



DATE: March 21, 2022

TO: City Finance Committee

FROM: State Street Campus Garage Mixed Use Project Team

RE: Informational Report: Development Teams Technical Interviews (December 2021)

### **Introduction**

On April 20, 2021, the Common Council authorized a Request for Proposals (RFP) be issued to develop the air rights above the City's new State Street Campus Garage at 415 North Lake Street. The project is a significant mixed-use development opportunity to be comprised of an intercity bus terminal, ground floor retail, and housing combined with a parking structure replacing the current State Street Campus Garage on Lake Street. The link to the RFP document is:

[https://www.cityofmadison.com/dpced/economicdevelopment/documents/State\\_Street\\_Campus\\_Garage\\_RFP%20\(002\).pdf](https://www.cityofmadison.com/dpced/economicdevelopment/documents/State_Street_Campus_Garage_RFP%20(002).pdf)

On Monday, July 19, 2021, the City received seven responses to the RFP from the following development teams:

[Alexander Company / Core Spaces](#)

[Brink Development](#)

[CA Ventures](#)

[CRG](#)

[Greystar](#)

[Mortenson Development](#)

[Smith Gilbane](#)

An interagency staff team reviewed the seven proposals to determine if they met the minimum requirements set forth in the Request for Proposals (RFP). None of the seven proposals is perfect; however, four of the seven proposals seem to present a possible path forward, while three proposals did not meet the minimum requirements of the RFP.

Staff recommended to the Finance Committee on October 11, 2021 to continue evaluating the following proposals: CA Ventures, CRG, Mortenson, and Smith Gilbane. The Finance Committee requested the staff team conduct technical interviews with the four recommended teams. Those interviews were conducted in December 2021. The following is a synopsis of the technical interview outcome.

## Key Elements of the Proposals



**CA Ventures** proposes to build a 259-unit apartment development with up to 10% of the beds (64 beds) being affordable student housing. The parking structure will consist of 510 public stalls and 47 private stalls. The proposed bus terminal has parking for four buses. The total development cost of the private component is estimated at \$102.8 million. The hard cost of the public component is \$22 million and the soft cost is not estimated. CA Ventures has proposed to pay a net of \$25 million to purchase the air rights.



**CRG** proposes to build a 235-unit apartment development with up to 8.5% of the units (20 units) being affordable student housing. The parking structure will consist of 510 public stalls and 15 private stalls. The proposed bus terminal has parking for four buses. The total development cost of the private element is estimated at \$80 million. The total development cost of the public element is \$22.5 million. CRG has proposed to pay a net of \$20 million to purchase the air rights.



**Mortenson Development** proposes to build a 263-unit apartment development with up to 15% of the beds (100 beds) being affordable student housing. The parking structure will consist of 510 public stalls and 80 private stalls. The proposed bus terminal has parking for three buses. The total development cost of the private component is estimated at \$97.3 million. The total development cost of the public component is \$42.7 million. Mortenson Development has proposed to pay a net of \$6.2 million to purchase the air rights.



**Smith Gilbane** proposes to build a 157-unit apartment development with up to 10% of the beds (52 beds) being affordable student housing. The parking structure will consist of 510 public stalls and 74 private stalls. The proposed bus terminal has parking for three buses. The total development cost of the private component is estimated at \$69.8 million. The total development cost of the public component is \$33.2 million. Smith Gilbane has proposed to pay a net of \$14.1 million to purchase the air rights.

Team	Key Partners	Key Project Elements	Key Financial Elements
<b>CA Ventures</b>	CA Ventures, Urban Assets, Stevens Construction, Smith Group, Kimley Horn, Saiki Design, Thornton Tomasetti	<ul style="list-style-type: none"> <li>• 259-unit apt development</li> <li>• 64 affordable beds</li> <li>• Bus terminal with 4 stalls for bus parking</li> </ul>	<ul style="list-style-type: none"> <li>• Total Project Cost of \$102.8M</li> <li>• \$25M net purchase of the air-rights</li> </ul>
<b>CRG</b>	CRG, ESG, Stevens Construction	<ul style="list-style-type: none"> <li>• 235-unit apt development</li> <li>• 20 affordable units</li> <li>• Bus terminal with 4 stalls for bus parking</li> </ul>	<ul style="list-style-type: none"> <li>• Total Project Cost of \$80M</li> <li>• \$20M net purchase of the air-rights</li> </ul>
<b>Mortenson Development</b>	Mortenson Development, Blue Vista Capital Management, Peak Campus, Eppstein Uhen Architects, Walker Parking, Pierce Engineers, Vierbicher	<ul style="list-style-type: none"> <li>• 263-unit apt development</li> <li>• 100 affordable beds</li> <li>• Bus terminal with 3 stalls for bus parking</li> </ul>	<ul style="list-style-type: none"> <li>• Total Project Cost of \$97.3M</li> <li>• \$6.2 M net purchase of the air-rights</li> </ul>
<b>Smith Gilbane</b>	Gilbane Development Company, Summit Smith Development, CD Smith Construction, HGA	<ul style="list-style-type: none"> <li>• 157-unit apt development</li> <li>• 52 affordable beds</li> <li>• Bus terminal with 3 stalls for bus parking</li> </ul>	<ul style="list-style-type: none"> <li>• Total Project Cost of \$69.8M</li> <li>• \$14.1M net purchase of the air-rights</li> </ul>

## Technical Interview Process

The State Street Campus Garage Interagency Staff Team is comprised of Matt Wachter – DPCED Director, Tom Lynch –Director of Transportation, David Schmiedicke - Finance Director, Kevin Ramakrishna - Assistant City Attorney, Bryan Cooper – Principal Architect and Section Manager, Rebecca Cnare – Planner, and Kirsten Donkle – Civil Rights.

*Technical Interviews:* Following an initial review of the proposals, the Interagency Staff Team conducted a technical interview of each team on December 2, 8, and 15, 2021. 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.

*Interagency Staff Team Analyses and Recommendations:* Utilizing the information gleaned from the proposals and interviews, the Interagency Staff Team is presenting this report to the CityFinance Committee on March 21.

*Next Steps:* The City Finance Committee will make the final recommendation for the Common Council’s consideration. The schedule for the review of the State Street Campus Garage Mixed Use Project responses is as follows:

RFP submissions due:	July 19, 2021
City staff review:	Aug 2021 – Feb 2022
Finance Committee review and recommendations:	Oct 11, 2021/Mar 21, 2022
Council action on developer selection:	Apr 19, 2022
Developer Negotiation:	Apr-Dec 2022
Council action on development agreement:	Jan – Mar 2023
Execution of development agreement:	Mar 2023

## **Key Issues for Consideration**

The City Interagency Staff Team has focused its work on assessing overall project risk within the context of the value to be derived by the City from the State Street Campus Garage Mixed Use development. In large measure, four key areas contribute to a successful execution of the project: the design; affordable housing; transportation/parking garage; and the financial terms.

*Design:* The City of Madison is expecting a high-quality mixed-use project that is compatible with surrounding buildings and uses that meets the requirements of adopted City plans. The project should create an engaging and safe pedestrian environment along all street frontages and provide a mix of units.

*Affordable Housing:* During the development of the State Street Campus Garage Mixed Use Project RFP, members of the Common Council indicated a desire to ensure that a portion of the housing units remain affordable to lower income residents. Because the most likely tenants of the proposed developments would be students, traditional measures of affordability and subsidy tools were not applicable. Rather, the RFP suggests that applicant's partner with the UW Office of Financial Aid to identify students eligible for financial aid to be referred into units that would have below market rate rents.

*Transportation/Parking Garage:* In crafting the State Street Campus Garage Mixed Use Project RFP, the City identified the need to reconstruct the aging parking structure on Lake Street and the opportunity to include an off-street location for a permanent intercity bus terminal. The bus terminal will have a climate controlled waiting area and the ability to park three to five buses.

*Financial Terms:* The City of Madison will invest public dollars from the Parking Utility reserves to construct the parking structure and intercity bus terminal. The City Interagency Staff 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 purchase of the air rights is an important success factor for the project.

## **City Interagency Staff Team Analyses**

### *Design*

#### CA Ventures

The proposed design has four driveways along Lake Street creating potential pedestrian/vehicle conflicts. The proposed structure would comply with adopted City plans. The design screens the structured parking with an applied semi see through material. The design minimizes the need for internal windowless bedrooms. The design does not provide balconies to the individual units. Instead relying on a shared courtyard.

#### CRG

The proposed structure would comply with adopted City plans. The design screens the structured parking with residential units along the Lake Street frontage. The design minimizes the need for internal windowless bedrooms. The design does not provide balconies to the individual units. Instead relying on a shared courtyard.

#### Mortenson Development

The proposed design creates a good pedestrian environment along Lake Street. The proposed structure would comply with adopted City plans. The design screens the structured parking with residential units along the Lake Street frontage. The design minimizes the need for internal windowless bedrooms.

### Smith Gilbane

The proposed structure would comply with adopted City plans. The design screens the structured parking with an applied semi see through material. The design creates a significant number of internal windowless bedrooms. The design does not provide balconies to the individual units. Instead relying on a shared courtyard.

### *Affordable Housing*

All teams were responsive to the affordable housing requirement of the RFP. In regards to number of affordable units CA Ventures, CRG, and Smith Gilbane offered similar numbers of affordable units while Mortenson offered significantly more. However, it should be noted that all teams were open to negotiation on this point and were willing to offer more affordability for a reduction in air rights payment. They were all open to having more affordable units at a higher rent or fewer affordable units at a lower rent.

### *Transportation/Parking Garage*

Key factors in evaluating the proposals include parking structure costs, parking dimensions and circulation, intercity bus circulation, and vehicle/pedestrian interaction on Lake Street. Each factor is briefly described below.

Parking Structure Costs – the proposers vary considerably in their estimated cost per stall, ranging from roughly \$43,000/stall to over \$72,000/stall. Because of this large range, it is easy for this characteristic to overshadow other evaluation factors. With recent JDS experience, we have found that the City will pay for the full cost of the parking structure regardless of the developer’s initial estimate. Some of the proposers have parking stall costs that may be optimistic, while others may be too conservative. Yet because the proposer’s cost is not guaranteed, the City will pay the actual cost of the structure, regardless of the initial estimate. Therefore, staff recommends not placing too much emphasis in the initial estimates.

Parking Dimensions and Circulation – Some proposers provided substandard parking aisle and stall dimensions. Smaller aisle and stall dimensions may be appropriate for repeat users such as apartment and condo dwellers. However, for unfamiliar visitors, or event parking with large entering and exiting volumes, standard dimensions and simple circulation patterns are preferred.

Intercity Bus Circulation and Storage – Adequate circulation of inter-city buses that does not complicate parking garage entering and exiting is important. The use of Hawthorne Court, while narrow, often is needed to separate vehicle flows.

Vehicle and Pedestrian Interaction on Lake Street – Multiple vehicle entrances on Lake Street add confusion for drivers and increase the opportunities for pedestrian/vehicle conflicts. Having separate entrances/exits for above and below ground parking adds complexity and increases pedestrian exposure.

Modifications will be requested from any selected developer, all of the development proposals will require some modifications.

### CA Ventures

CA Ventures has the lowest cost per stall, but staff feel it does not reflect the actual cost experienced by the City and the stated cost did not include soft costs. Their layout uses substandard dimensions, with aisles 18% less than standard/desirable. It has four stalls for bus parking and the bus routing is straightforward, though it does not use Hawthorne Court. The four driveways on Lake Street could increase driver confusion. CA Ventures did provide an alternate layout using Hawthorne Court for underground parking access. This entrance/exit could be confusing for unfamiliar drivers and would require two-way traffic on the narrow Hawthorne Court. This proposal is least preferred by Transportation staff because of the substandard dimensions and multiple entrances/exits on Lake Street.

### CRG

For parking structure costs, CRG has a low cost per stall. Parking aisle and stall dimensions are slightly below standard, but operational. The bus circulation operates well and uses Hawthorne Court. There is some concern regarding buses in the first stall backing onto the sidewalk. There are only three driveways facing Lake Street decreasing movement complexity and pedestrian conflicts.

### Mortenson Development (Theory)

Mortenson (Theory) had the highest cost per stall, yet may be most representative of the City's actual cost in this inflationary environment. The City will pay for the full cost of the parking structure, independent of developer proposal estimates. Mortenson's concept provides standard aisle and stall widths, with a straightforward two-way traffic flow. The bus routing takes advantage of Hawthorne Court, reducing the number of driveways fronting Lake Street. Because this proposal addresses key transportation concerns, it is generally preferred by Transportation staff.

### Smith Gilbane

For parking structure costs, Smith Gilbane has second highest cost per stall. Parking aisle and stall dimensions are standard, and the parking flow is straightforward. There are two parking entrances on Lake Street, one for above ground parking and one for below ground parking, which could cause some confusion for drivers. The bus circulation uses Hawthorne Court and is straightforward.

	CA Ventures	CRG	Mortenson	Smith Gilbane
<b>Total Public Parking Stalls</b>	510	510	510	510
<b>Cost Per Stall</b>	\$43,137*	\$44,117	\$72,346	\$61,149
<b>Total Private Parking Stalls</b>	47	15	80	74
<b>Number of Bus Stalls</b>	4	4	3	3
<b>Use Hawthorne Ct for Circulation</b>	No	Yes	Yes	Yes

*\*Hard costs only, soft cost were excluded.*

## *Financial Terms*

The table on Page 9 compares the four projects on a financial basis. The City required that the developers make proposals on the purchase of the developable air rights above the parking structure. All four developers complied with this requirement.

### CA Ventures

The proposal by CA Ventures includes the highest payment to the City for air rights and the highest estimated incremental tax revenue do the very high number of beds to be constructed. The estimated cost to the City is the lowest of the group due to the compact and efficient layout of the parking; however, this cost estimate does not include any soft costs.

### CRG

CRG is on the higher end of the spectrum in regards to building size and number of beds, the project is able to pay the City of Madison a large amount for the air rights and is estimated to produce a large amount of incremental tax revenue. CRG's proposal has one of the lowest estimated costs to the City of Madison. This is in line with the team's overall estimate of a lower cost per square foot to develop the entire project.

### Mortenson Development

As the proposed development from Mortenson is on the higher end of the spectrum in regards to building size and number of beds, the project is able to pay the City of Madison a large amount for the air rights and is estimated to produce a large amount of incremental tax revenue. However, the project has the highest cost to the City of Madison. This is likely due the design of the parking podium, which includes larger parking spaces, wider drive isles, wrapping the parking in housing units, which reduces the size of the parking floor plates, and pushing a portion of the parking underground.

### Smith Gilbane

Smith Gilbane is proposing the lowest number of beds resulting in the lowest estimated incremental tax revenue and value of the air rights. The project is physically the smallest while having the highest cost per square foot to construct. This is matched with a middle of the road estimate for the cost to City for the Parking Podium.

### Comparison

The economics driving all of the proposals are the same, in that delivering more beds at a lower cost per bed will drive more net income resulting in more economic value. That value translates to a higher payment to the City for the air rights and a higher property tax assessment resulting in a larger amount of tax increment that can be reinvested in the construction of the parking podium. In regards to the economic value created, the project exist on a spectrum with CA Ventures delivering the most beds at a relatively low cost and Smith Gilbane delivering relatively few beds at a higher cost with Mortenson and CRG somewhere in between.

The other side of the equation is how much cost will the City incur to construct the bus terminal, public parking, and the base for the air rights to sit upon. Again, the proposals exist on a spectrum with CA Ventures and CRG costing the City relatively little at roughly \$22million each and Mortenson costing almost twice as much with Smith Gilbane in the middle. This spread is likely driven largely by the underlying design of the structure. For example, CA Ventures is proposing to have all of the parking above ground on large trays that cover the entire floorplate, while Mortenson is proposing a mix of above and below ground parking with the trays wrapped in housing units on the street facing sides.

On purely financial terms, CA Ventures and CRG deliver a net positive return to the City through their projects



while Mortenson and Smith Gilbane would require over \$10 million dollars of additional City funding to be constructed.

Comparison of Financial Terms Proposed to the City

	CA Ventures	CRG	Mortenson	Smith Gilbane
<b>Square Footage</b>	515,000	516,800	544,795	409,631
<b>Cost</b>	\$102.8 million	\$80 million	\$97.3 million	\$69.8 million
Cost per SqFt	\$200	\$155	\$179	\$170
<b>Total Residential Beds</b>	259	235	263	157
<b>Affordable Beds</b>	64	20	100	52
<b>Cost to City</b>	\$22 million*	\$22.5 million	\$42.7 million	\$33.2 million
<b>Estimated TIF Available</b>	\$12.4 million	\$11.6 million	\$11 million	\$7.3 million
<b>Air Rights Purchase</b>	\$25 million	\$20 million	\$18 million**	\$14.1 million
<b>Net Cost to City</b>	-\$15.4 million	-\$9.1 million	\$13.7 million	\$11.8 million

*\*Hard costs only, soft cost were excluded.*

*\*\*Increased payment from \$6.2 million to \$18 million in supplemental materials submitted during review process.*

**Recommendation for the Finance Committee’s Consideration**

The City Interagency Staff Team believes the City could select any of the four development teams 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 staff 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 State Street Campus Garage Mixed-Use Project.

The proposals can be summarized as:

- CA Ventures includes the highest payment to the City for air rights and the highest estimated incremental tax revenue due the very high number of beds to be constructed. The estimated cost to the City is the lowest of the group due to the compact and efficient layout of the parking, but the estimate does not include soft costs. The parking dimensions are substandard and the bus circulation may be confusing for pedestrians.
- CRG is on the higher end of the spectrum in regards to building size and number of beds; the project is able to pay the City of Madison a large amount for the air rights and is estimated to produce a large amount of incremental tax revenue. The proposed parking structure uses slightly substandard dimensions for parking stalls and aisle widths. The overall estimated cost per square foot to develop the project is the lowest of the teams.
- Mortenson has proposed a development on the higher end of the spectrum in regards to building size and number of beds with a straightforward parking structure and bus terminal. The proposed project is able to pay a large amount for air rights and is estimated to produce a large amount of incremental tax revenue. The overall estimated cost per square foot to develop the project is the highest of the teams.

- Smith Gilbane is proposing the lowest number of beds resulting in the lowest estimated incremental tax revenue and value of the air rights. The project is physically the smallest while having the highest cost per square foot to construct. This is matched with a middle of the road estimate for the cost to City for the Parking Podium.

After considering all aspects of the project, the City Interagency Staff Team believes the best choice to develop the State Street Campus Garage air rights is Mortenson. The Mortenson Team balances the delivery of affordable student housing, good urban design, and a very functional public parking structure and bus terminal.

The City Interagency Staff Team recommends that the Finance Committee and Common Council select Mortenson as the State Street Campus Garage air-rights developer and proceed to negotiate a development agreement. The Staff Team also recommends that to the extent a development agreement cannot be successfully negotiated between the parties, that the City further consider CRG, Smith Gilbane and CA Ventures to develop the project.