

MEMORANDUM

TO: Garver Feed Mill Committee

FROM: Dan Rolfs

DATE: Feb 19, 2015

CC: Garver Feed Mill Committee

SUBJECT: Garver Feed Mill Proposals Financial Review

This memo outlines Staff's financial analysis of each Garver proposal. Each proposal has three sections: a financial analysis, areas of concern, and advantages. In addition, Staff has estimated the amount of parkland that must be purchased to replace the DNR deed restricted parkland for each proposal

Parkland replacement costs were estimated at between approximately \$40,000 and \$100,000 per acre of replacement parkland. The variance between these figures is due to location (within the boundaries of Madison or yet to be annexed), whether or not the property lies within the Urban Service Area boundaries of the City, the presence or lack thereof of utilities, and other factors.

Alexander

Financial Analysis

1. The project consists of two banquet / exhibition halls of approximately 13,000 SF in size and additional space for a total of approximately 40,000 SF of event space.
2. The project is projected to generate \$5.5 million in gross revenue. In comparison, Monona Terrace has one 13,000 SF banquet hall, not including the exhibition hall, that generates \$2.6 million in gross revenue on an annual basis.
3. The rehabilitation costs of \$268/SF of the Garver building appear appropriate.
4. Historically, landlords get 30-40% of gross receipts for food and beverage. The proposal indicates the landlord would receive approximately 25% of gross receipts. This will provide Food Fight with a higher level of return than other venue spaces and could be a source of additional revenue for the project if projected occupancy levels are not achieved.
5. The breakeven point for gross income is 3% below the projected amount; i.e. if revenue drops 3%, the project may not be able to cover the estimated first mortgage payment and the annual \$29,000 payment to the City.
6. The estimated loan-to-value (LTV) ratio is approximately 74%. This is within market parameters. The projected cash flow attracts \$10 million of debt at an acceptable debt coverage ratio (DCR) of 1.46.
7. The projected tax payments of \$200,000 appear to be under calculated. Based upon the estimated project value of \$11 million, the estimated property tax payments would be approximately \$270,000. If the property tax payments end up as projected, this would consume most of the estimated financial cushion.
8. If the WI State Historic Tax Credits are not available due to the Governor's proposed budget, the project would fill this financing gap with the following sources:

Historic Tax Credit Gap Funding	
Community Development Investment Grant (WEDC)	\$ 500,000
Idle Industrial Site Redevelopment (WEDC)	\$ 500,000
New Market Tax Credits	\$ 2,340,000
Total	\$ 3,340,000

Areas of Concern

- A. There is a need to provide adequate parking and to ensure that both Olbrich Gardens and the event facility have adequate parking.
- B. Staff has concern regarding the impacts upon the surrounding neighborhood when large events occur.
- C. There are no hotel rooms within two miles of the project.
- D. The Garver building is not visible from any major roadway which could cause difficulty in finding the proposed event space.
- E. Staff has concern regarding the availability of New Market Tax Credits to fund the gap in financing, should State of WI Historic Tax Credits be unavailable.

Advantages

- A. Alexander proposes to pay back the City's \$1,825,000 over the 99 year lease at 1% interest per year. This would result in annual payments of \$29,000 to the City. Staff has questions about the long-term viability of these payments, as the building owner (and owner of the ground lease) and use may change over time.
- B. The project utilizes the five acres of the Garver parcel. This would cost an estimated \$200,000 to \$500,000 to purchase replacement parkland to relocate the existing WDNR deed restriction.
- C. The project provides for a complete rehabilitation of the Garver building.

Alternative Continuum of Care (ACC)

Financial Analysis

1. The project consists of 148 senior housing units, including 31 affordable units. Of these 148 units, 20 are for memory care, 32 are assisted living, and the remaining 96 are independent living.
2. The proposed costs for the rehabilitation of the Garver building (\$251/SF) and new construction (\$118/SF) appear appropriate.
3. The rental rates for the apartment units appear to be in line with current market rental rates. The project’s average rental rates range from \$678/month (affordable) to \$1,320/month (market rate). Staff has a copy of the market study, which indicates that sufficient demand exists to support the proposed project.
4. ACC will accept Medicare, to the extent that residents have payments from the program for the unit types on site.
5. The proposed loan-to-value (LTV) ratio is approximately 75%. This is within current market parameters. It should be noted that LTV is based on the value at completion, plus the tax credit equity that would be generated by the project.
6. The projected cash flow attracts \$17.5 million of debt with a debt coverage ratio (DCR) of 1.17.
7. ACC has provided Staff with the Executive Summary of the market study they conducted for the Garver project.
8. If the WI State Historic Tax Credits are not available due to the Governor’s proposed budget, ACC is proposing the following funding formula to make up the estimated \$3,250,000 gap in their sources of funding:

Historic Tax Credit Gap Funding	
WEDC Vacant Industrial Site grant	\$ 500,000
HOME / CDBG Loan / Grant	\$ 300,000
Additional Developer Equity	\$ 850,000
Usage Fee for Community Space	\$ 250,000
OBG Maintenance Facility Funds (Additional City funds)	\$ 500,000
City GAP Loan	\$ 850,000
Total	\$ 3,250,000

a. *NOTE: The proposed scenario includes \$1,350,000 of additional City funding highlighted in grey.*

Areas of Concern

- A. Is there a market for the larger units proposed in Garver (approximately 1,800 SF)?

Advantages

- A. The project utilizes the five acres of the Garver parcel. This would cost an estimated \$200,000 to \$500,000 to purchase replacement parkland to relocate the existing WDNR deed restriction.
- B. Being located adjacent to Olbrich Gardens may help drive occupancy, as Olbrich is an attractive destination for seniors.
- C. The project provides for a complete rehabilitation of the Garver building.
- D. ACC has experience owning and operating senior housing projects in the Madison area.

Baum

Financial Analysis

1. The project consists of 38,700 SF of commercial food production space, 17,800 SF of office, 3,200 SF of event space, and 1,300 SF of café space. In addition, there are up to 50 micro-lodges proposed for the North Plat area.
2. The proposed costs for the rehabilitation of the Garver building (\$241/SF) appear appropriate. Staff has concerns regarding the proposed construction costs for the new micro-lodges (\$60k/unit or \$314/SF), given the infrastructure requirements that each micro-lodge will require.
3. The proposed rental rate for food production space will be between \$10-\$12/SF. The Baum team has described Garver as “premium space” that will command higher rents. For comparison, the Madison Enterprise Center charges \$9.50-\$10/SF for commercial food production space.
4. Office space would rent for \$14/SF, the café / retail space would rent for \$20/SF, and the event space would rent for \$24/SF.
5. The Baum proposal appears to have strong interest to lease space in the Garver building. However, Staff is unaware of any executed leases with prospective tenants.
6. The proposed loan-to-value (LTV) ratio is 70%. This is within current market parameters. The projected debt coverage ratio (DCR) is a conservative 1.8.
7. If construction of the micro-lodges is phased, what is the impact upon the operating budget and the project’s ability to repay its debt?
8. If the WI State Historic Tax Credits are not available due to the Governor’s proposed budget, Baum proposes to fill the gap with a mix of funds from:
 - a. U.S. Economic Development Administration’s *Investing in Manufacturing Communities Partnership* program;
 - b. The State of Wisconsin CDI program.

Areas of Concern

- A. The “micro-lodge” concept is untested. This creates additional risk. Given the climate in Wisconsin, the location of the micro-lodges, the visibility of the site and other factors, Staff is concerned that the micro-lodges may not generate the projected revenue.
- B. The rental rate for the food production space (\$10-\$12/SF) may not be achieved in the Garver building. If rental rates fall, the Garver building may be unable to make its debt service payments.
- C. Based upon the estimated project value, the estimated property tax payments starting at \$155,000 appear to be under calculated. Based upon the numbers provided, Staff estimates that property taxes will be approximately \$200,000.
- D. If the City is responsible for the installation and maintenance of the orchards, grape arbors, paths, bridge across the Starkweather Creek, etc as shown on the design, it should be noted that the City budget for 2015 and the five year Capital Improvement Program do not have any funds identified for these projects in the North Plat.
- E. The project will require an estimated 8-9 acres of replacement parkland depending upon the requirements of the WDNR. This would cost between \$320,000 and \$900,000 to purchase replacement parkland to relocate the existing WDNR deed restriction.
- F. The site has limited visibility which could adversely impact the ability to attract tenants to the Garver building and micro-lodge guests.

- G. Staff has concerns regarding the Baum proposal's sources to make up for the potential lack of State of WI Historic Tax Credits.

Advantages

- A. Provides for a complete rehabilitation of the Garver building.
- B. Proximity to Olbrich Gardens may help drive occupancy in the micro-lodges due to use by wedding parties.
- C. Baum has indicated that they or their tenants will install and maintain the proposed orchard and vineyard on the site.
- D. Potential lessors of the food production space may benefit from being in close proximity to one another due to the potential for shared equipment and personnel and enhanced industry contacts,

Ogden

Financial Analysis

1. The project consists of 152 rental housing units, with 20% of those units being affordable and the balance being market rate.
2. The project would include 108 covered parking stalls (under the proposed newly constructed buildings) and 108 surface stalls, for a total of 236 parking stalls.
3. The proposed costs for the rehabilitation of the Garver building are not separated out in the revised project budget. The overall estimated cost per SF of construction is \$136/SF.
4. The rental rates for the apartment units appear to be in line with current market rents. The projects average rental rates range from \$712/month (affordable) to \$1,450/month (market).
5. The projected cash flow attracts \$18,750,000 of debt with a DCR of 1.24. The DCR is within current market parameters for this type of project.
6. The proposed LTV is approximately 79.79%. This is within current market parameters for the type of project proposed.

Areas of Concern

- A. The proposal does not restore the Garver building. Staff is concerned that by not restoring the Garver building, the project will not be eligible for the \$2,150,000 in historic tax credits that are listed in the Ogden Sources and Uses of Funds table.
- B. The proposal only identifies impact fees for 121 of the 152 rental units. All units would be required to pay impact fees. Based upon their estimated impact fee rates, this would increase development costs by \$76,353.

Advantages

- A. The rental housing market is currently very strong. A strong rental market should help ensure a financially viable final product. Current vacancy rates in the City of Madison for market rate rental housing are 3%, and current vacancy rates for affordable rental housing in the City of Madison are approximately 5%. This indicates a strong rental housing market.
- B. Ogden has extensive experience in building and managing rental housing.
- C. The project utilizes the five acres of the Garver parcel. This would cost an estimated \$200,000 to \$500,000 to purchase replacement parkland to relocate the existing WDNR deed restrictions.