

ANALYSIS OF PREVIOUS WORK ON THE PUBLIC MARKET

This document analyzes the previous work conducted on the public market.

PROCESS & BACKGROUND

The Madison Public Market evolved from a project initiated by Home Grown Wisconsin, a cooperative of Wisconsin farmers, which convened the Central Agriculture and Food Facility (CAFF) group. A preliminary 2004 CAFF Feasibility Study was commissioned, found support for a standalone public market, and led to the creation of a Madison Public Market team including:

- Blue Planet Partners
- City of Madison
- Common Wealth Development
- Community Representatives
- Dane County
- Dane County Farmers Market
- Madison Community Foundation
- Madison Gas & Electric
- REAP (Research, Education, Action, and Policy on Food Group)
- UW Center for Co-operatives
- Williamson Street Grocery Co-operative

This work group prepared various papers and analyses, primarily through a contract with Aaron Pohl-Zaretsky, a public market consultant. They also formed a Producer Outreach group and conducted a Farmers' Market and Public Market survey. This work is summarized in another document.

THE VISION

The idea of the public market is to create a distinctive public physical space that symbolizes a community and that agglomerates demand for niche products and offers small retail venues to unique, local and food oriented businesses and producers.

Public market vendors are characterized by diversity. They can accommodate established businesses seeking permanent retail space, niche businesses seeking smaller venues such as carts or stalls, producers whose space needs varies seasonally, or start-up businesses who need to test market concepts.

A key success factor is control the types of businesses in the market so that the space remains a unique, distinctive draw to both residents and visitors.

Markets typically seek to support locally owned business and to provide lower-cost opportunities for entrepreneurs to launch new businesses.

The following chart shows the types of businesses that might occupy a public market and the value proposition for these types of vendors.

| MERCHANT TYPE | Restaurant /Bar | Producer | Processed Food | Boutique Retailer |
|---------------------------------------|---|--|--|--|
| Description | Venue for purchase and consumption of food or beverages | Venue for producers to sell produce (individually or collectively) | Venue for various businesses to sell processed foods | Venue for businesses to sell non-food products |
| Examples | Brew Pub, Coffee shop, wine tasting bar, sushi cart | Vegetables, fruit, flowers, meat, seafood | Cheese, bakery, jam, dried spices, chocolate | Books, kitchenware, gifts |
| Value Proposition for Merchant | Serve visitors drawn to public market Serve residents Serve employees near market | Year round venue Opportunity to rent day tables according to crop (no permanent infrastructure) Opportunity to form coops Opportunity to explore value-added processing | Opportunity to serve niches that may not support standalone retail (allows specialization) Opportunity for second locations or increased distribution Brand visibility | Opportunity to serve niches that may not support standalone retail (allows specialization) Opportunity for second locations or increased distribution Brand visibility |
| Likely Retail Space | Permanent store, stall, or cart | Day table or stall | Permanent store, stall, cart, or day table | Permanent store, stall, cart, or day table |
| Projected Mix for Madison* | 44% | 11% | 25% | 20% |

* Note: There is significant overlap between categories. For example, a merchant might fit between the restaurant/processed food category (e.g., a pasta maker that sells fresh pasta and pasta dishes) or between producer/processed food (e.g., a farmer that sells vegetables and sauces/pesto)

To succeed and cash flow without an ongoing subsidy, public markets also seek to attract a diverse set of users. This chart shows how a public market appeals to different types of users for different reasons.

| USER | Value from Prepared Food/Bar | Value from Producers | Value from other Retailers |
|--------------------|--|--|--|
| Visitor | Experience local foods Grazing experience Meals/drinks | Minimal (unless edible without preparation) | Unique local gifts Unique products Browsing experience |
| Employee | Lunch (other meals) Snacks After work social venue | Access to fresh produce Supplement grocery shopping | Gifts Access to niche products |
| Nearby Resident | Meals/drinks Social venue | Substitute for conventional grocery shopping | Substitute for conventional grocery shopping Gifts |
| Regional Residents | Entertainment Meals | Special occasion shopping | Special occasion shopping |

GOALS

The Madison Public Market established three goals:

1. Generate significant local and regional economic development
2. Expand the regional food economy
3. Create a vibrant regional public space that celebrates diversity

DISCUSSION OF GOALS

Significant Local and Regional Economic Development

The NorthStar Economics report suggests that a public market could create over 800 jobs (directly and indirectly). To achieve or exceed this number, it's vital that the public market:

- A. Does not cannibalize the revenue of other downtown merchants
- B. Helps existing businesses grow by providing related opportunities or additional retail space

C. Catalyzes entrepreneurship

There are mixed assessments in the business community about whether or not a public market would threaten existing businesses. The BID board, members of the EDC, and others have expressed concerns. Some businesses, notably neighbors such as Great Dane and Merchant, have expressed support. Aaron Pohl-Zaretsky states that his experience is that public markets help other nearby retail businesses by drawing more shoppers to the area where the public market is located. The anecdotal evidence from other communities seems to validate the premise generally. The sales projects in the business plan also project that 45% of revenue will come from visitors, tourists, and residents who do not live or work in proximity to the market. While the Downtown Central BID has expressed concerns, they have produced a market study and other documents addressing retail gaps including and identify grocery as a “notable gap.” Their retail clustering piece suggests that the Capitol Square Area and 100-200 blocks of State Street focus on home/hearth, gifts, dining, entertainment, family activities, and that “establishments in these areas could attract a broader consumer segment with a focus on visitors.” This question of whether a public market helps or hurts downtown retailers is not settled, however, and is not likely to be answerable. More research on the impact of other public markets could be conducted and more outreach could be done to address competitive concerns or issues.

The tenant leasing plan suggests numerous ideal tenants. Many of these tenants could be found through second stores or offshoots of existing businesses. It does not appear that outreach has been done to all of the logical existing businesses who might make good tenants to verify their interest.

One of the reoccurring themes in the documents is the hope that the market will catalyze entrepreneurship. This is supported by evidence from other public markets. Starbucks and Sur la Table, for example, had their first store in a public market site. The Project for Public Spaces estimates that 89% of public market vendors spend less than \$10,000 establishing their business. There are efforts under way to launch a regional packing/distribution facility and a north side kitchen incubator. Each of these efforts could lower the cost to starting up public market locations. To ensure that there is an entrepreneurial impact, careful consideration should be given to how to support people interested in becoming entrepreneurs in the public market with technical resources, financial assistance, and suitable space.

Expand the Regional Food Economy

The second goal of the public market is to build the regional food economy and bolster the rural-urban connection. In particular, the plan proposes to help producers within 150 miles of Madison find new markets. This could be accomplished by:

1. Year round sales venue
2. Establishment of new coops within the market (produce or processed food)
3. Sales to restaurants from the market
4. Sales to food processors who may start as a result of the market

The planners also anticipate an educational component which could take place through demonstration kitchen, events, marketing, etc. There appears to have been a special outreach effort made to producers and the Dane County Farmers Market. Any future planning effort should continue this and establish a tight relationship with Dane County which is leading the study of a packing/distribution facility and FEED which is trying to establish a kitchen incubator.

Create a Vibrant Regional Public Space that Celebrates Diversity

There are three keys to accomplishing this goal:

1. Physical design of the market to ensure adequate and well thought out public space
2. Careful control of tenants to ensure space is vibrant and reflects the diversity of Madison
3. Programming to provide fresh, changing, attractions to the market

There is no reason that this goal cannot be accomplished with appropriate planning. The physical design needs to be coordinated early on with the Block 88/105 Master Planning effort as well as the Marcus Hotel/ULI planning effort to ensure that entrances, elevator cores, column spacing, etc. is conducive to a public market use. The business planning effort should include outreach to existing businesses downtown and food-related business to establish rules that control the mix, allow for competition, but also address concerns. Finally, the business plan provides staff that should be responsible for working other entities in town to provide a complementary programming effort.

FEASIBILITY

There are several questions about feasibility, some of which have been partially addressed:

1. Is the public market vision sound?
2. Is Government East the best site for a public market?
3. What will it cost to construct a public market?
4. Will a public market cash flow?
5. Can the non-city portion of the capital be raised?
6. What financial commitment is required from the City?

Is the Public Market Vision Sound?

Public Markets exist. The initial feasibility study reviewed 8 public markets in 2004. Seven of these are still in operation and one is either closed or lacks a web presence. The additional studies cite other, larger, more successful public markets. One document references a federal audit of a grant to Pike Place Market that concludes it was the most successful community economic development project in the history of the U.S. The analysis notes that Madison's demographics are favorable for a public market. While Madison is smaller and less visited than some cities with thriving public markets, other cities with less favorable demographics have successfully launched public markets. At a statewide level, agriculture and food processing are disproportionately strong clusters in Wisconsin. Conceptually, the public market vision appears to be something that could work in Madison.

Is Government East the Best Site for a Public Market?

Site analysis is the most thoroughly studied aspect of the public market work to date.

Having said that, there is no reason to believe that Government East is a magic site. The site analysis conducted by the team suggests that a Madison public market requires a number of things to thrive:

1. Dense employment base
2. Dense residential base
3. Centrality within the region (e.g. Dane County)
4. Proximity to top visitor attractions (UW-Madison, Monona Terrace, State Capitol)
5. Access to parking and transit options
6. Visibility

In addition to Government East, the Brayton Lot was identified as a strong contender. It appears that any reasonably sized, downtown site might suffice. Government East is advantaged by being available, in the heart of downtown employment density, proximate to a potential train station, and located between the Monona Terrace and State Street/State Capitol.

If the public market was located outside of downtown, the vision may need to be adjusted according to the site. In other words, the vision of a destination local food & entrepreneur showcase probably requires a downtown location. A more neighborhood-oriented market geared toward producers could potentially work in a location away from downtown and may cost less. However, concern about competition with traditional grocers may increase away from downtown (e.g. Jennifer Street Market, Willy Street Coop, etc.).

One way to think about site decision is to either fix a vision and ask what location best serves that vision or fix a location and ask what vision best fits that site.

Here's a representative example that is not intended to encompass all possible sites or visions:

| VISION | DESCRIPTION | SITE CHARACTERISTICS | POTENTIAL SITE |
|--|---|--|--|
| Destination Local Food Venue (Regional Market) | Market that serves local residents/employees but is vibrant enough and proximate to other draws to attract more visitors, tourists, and residents from outlying areas | Near UW-Madison, Monona Terrace, and/or the State Capitol Near hotels Dense employment/residential pattern | Government East Brayton Lot Redeveloped City-County building |
| Producer Oriented Year Round Market (Partial City Market) | Market that primarily functions as a year round, indoor complement to the Farmers Market | Inexpensive building/construction Available free parking Good road access Sensitivity to existing grocers | Union Corners University/Segoe Road East Washington/Yahara River |
| Economic Catalyst in a Challenged Neighborhood (Neighborhood Market) | Draw additional consumers, visitors, and activity to an area Create opportunities for local entrepreneurs to launch micro-enterprises | Neighborhood requiring economic revitalization Diverse group of potential entrepreneurs Inexpensive site Parking/access | Village on Park Verona Road Northside Shopping Center |

What Will it Cost to Construct the Public Market?

The cost of constructing the public market has not been extensively studied. The initial feasibility study suggested it may cost \$175 per square foot for site prep, construction, and finishing. The 2010 Site Analysis contains an estimate from Miron Construction

estimating that construction of the market will cost \$200.41 per square foot. This includes \$60/SF for tenant improvements, but it is unclear if the market requires additional capital to purchase/construct refrigerators, storage space, special ventilation, etc.

The Government East site footprint calls for a 52,000 SF footprint with 36,000 SF of leasable space once common areas and other uses (parking ramps, loading docks, elevator cores, etc.) are accounted for. Assuming Miron Construction's analysis is on the low end, the public market can be projected to cost at least \$10.4 million. The initial feasibility study estimated \$7.2 million and the business plan for Brayton Lot estimated \$19 million (including parking, a rooftop amenity, and larger space). With the exception of the Brayton Lot estimate, these figures do not reflect any contribution toward parking or other costs that might be spread across a mixed-use development.

The market does not require clear span construction.

Obviously reusing an existing building or constructing a building without multiple levels could alter these costs. The actual costs will have to be pinned down in the context of one or more specific sites. This is an important element of any future planning effort.

Will the Public Market Cash Flow?

The 2007 business plan called for a three year operating loss before profitability was achieved. Aaron Pohl-Zaretsky indicates that public markets generally cash flow without ongoing subsidies after the start-up phase. The assumption in the business plan is that minimal debt for construction is carried by market operations and that market rents can be charged. In the 2007 business plan 35% of market's expenses are for staff and 20% is for debt service. If the debt service is eliminated or minimized, the staff level can likely be adjusted or contracted to permit the market to cash flow provided the revenue is rolling in according to plan. In order to pay \$24-26 per square foot, vendors will have to sell \$250 to \$430 per square foot annually. The critical question then becomes:

1. What are the capital costs (see previous item)?
2. Can these capital costs be covered through grants (see below)?
3. Is there sufficient demand to charge market rent and minimize vacancies?

Future planning efforts need to validate market interest in this kind of space to ensure that the plan for rents (generally market rents, but with some adjustment according to business situation) is valid.

Can the Non-City Portion of Capital Be Raised?

This question requires additional work. There is a page in the 2007 business plan that shows possible sources of funds, but these sources need to be tested and validated. There are several other projects such as the Central Library that will compete for local philanthropic funds. In addition, discretionary spending is under pressure at all levels of government and assumptions such as \$1 million from the State of Wisconsin may no longer be valid. Understanding potential sources and soliciting feedback from them will be important to future planning efforts.

What Financial Commitment is Required from the City?

This question does not currently have an answer. The 2007 Business Plan shows Madison making a \$2 million TIF commitment and \$500,000 CDBG commitment as part of a \$19.4 million capital campaign. In other words, Madison is penciled in 13% of capital costs. However, the project may require a larger contribution to succeed, especially given the debt market and the poor probability of achieving the rest of the sources of capital depicted. The City's contribution for capital will depend on how much can be raised privately. Conversely, the fundraising needs could be set by the city's willingness to set a limit. As next steps, planning could focus on assessing the fundraising potential and identifying the gap for the city to cover to make the project happen.

POTENTIAL NEXT STEPS

1. Establish clarity about vision and strategy:
 - a. Agree on a common vision of what a public market would be
 - b. Either validate site analysis or reopen the site search process
 - c. Agree on a logical sequence of next steps to explore feasibility and develop a detailed plan
2. Develop a list of stakeholders, downtown businesses, and potential tenants. Some key participants would include:
 - a. Producer and coop community
 - b. Dane County Farmers Market
 - c. Local food stakeholders (REAP, Dane County, etc.)
 - d. Downtown businesses and associations (State Street area businesses, BID, DMI, etc.)
 - e. Area food businesses (Fromagination, RP's Pasta, Fraboni's, Ale Asylum, Wollersheim, etc.)
 - f. Local grocers (Willy Street Co-op, Jennifer Street Market, etc.)
 - g. Downtown landlords with retail space
 - h. Downtown neighborhoods/residents
3. Research the impact of other public markets on nearby businesses
4. Listening session(s) with local businesses & stakeholders to:
 - a. Workshop the public market vision
 - b. Listen to concerns
 - c. Assess interest among potential tenants
 - d. Validate market rent and
 - e. Identify specific businesses/entrepreneurs for one-on-one follow-up meetings
5. Meet with Marcus/ULI to discuss site use compatible design on Block 105 for either:
 - a. First floor public market
 - b. First floor grocer
 - c. Alternative first floor retail/commercial space

6. Remain involved in the Block 88/105 master planning effort to discuss site use should a public market be built
7. Research construction costs for one or more sites
8. Develop a list of potential funding sources
9. Assess interest the proposed public market among potential funders
10. Write a formal fundraising feasibility assessment and plan
11. Update documents and complete a detailed business plan incorporating:
 - a. Vision
 - b. Goals
 - c. Market assessment
 - d. Site plan
 - e. Construction costs
 - f. Tenant leasing plan (including rent plan)
 - g. Operating budget
 - h. Staff and programming plan
 - i. Plan to support new entrepreneurs
12. Report to the city outlining the probable public investment required