



Department of Planning & Community & Economic Development

Economic Development Division

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Office of Real Estate Services
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MEMORANDUM

DATE: September 4, 2019

TO: Mayor, Common Council, and Committee Members

FROM: Economic Development Division Staff

RE: **Lease with Art + Literature Lab (ALL) for South Livingston Street Parking Garage Commercial Space and \$500,000 Grant through Madison Capitol Revolving Fund (MCRF) for tenant build-out**

A resolution will be introduced at the September 3 Common Council Meeting with the following referral schedule:

- September 3 – Common Council intro
- September 9 – Finance Committee action
- September 11 – Madison Arts Commission action
- September 11 – Transportation Commission action
- September 12 – Community Development Authority action
- September 17 – Common Council Action

South Livingston Street Garage Background. A 2014 analysis projected a growing demand for parking in the Capitol East District due to projected housing and commercial development. The redevelopment project on the 800 South Block of East Washington Avenue (the “Spark” building owned by American Family Insurance and including StartingBlock Madison and the “Gebhardt Building” including the 2,500 person capacity entertainment venue owned by Frank Productions) required parking to meet the needs of its anchor employment tenants. The City constructed the 650 stall parking garage to accommodate this growth, to implement the City’s adopted plans for this area, and to serve the needs of community destinations in the district such as Breese Stevens Field and Central Park.

Table 1- South Livingston Street Garage Sources of Funds

Cost (approximate)	Source of Funds
\$13 million	TIF supported GO
\$1 million	Land Acquisition Fund
\$4 million	Parking Utility
\$18 million	Total

The South Livingston Street Garage was constructed with a 2-story 9,910 square foot commercial structure facing East Main Street to activate the street.

The project was completed in the fall of 2018 and opened to the public on Monday, December 3, 2018. The garage structure supports the daytime parking needs of the new Spark and Gebhardt developments, hourly and daily visitor parking, and parking for local establishments and events.

ALL Background. Arts + Literature Laboratory (ALL) is a non-profit arts organization that nurtures innovation and the artistic growth of contemporary visual, literary, and performing artists; connects artists, resources and community; and fuels a passion for arts and literature. ALL offers a rich variety of educational programs and cultural outreach projects, in addition to regularly showcasing the work of both established and emerging artists and writers.

ALL facilitates an open dialogue among artists, writers, and the community; strives to expand upon the artistic programming currently available in the Madison area; and attempts to meet the changing needs of the community. For literary artists, ALL offers readings, workshops and discussion groups and works to foster a sense of community among Madison writers. For visual and performing artists, ALL provides exhibition and educational opportunities that are necessary to both professionals and students for continued artistic growth. The new space will allow ALL to expand and provide dedicated education studios, classrooms, and permanently affordable private and shared studios for local artists on the second floor, and public exhibition, gallery and performance space on the first floor. ALL will provide new activation at street level with an arts, creative, and culture focus.

RFP Background. A Request for Proposals (RFP) was issued in June 2017 for interest in leasing or purchasing the South Livingston Street Garage commercial space for “innovative proposals especially those with an arts focus and without a heavy emphasis on alcohol”. The space is built out to grey-box condition with the expectation that tenant/owner will complete build-out (no City budget was included for tenant build-out). The commercial building construction cost was approximately \$1.2 million (using TID #36), as part of the Livingston Street Garage project. TID #36 will likely recover the full cost of this construction regardless of the future of the space. The city desired to sell or long-term lease the commercial space to a single entity with all responsibility for maintenance to be assumed by the private party. The City received three proposals; ALL received greatest staff support because ALL was the only proposal with a use that was arts-based and without an alcohol focus and that provided activation of the area. Council authorized negotiations with ALL through Legistar #49616 and #52527.

MCRF Background. The Madison Capital Revolving Fund (MCRF) program is designed to encourage job creation, diverse housing options, and the redevelopment of blighted and underutilized properties consistent with a strategy for neighborhood and downtown revitalization. Program objectives and loan criteria have not been updated since 1987 and the program has been minimally used in the past decade. The minimum loan amount is \$50,000 and the maximum is \$250,000 per program guidelines. The program has approximately \$500,000 currently available; the \$500,000 grant to ALL will draw down this balance.

The evaluation of economic development and commercial rehabilitation projects may consider the extent the project advances specific public objectives such as the City economic development strategy for commercial district revitalization and job creation matching the skills and training of the

resident labor force.

This program is administered and loan decisions are managed by the Community Development Authority (CDA) and the Common Council. The City is seeking an exception to standard MCRF requirements from the CDA for this project.

The resolution (Legistar File 57356, Resolution ...) is for the Lease Agreement with ALL for the space:

- The Property. Tenant agrees to lease a commercial space in an as-is condition of approximately 9,910 gross square feet.
- Base Rent. "Base rent" shall be \$58,800.00 per year during the Base Lease Term with no rent payable for the first six (6) months following commencement of lease. Base Rent shall increase as shown on the rent schedule.
- Lease Term: The initial lease term shall be twenty (20) years, with options for four five (5) year renewals.
- Tenant Improvements: The Tenant must submit designs and construction bids to the City of Madison for approval before any construction work can begin.
- Grant. The City agrees to grant the Tenant \$500,000 from the Madison Capital Revolving Fund for Tenant build-out.
- Closing. As a condition of closing the Tenant must have designs and construction bids for Tenant Improvements approved by the City of Madison and demonstrate fundraising or financing sufficient to complete Tenant Improvements.
- Tenant Responsibilities. The Tenant shall be responsible for all maintenance and janitorial services within the Premises.

The resolution also includes a term sheet outlining a \$500,000 grant to ALL through the Madison Capital Revolving Loan Fund to assist them with their tenant build-out. Lease payments will be used to repay the grant to the MCRF over time. Once the grant is repaid, the lease payments will start flowing directly back to the City's General Fund.

- The Project. Borrower agrees to complete tenant build-out to create an arts center, gallery and exhibition space, performance space, literary arts space, youth and adult education programs, and studio space within the Leased Property
- Form of Assistance. MCRF Grant (\$500,000) shall be disbursed upon submission of documentation showing eligible expenditures of funds.
- Method of Payment and Guaranty. The Borrower will execute a separate Lease with the City of Madison to occupy the Property. The City shall use the payments received from the Lease to repay the MCRF Grant until such time as the MCRF Grant is repaid in full. This will likely take between 6-7 years.
- Security. The City will secure repayment of the MCRF Grant with the Borrower's Lease. Should the Borrower's Lease with the City terminate, the City will utilize lease payments from a new tenant to continue repayment of the MCRF Grant.
- Project Completion. Borrower shall guarantee that the construction of the first phase of the Project shall be completed six (6) months from the execution of the Lease. Project completion shall be evidenced by the issuance of a certificates of occupancy for the Project, as further outlined in the Lease.

Why provide a \$500,000 Grant?

- Exceptions have been made previously to MCRF guidelines to provide support to businesses and organizations that promote the goals of the City. Tribe 9 Foods is a recent example.
- Build-out of the commercial space will add value to a city-owned asset. The city ultimately benefits.
- MCRF will be replenished over time through annual rent payments and will be able to continue to provide support for Façade Grants and other worthy projects. The fact that ALL will be making lease payments to the City is a unique aspect of this project that makes the provision of a grant rather than a loan possible when compared with transactions involving private property.
- Data show evidence that arts and culture contribute value to economies and communities. The arts contributed \$763.6 billion to the U.S. economy in 2015 or 4.2 percent of GDP. The arts added four times more to the U.S. economy than the agricultural sector (Source: National Endowment for the Arts).
- This resolution will ensure that ALL can locate within this space. The City will be supporting the arts community and activating Main Street through this transaction.