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To: Finance Committee

From: Matthew B. Mikolajewski

Subject: Madison Public Market Budget and Funding Update

Date: September 12, 2022

PROJECT BACKGROUND

In 2012, the Public Market Development Committee convened to make recommendations for the location and vision for a Madison Public Market (“Public Market”). The Committee spent two years conducting research, talking with stakeholders and potential vendors, visiting other city markets, researching the region's food system, and forming the basis of a vision for the project. The City’s consultant, Project for Public Spaces, recommended the former Fleet Services building located at North First and Johnson Streets because of the diverse population located within 1.5 miles of the site, the likelihood of financial sustainability for vendors and the Public Market, and current City ownership.

In 2013, the City engaged a consulting team to develop the Public Market Business Plan. The business plan process took two years and included a community engagement effort that solicited input from more than 2,000 community members and potential vendors. The Common Council adopted the Business Plan in October 2015 and City staff and the Madison Public Market Foundation (“Foundation”) have continued to make periodic updates.

The Foundation was selected by the City to operate the Public Market. In 2018, the City and the Foundation formalized their partnership via a Collaboration Agreement approved by the Common Council. The Agreement included responsibilities of each party prior to Market construction. It established that the Foundation will raise private funds for the Public Market, select vendors, hire an Executive Director and advise the City on project design.

After construction, the Foundation will operate the Public Market as an independent non-profit organization handling leasing, licensing, marketing, maintenance, programming, etc. The City will retain ownership of the building and site, leasing the building and site to the Foundation for a nominal fee. An Operating Agreement and Lease, to be approved by the Common Council, will establish terms for this partnership between the City and the Foundation. Generally, as the owner of the building, the City will retain responsibility for major building infrastructure. Otherwise, the Foundation will be responsible for the day-to-day management of the building and site. The City will continue involvement and oversight via three appointed members of the Foundation Board of Directors; however, the City has explained to the Foundation that we will not provide ongoing operating financial support to the Foundation.

PROJECT GOALS

The following goals outline the primary motivating factors for the market:

1. The Public Market will support food-based entrepreneurship. The Public Market will directly support 100+ small businesses annually and house more than 100 jobs. As some businesses expand and incubate out of the Public Market over time, the economic impact of the facility will likewise grow.
2. The Public Market will provide affordable, healthy food options within one of City's "Food Access Focus" areas, with great access via transit, bikes, and cars.
3. The Public Market will be a public year-round gathering place for all Madisonians. Markets are unique in that they attract people from different cultures, age groups, political leanings, and income levels.

LOCATION

The Madison Public Market will be located at the former City of Madison Fleet Building. The corner of E. Johnson Street & First Street offers a 45,000 sq. ft. building on 3.5 acres. This unique setting is located at a highly-visible gateway to central Madison and adjacent to a 5-acre park along the Yahara River. The Public Market will create a bike/pedestrian friendly area linking other downtown Madison attractions, adjacent neighborhoods, and the Northside via the Sherman Avenue bike path.

The location is highly accessible, with numerous bus routes, tens of thousands of cars, and many bicyclists traveling through the corridor daily. The site offers 120+ parking spaces.

Annually, the Public Market is projected to attract 500,000+ visitors per the market analysis completed by the City of Madison. The City commissioned Project for Public Spaces to perform a "Huff Gravity Model" analysis to evaluate this site for sales potential. Based on population density and spending patterns of people within different travel time distances to the site, the analysis estimated that the Public Market could achieve at least \$12 million in annual sales.

VENDOR MIX

The Public Market will include the following primary components:

Prepared Food Vendors – The Market Hall plans include 12 prepared food vendor spaces (200 to 600 square feet each). Potential tenants include diverse food vendors offering prepared food options to eat on-site or take home. There are also spaces for three larger anchor tenants, which will have longer leases and provide consistent revenue to the Market.

Non-Cooking Stalls – The Market Hall also includes 11 non-cooking stalls that will range from 200 to 800 square feet. These spaces will feature a mix of food and non-food vendors that may include cheese, meat, ice cream, value-added food products (jams, salsa, sauces, etc.), produce, and handmade craft items.

Start-up Stalls – The floor plan for the Market Hall includes 6 stalls specifically designed to be leased to very early-stage businesses. The spaces will be 80 square feet, and could be used by 50 different vendors could use these spaces.

Food Innovation Center – The Food Innovation Center (FIC), a 17,133 square foot space housed within the Madison Public Market, will provide commercial food processing equipment and other support including space for flex manufacturing, business sales space, shared storage (dry, cold, and freezer), office space, other support services and space for truck loading docks and parking. This infrastructure will allow for workforce training, product testing, institutional food processing, value-added processing, and industry collaboration. As a shared space, it will be affordable to new and early stage businesses without access to significant investment capital.

A key component of the FIC is the 1,212 square foot Market Kitchen, a commercial kitchen equipped with a cooking area, nine food prep stations, dishwashing area, and a cold/freezer area. This space will be used for product testing, recipe development, small scale food processing, additional food preparation capacity and culinary training.

The FIC space can also be used for special event programming (weddings, corporate events, performances) and pop-up vending events featuring food carts and art fairs. These events will provide additional revenue to the Foundation.

MARKET READY PROGRAM

A Racial Equity & Social Justice Initiative (RESJI) Analysis of the project was completed in 2015. The analysis identified ten recommendations, with one leading to the creation of the MarketReady entrepreneurial training pilot program in 2017. The program prioritized recruiting and selecting participants who self-identify as BIPOC, immigrants, women, and/or low income.

Five MarketReady vendors were awarded funding and guaranteed placement in the Public Market: **Caracas Empanadas y Más, Little Tibet, Melly Mell's Catering, El Sabor de Puebla** and **Perfect Imperfections**. All of these businesses are successfully operating today and they have indicated that the Public Market can accelerate their businesses to the next level. While funding was only available for five businesses, several other MarketReady vendors also have strong business plans and could join the Public Market.

The City and the Foundation continue to cultivate a diverse pool of businesses interested in operating within the Public Market. Currently, 235 businesses have completed detailed interest forms stating their desire to be affiliated with the project. An analysis of entrepreneurs who have submitted interest forms (since October 2021) shows that 68.6% identified as female (n =35), with self-identified race and ethnicity as follows (n = 32): White/Non-Hispanic (50%), Black/African American (15.6%), Asian (18.8%), and Hispanic/Latinx (15.6%).

PROJECT STATUS

The Public Market is nearly ready to move forward from both an operating and construction standpoint. Construction documents have been prepared and the project is ready to bid. The sign package, site plan review, and work on the purchase of adjacent property from MMSD still need to be completed, but good progress is being made. The Operating Agreement and Lease between the City and Foundation are nearly ready for approval by the Common Council. Private fundraising is secured at the level the Foundation agreed to. The use of \$7 million in TIF has already been approved and \$4 million of State Neighborhood Investment Fund support is on track. The City has invested approximately \$2.3 million to date on consultant studies, business planning, design and construction documents, the MarketReady Program, and Foundation support.

CURRENT BUDGET AND FUNDING GAP

The Public Market was originally scheduled to be under construction in Fall of 2020. The COVID-19 Pandemic both delayed the project and caused changes to the funding strategy and business plan.

Earlier this year, the MPM was anticipated to cost a total of \$18,294,901 and the City of Madison and Madison Public Market Foundation Project Team ("Project Team") had identified sources of funding, pending and secured, which aligned with the total project cost. An updated construction cost estimate now shows the Public Market total project cost rising to \$20,057,655 due to a \$1,763,495 increase in construction costs.

Although the Project Team had been working with the Federal Economic Development Administration (EDA) on securing CARES Act funding, the MPM project had not yet received a commitment of this financial support. The Project Team started working with the EDA on identifying ways to adjust sources and uses of funding to address the inflationary gap noted above; however, the team was unable to identify a workable solution. In the meantime, the EDA was unfortunately under a deadline to commit CARES Act funding. Absent a clear path to providing additional funding to the MPM to close this inflationary gap, the City was required to withdraw its application for EDA funding.

The inflationary cost increase coupled with the departure of the EDA as a source of funding means that the current funding shortfall for the MPM is now \$5,208,272, as noted in the tables below. Construction costs continue to rise, and it is likely that this gap will increase further prior to bidding the project.

Funding Sources (August 2022)	Amount
<i>Economic Development Administration (EDA) Grant</i>	<i>\$3,445,518 (pending)</i>
Private Contributions	\$3,000,000
City - Capital Budget (Prior UDAG)	\$849,383
City - Capital Budget (TID #36)	\$7,000,000
State - Neighborhood Investment Fund Grant	\$4,000,000
TOTAL	\$14,849,383

Funding Uses (August 2022)	Amount
Construction Costs	\$13,850,628
Professional Services	\$1,943,452
Development Costs	\$846,862
FFE (supply & install)	\$3,149,268
Project Contingency	\$259,629
Operating	\$7,817
TOTAL	\$20,057,655

The Project Team estimates that about \$800K-\$1M can be cut without deep, negative impact to the overall operations of the MPM. More substantive cuts have been explored, but these come with greater ramifications for the operational sustainability of the MPM.

The Madison Public Market Foundation does not believe it is probable that large gifts (6 or 7-figure) will materialize in the coming months. The City is exploring a new source of Federal funding; however, at most, this could provide an additional \$1 million toward the MPM. It is therefore clear that additional sources of funding will be difficult to secure.

ADDITIONAL CONSIDERATIONS

In addition to the funding gap noted above, the Finance Committee should be aware of a couple of additional matters. First, as is the case with all fundraising for capital projects, the Foundation will receive its pledges over a two-to-three year time period. The Foundation will require a bridge loan to provide up-front cash to the City for construction. The City will likely need to either provide this bridge loan directly; or, provide security needed for the Foundation to obtain a private loan.

Second, the impacts of inflation is not limited to construction. There is no expectation that the City will provide on-going financial support to the operation of the Public Market. The Foundation's business plan identifies reasonable expectations for revenue and expenses; however, in the current financial environment, adjustments may need to be made to the Business Plan as the project opens and begins operating in order to maintain financial sustainability.

NEXT STEPS

In the coming weeks, City staff and the Foundation are seeking direction from policy makers on how the City would like to proceed through this current inflection point for the Madison Public Market project.