed through a loan from the Parking Utility reserves. Repayment of this loan, with interest, was originally envisioned to occur through a combination of ground lease payments from Beitler Real Estate to the City for Blocks 88 and 105, along with parking and retail lease revenues from the Podium. The initial annual ground lease payment for Block 88 was projected to be \$180,000. Parking and retail lease revenues were estimated at \$289,100 annually. Block 105 ground lease revenues are set at \$350,000 for the hotel and \$225,000 for the apartments. Based on this stream of revenues, it was anticipated that it would take 12 years from stabilization of the entire two-block development to repay the \$11 million plus interest of 2.5% annually. Under the current timetables in the amended development agreement with Beitler, time to repay from completion of the Podium would have been 16 years.

Assuming an outright purchase of the Podium and air-rights, as proposed by Gebhardt and Stone House, repayment of the \$11 million from assumed ground lease revenues for the assumed development on Block 105 would require between 13 to 18 years under the timelines within the amended development agreement for that block. Under the Mandel proposal (\$1 million purchase of the air-rights at sale/refinancing plus a lease/purchase arrangement for the Podium), the time to repay is approximately 20 years, or 13 years if the air-rights and Podium are purchased at year 10. Time to repay would be further reduced if proceeds from the value and capitalization sharing proposals are realized.

Taken together, the proposals are relatively in line with the time to repay the Parking Utility under the initial plan developed at the time the Podium approach was established as the City's path forward in response to Beitler Real Estate's conclusion that it could not afford to build the Block 88 apartments. The approach proposed by Mandel, with lease payments for 10 years combined with purchase at that time along with sharing of possible savings and excess value increment, results in the shortest time to repay the Parking Utility. Stone House has the longest time to repay. Both of these proposals have contrasting levels of affordable housing. In effect, a greater preference for affordable housing results, conversely, in a lower payment to the City for the Podium and air-rights. Gebhardt seeks to strike a balance between those two paths through more density in the air-rights and a non-conventional construction strategy.

Comparison of Financial Terms Proposed to the City

		Gebhardt	Mandel	Stone House
Square Footage				
	Residential	169,343	158,723	163,000
	Commercial	22,600	-	-
	Total	191,943	158,723	163,000
Cost		\$52 million	\$38 million	\$39 million
	Cost per Sq. Ft	\$270.91	\$239.41	\$245.40
Estimated Assessed Value		\$28 million	\$26 million	\$27 million
Total Residential Units		196	150	159
Affordable Units				
	60% AMI	78		20
	80% AMI		30	17
City Subsidy		\$1.75 million	\$1 million	\$600,000
Subsidy Level / Unit				
	60% AMI	\$22,436	-	\$30,000
	80% AMI	-	\$35,714	\$0
Podium Purchase				
	Parking	\$2,960,000	*NPV of \$3.3 million Lease plus annual right to purchase; NPV is calculated at year 10	\$2.2 million
	Retail	\$666,825	*NPV \$0.95 million Lease plus annual right to purchase; NPV is calculated at year 10	\$280,000
Air Right Purchase		\$1.8 million to \$3.1 million	\$1 million plus 25% of excess capitalization and 25% of excess incremental value (unknown)	\$2.5 million
Total Podium and Air Rights		\$5.5 million to \$6.8 million	*NPV of \$5.25 million plus 25% of any excess capitalization and value	\$5 million
Time to Repay Parking Utility		13 years	13 years (if air rights and Podium purchased at year 10) 20 years (lease payments only)	18 years

*NPV refers to the Net Present Value of future payments discounted at 7%

Straight-Forward Development Framework

The construction start for the air-rights development is likely to be the spring of 2020. Assuming that the schedule holds for the execution of a development agreement in September 2019, the earliest that a Major Alteration to an Approved SIP Application could be submitted would be September 2019. Consideration of the application could be garnered by the end of November. Construction drawings and construction bidding could be concluded by the end of the first quarter 2020 with a construction start as early as May 2020. Completion of the building would be in the summer of 2021.

For this schedule to hold, all other development activities would also have to be completed; financing commitments and closings, affordable housing allocations, successful bidding processes that bring the project in on-budget. Discussed below are factors in each proposal that would increase project risk and raise more uncertainty.

Gebhardt

The Gebhardt team proposes the use of Cross Laminated Timber (CLT) (wood construction) that would require a variance from the City Building Code, Fire Code, Conveyance Code and Licensing Appeals Board (BCFCCLAB). According to City Building Inspection, CLT is not in the current building code but will be contained in future building codes. Under this circumstance, it would be feasible to think that the BCFCCLAB would approve a variance for this type of construction. However, Madison Fire Department officials were skeptical and stated an inclination to let another jurisdiction such as Milwaukee, to deal with this construction type first.

Gebhardt has offered two other options; a post-tension concrete frame to match the original proposal. This would require approximately \$2.0 million of alterations to the Podium below compared to \$775,000 for the original proposal. The cost of these modifications would reduce the proposed purchase price for the Podium and air-rights. In addition, either of these design approaches would require the largest number of changes to the Judge Doyle concrete frame below which would likely cause disruption to the occupancy of the new underground parking garage.

A second option of reducing the building footprint and size of the project to match the columns in the Podium and underground garage was also offered which would reduce the size of the project. However, the City Negotiating Team believed the second option was a major change to the project concept that Gebhardt submitted in the RFP and could be viewed as being unfair to the other teams who weren't given the opportunity to modify the scale of their project. As a result, it was not included in the analysis.

Mandel

The Mandel Group proposes a building that respects the built condition of the Podium. Any structural modifications are limited to refinement in or above the Level 5 structure. Beams will be added to Level 5 to support the townhouses and the pool. The proposed tower column layout aligns with the existing parking Podium columns in all but four locations. Mandel will assume the cost of any modifications dictated by the proposal.

The south and north ends of the tower will cantilever past the tower columns on grids 2 and 11, and the tower slabs will cantilever east past the columns on grid C. The project's structural engineer anticipates

that these columns have adequate capacity to support the proposed tower. This proposal is less likely to cause any disruption to the Judge Doyle garage below.

Stone House

Stone House Development proposes a building structure that shows the tower columns aligning with the parking columns below. This proposal would require the least amount of modifications to the Judge Doyle Podium concrete frame. Stone House is proposing that the corners be brick clad to tie to proposed exterior masonry above. Stone House has indicated that the columns, foundation walls and footings along grids 1 and 12 have been analyzed for the additional floors and masonry exterior wall at these locations and the calculations indicate these elements will have adequate capacity to support the proposed construction without the need for reinforcement. It should be noted that the brick corner element has not been included in the project's construction budget.

Other Considerations

The RFP also indicated that priority would be given to proposals that (1) maximize the tax base to be added because of the project, and (2) utilize sustainability concepts for the design, construction and operation of the building. In addition, workforce and targeted business participation as well as the retail spaces in the Podium are important considerations.

Tax Base

The City Assessor has estimated that the Gebhardt project will add \$28 million, Mandel will add \$26 million and Stone House will add \$27 million of assessed property value. There isn't a significant material difference in the amount of property value to be added to the tax base.

Sustainability

Gebhardt has proposed the CLT approach (discussed previously), a green roof, storm water retention for grey water reuse on site for irrigation, a solar array on the upper roof deck, and working with Focus on Energy regarding energy incentives. A Silver LEED level is targeted.

Mandel Group has proposed the use of solar panels in a visible location for display and education purposes, a solar installation of up to 30kw output, a green roof on the upper level, construction waste management, composting. It plans to work with Focus on Energy regarding energy incentives, will seek LEED certification at a yet undetermined level and plans to seek a Fitwel certification (A certification program from Center for Active Design launched by Mayor Michael Bloomberg in 2011).

Stone House has proposed the building to be Wisconsin Green Built Certified and will work with Focus on Energy regarding energy incentives. The building will contain solar panels on the upper roof, green roof where appropriate, a high-efficiency HVAC system, LED lighting with motion sensors, water efficient plumbing fixtures, Energy Star appliances, a building envelope that is 3% higher performing than code, a metal stud partitions with high recycled content.

All the teams responded in the spirit of the City desire to include sustainable practices in this high-profile building in Madison's central business district. The City Negotiating Team will memorialize the

sustainability practices in the development agreement with whichever team is chosen by the City for the project.

Targeted Business Contracting and Workforce Utilization

The RFP required that each response include a workforce utilization plan and targeted business goals for the project (Page 7 – Section D.5.). Gebhardt submitted a completed City of Madison Affirmative Action Plan for Gebhardt Development LLC. Mandel Group, through its contractor CD Smith, committed to work closely with the City's Department of Civil Rights "to achieve or exceed the expected participation percentages for the Block 88 project," citing several methods to develop subcontracting goals. Stone House cited its familiarity with the City of Madison's workforce utilization goals and targeted business goals, stating it "will ensure that they meet or exceed the goals set for the project". This element will need to be further defined in the development agreement negotiation regardless of the team the City selects.

Retail and Commercial Space

The RFP indicated that the City intended to lease or sell the Podium which in addition to the 148-stalls of parking, contains approximately 7,000 square feet along Pinckney Street. This space does not include the City's Bicycle Center at the corner of South Pinckney and East Doty Streets which will remain in City ownership.

All the teams included the retail space in their respective proposals. The Gebhardt proposal also includes a floor of commercial space on the fifth level of approximately 22,600 square feet. Prospective tenants for the space were not identified. Mandel Group included Underground Food Collective of Madison, WI as a member of the team and shared the team's vision to create a unique food experience to partner with local initiatives (i.e. Madison Public Market) and local businesses as a primary user of the Pinckney Street retail spaces.

Recommendation for the Finance Committee's Consideration

Context for the Recommendation

The development of Block 88 has presented challenges to the City. In 2016, the City made a fundamental decision to place the public parking garage ramp underground. That decision added considerable complexity to the project by requiring a public-private development on the site. After construction of the underground public ramp began, Beitler Real Estate determined it could not afford to continue construction of the private apartments above, which further complicated the venture.

Another fundamental element of the project is the requirement that public parking remain continuously available through construction of any development on Block 88. Once Beitler determined that it could not build the apartments above the underground public parking, maintaining continuous access to public parking required that the City act to continue build the Podium element with ground floor retail space and two floors of above ground parking. Without the Podium, any development in the air- rights on Block 88 after the municipal garage opened would require its closure for a period while the two structural floors above the garage were constructed. The City decided to use the significant reserves of the Parking Utility (more than \$35 million at the time) to internally finance construction of the Podium. Repayment of the Parking Utility reserves was to be made from sale or lease of air rights development on Blocks 88 and 105.

As construction of the Podium nears completion, the opportunity to develop the air-rights above is best realized as quickly as possible. Continuing the construction allows the City to avoid the cost of a permanent roof on the Podium until development is identified in future years. As such, the City initiated the RFP process to select a Block 88 developer.

In contrast to the previous RFP processes to develop Blocks 88 and 105, the City added criteria related to affordable housing, straight-forward development and sustainability. The affordable housing criterion changes the financial structure of the development relative to an all market rate approach. City support is required, both in the form of direct subsidy from the Affordable Housing Fund and an indirect subsidy through a lower amount of revenue from the development that is available to pay the City for the Podium and the air-rights.

Given the above, the City has established the following values it wishes to fulfill with the Block 88 development.

- Continuous access to public parking
- Repayment of Parking Utility reserves
- Maximize payment for Podium and air-rights
- Affordable housing
- Straight-forward development
- Sustainability

It is within this backdrop and the need to balance the inherent embedded trade-offs of these outcomes that the City Negotiating Team reviewed and analyzed the proposals.

Recommendation

Very importantly, it needs to be recognized that the City received three excellent proposals from three development teams with considerable experience and success. The City Negotiating Team believes the City could select Gebhardt Development, Mandel Group or Stone House Development and have a high-quality project developed with a successful outcome.

The purpose of this informational report has been to clearly describe the relative risk and return to the City for each proposal to evaluate and recommend the proposal that the negotiating team believes will provide the best opportunity to deliver **“the potential best overall value by comparing differences in project features and feasibility, and development team attributes, striking the most advantageous balance for achieving the City’s goals for the Judge Doyle Project.”**

In the RFP, the Common Council purposely required that workforce housing be an element of the Block 88 air-rights development. However, to produce affordable housing units in a high-rise development on a high-profile site in the central business district is expensive. As the number of affordable units rises in the project, the payment for the Podium and the air-rights is reduced. The City Negotiating Team has taken this trade-off into consideration, recognizing the City’s desire for affordable housing at the location is the most important goal.

The proposals can be summarized as:

- Mandel Group has proposed a payment structure that, under certain assumptions, best matches the need to repay the Parking Utility for construction of the Podium but delivers the least amount of workforce housing in number and level of affordability.
- Gebhardt maximizes density allowing for relatively high payment to the City and the greatest amount of workforce housing units in number and level of affordability, but as a result the development carries the greatest cost and risk in both construction and financing the development.
- Stone House has the most straight-forward development program in both construction and financing as well as a demonstrated ability to deliver the affordable housing element but has the longest repayment period for the Parking Utility.

After considering all aspects of the project, the City Negotiating Team believes the best choice to develop the Block 88 air-rights is Stone House Development. Stone House balances the delivery of workforce housing with the financial return to the City and provides the most straight-forward development process. If Stone House is selected, the City Negotiating team will work to reduce the time to repay the Parking Utility as much as possible.

The City Negotiating Team recommends that the Finance Committee and Common Council select Stone House Development as the Block 88 air-rights developer and proceed to negotiate a development agreement. The Negotiating Team also recommends that to the extent a development agreement can’t

be successfully negotiated between the parties, that the City further consider Gebhardt and the Mandel Group to develop the project.

ADDENDUM – Draft Common Council Resolution

A Resolution

Approving the Selection of a Judge Doyle- Block 88
Development Team With Whom to Commence Negotiations
and Directing Further Actions

Introduced: Suspension of the
Rules June 11th meeting

Sponsors: Mayor Satya Rhodes-Conway and Alder Michael Verveer

Fiscal Note:

WHEREAS, on February 26, 2019, the Common Council adopted RES-19-00161 to authorize the issuance of a Request for Proposals (RFP) to seek a developer to complete the private portion of the Judge Doyle – Block 88 project; and

WHEREAS, on March 1, 2019, the City issued the RFP, with a due date of April 15, 2019; and

WHEREAS, on April 15, 2019, three proposals were received by the City of Madison from Gebhardt Development of Madison, WI, Mandel Group of Milwaukee, WI, and Stone House Development of Madison, WI; and

WHEREAS, the Finance Committee conducted interviews of the three development teams on May 16, 2019, and the City Negotiating Team completed a completeness and compliance review of the responses, conducted technical interviews of the development teams on May 7 and 8, 2019, checked references for each development team and prepared an informational report dated May 23, 2019 for the Finance Committee’s consideration; and

WHEREAS, on May 28, 2019, the Finance Committee received and reviewed the informational report from the Negotiating Team; and

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

NOW, THEREFORE BE IT RESOLVED, that the Common Council does hereby approve the selection of _____ as the Judge Doyle - Block 88 Development Team with whom to commence negotiations and directs the following actions:

1. Direct the Judge Doyle Negotiating Team to immediately initiate negotiations with the selected development team and to report back to the Finance Committee by August 12, 2019 with a final term sheet; and
2. Provide regular status reports on the negotiating progress to the Finance Committee at its regularly scheduled meetings in July of 2019; and
3. To the extent a final development agreement cannot be completed with the selected development team, the Finance Committee will re- consider the remaining two proposals to select the Judge Doyle-Block 88 Development Team.