



Staff Report to Common Council on the 800 Block Project (The “Spark,” The “Cosmos,” and the “Cap East Garage”)

*Prepared By Economic Development Division Staff
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Purpose and Overview

The purpose of this report is to update the Madison Common Council and other stakeholders on the status, transaction structure, and next steps associated with the “800 Block Project.” This report is intended to accompany the Council Resolution (Legistar #44762) to approve the Development Agreement between the City, Gebhardt Development, and American Family Insurance. The Development Agreement lays out the terms of agreements necessary for the 800 Block Project to move forward. The project, located on the 800 South Block of East Washington Avenue and Main Street, consists of three separate buildings:

- **The “Spark”** project would be developed by American Family Insurance and include StartingBlock Madison as well as office space for American Family Insurance
- **The “Cosmos”** project would be built by Gebhardt Development and would include an entertainment venue operated by Frank Productions and office space.
- **The “Cap East Garage”** would be built and operated by the Madison Parking Utility and include approximately 600 parking stalls, as well as some commercial space.

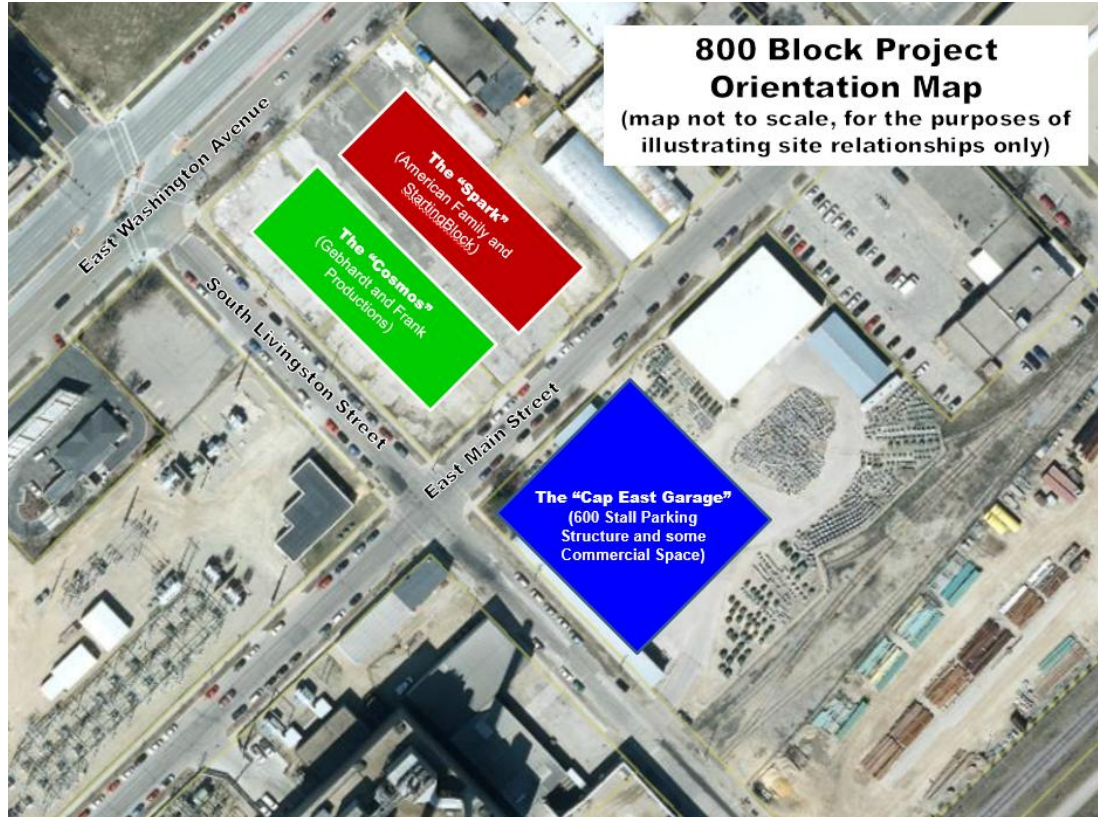
Background on the Capitol East District

For over ten years, the City of Madison has steered an ongoing initiative focused on repositioning the Capitol East District (commercial corridor extending from the Capitol Square to First Street). In 2008, the Common Council adopted the *Capitol Gateway Corridor Plan*, which articulated a long-range vision to redevelop the corridor as a compact, transit-oriented district with innovation-driven businesses, urban residences, and neighborhood amenities. Care was taken in the development of the Plan to protect and enhance the character of existing residential neighborhoods and mixed-use corridors on either side of the District. Since the plan was adopted, the City has worked closely with neighborhood groups, the development community, property owners, and businesses to implement the vision. As a result, the Capitol East District is experiencing a remarkable transformation with major redevelopment projects being planned and built, jobs being created, the tax base increasing, and housing added to the City.

Based on the City’s adopted plans and current growth trajectory, the Capitol East District will add over 2,000 apartment units and approximately 2.5 million square feet of commercial space over the next two decades. Even with aggressive efforts to encourage alternative transportation, this growth will bring increasing demand for parking. The City and the development community will need strategic parking solutions in the District that facilitate continued development, while moving toward more efficient and consolidated parking systems, as well as a more multi-modal future.

The 800 Block Project

In 2010, the City invested \$5.8 million to purchase 10-acres that was the former Don Miller car dealership. The City partnered with Gebhardt Development to undertake the “Constellation” project in 2014 and the “Galaxy” project in 2015. Together, these two buildings include 500 apartments, office tenants, new restaurants, and a full service grocery store. In summer of 2015, Gebhardt Development was selected through an RFP process to work with the City again to redevelop the final parcel from the 2010 acquisition. That selection led to a partnership between Gebhardt, American Family Insurance, StartingBlock Madison, and Frank Productions to redevelop the site, as well as an opportunity to work with the City and MGE to provide parking for the site across the street on MGE-owned property. **The City is now calling this the “800 Block Project” which consists of three buildings.**



1) The “Spark” Building (American Family Insurance & StartingBlock Madison)

The Spark will be constructed and owned by American Family Insurance. This building will include StartingBlock Madison, which is a planned collaborative entrepreneurial center that is bringing together a variety of partners to create a multi-use hub for entrepreneurship, education, and innovation. The City has committed to provide StartingBlock a \$1.5 million grant in the 2016 Capital Budget. The building also will include office space for American Family Insurance and/or be leased by American Family to other office users. American Family Insurance is a Madison-based Fortune 500 Insurance Company headquartered on the far east side.

Spark Building Summary:

- **Owner Developer:** American Family Insurance
- **Primary Uses:** American Family Insurance office space and StartingBlock Madison
- **Size:** ~200,000 Square Feet
- **Approximate Total Investment:** ~\$40,000,000
- **Source of Financing:** American Family Insurance will finance the building. The City has committed a \$1.5 million grant to StartingBlock Madison.

2) The Cosmos Building (Gebhardt Development: Employment and Entertainment Venue)

The Cosmos Project will be built by Gebhardt Development. It will include a music venue owned and operated by Frank Productions and office space leased by Gebhardt Development to area employers.

Cosmos Project Summary:

- **Owner Developer:** Gebhardt Development
- **Uses:** Music venue and employment
- **Size:** 60,000 Square Feet of office space plus 2,500-person capacity music venue
- **Approximate Total Investment:** \$20,000,000
- **Source of Financing:** Privately financed by Gebhardt Development

3) The “Cap East Garage”

The City’s adopted 2016 and 2017 Capital Budgets include \$13 million to build a parking structure in the Capitol East District. In 2015, Madison Gas and Electric (MGE) approached the City about the possibility of selling their property located at E. Main and S. Livingston as a site for the proposed Capitol East Parking Structure. The City has engaged an Engineering firm to move forward with designing a 600-stall garage, with some commercial space along

East Main Street. The Parking Utility will own and operate the facility. During daytime work hours on Monday through Friday, up to 550 of the stalls will be leased to American Family Insurance and Gebhardt Development for the employees within the Spark and Cosmos Buildings. The remaining stalls will be available for public use, and the entire structure will be publically available on nights and weekends.

Cap East Garage Summary

- **Owner Developer:** City of Madison Parking Utility
- **Uses:** Parking and a small commercial space
- **Size:** 600 Parking Stalls and ~5,000 square feet of commercial space
- **Approximate Total Investment:** \$16,000,000
- **Source of Financing:** The Parking Garage will use three sources of financing
 - Tax Increment District #36 TIF-supported borrowing: \$7,000,000
 - City General Fund Supported General Obligation Borrowing: \$5,000,000
 - Parking Utility Reserves: \$3,000,000
 - Land acquisition fund: \$1,000,000

Summary of Key Components of the Development Agreement

The individual elements of the 800 Block Project (again, the “Spark,” the “Cosmos,” and the “Cap East Garage”) are all mutually dependent. To be implemented, the City and its partners need a shared understanding of the path forward and joint commitment to a series of agreements and transactions necessary for the project to advance. The purpose of the Development Agreement is to bind the projects together, articulate the financial structure, protect the interests of the City and the other parties, and express the commitments and responsibilities of each partner in the agreement.

The Development Agreement is the guiding document for the project. The following is intended to summarize and provide additional background on key components of the Development Agreement.

1: Purchase of MGE property for Parking Structure

City Staff is working with MGE to finalize an agreement to purchase a parcel at the intersection of East Main Street and South Livingston Street for the Parking Structure. The City and MGE have agreed to a purchase price of \$16 per square foot. The parcel will be approximately 62,000 square feet, resulting in a total land cost of approximately \$1 million. The source of funding for the parcel will be the City’s General Land Acquisition Fund. The City is currently working with MGE to survey the property and delineate the precise boundaries of the parcel that the City will purchase. MGE has completed phase 1 and phase 2 environmental assessments of the site. The assessments demonstrated some contamination that is generally consistent with sites throughout the isthmus. The phase 2 assessment did not identify any PCB contamination. However, given the site’s historic use

for storing electrical transformers, the City Staff would like greater certainty that there is no PCB contamination. As such, the City is working with MGE to complete additional testing. Remediation of the site will include “capping” the site with the parking structure and landfilling soil excavated during construction. MGE has committed to pay for a portion of these costs. If the final cost estimate for remediation exceeds \$500,000, the city will have the opportunity to walk away from the property.

Negotiations are ongoing with MGE, and any issues related to that negotiation will be presented to BOE and any other committees as needed in advance of final approval.

2: Sale of City-Owned Property to Gebhardt Development

The City currently owns the property on East Washington Avenue that is slated for the Spark and Cosmos project. Gebhardt Development was selected in 2015 as the master developer of a project on this property. Under the terms of the Development Agreement, the City will sell the 87,471 square foot site to Gebhardt Development for \$18 per square foot for a total price of \$1,574,478. The proceeds from this sale will be placed into an escrow account. This escrow account will then be used to provide the \$1.5 million grant to StartingBlock Madison that was identified in the City’s 2016 Capital Budget. The City will sell the property to Gebhardt Development. Gebhardt Development and American Family Insurance will then independently structure an agreement for Gebhardt to sell a portion of the property to American Family Insurance.

3: Adjustment Parking Structure PILOT

The Parking Utility’s existing downtown parking structures provide the City a Payment in Lieu of Taxes (PILOT) to offset the revenues the City could earn from these sites if they were privately developed. This PILOT payment is based on the assessed value of the structures. The Downtown structures are within high-density areas where parking is scarce and where they can command high rates for long-term and short-term parking. In contrast, the proposed Capitol East Garage will be located in an area with an untested market for paid parking, in a transitioning part of the City, and adjacent to a power plant. As such, the Capitol East Parking Structure site has minimal value and the facility may operate at a “break-even” point in its early years. If net revenues are not sufficient to support the full PILOT using a cost assessment approach as is typically used to assess Parking Utility facilities, the income approach will be used to calculate the PILOT due for that year. As net revenues increase and the PILOT can be supported using a cost approach, the annual PILOT calculation will be transitioned to this method as the standard approach.

4: Parking Structure Financing

The precise total cost of the Parking Structure will not be known until the design has been completed. The City is currently anticipating that it will cost approximately \$16 million (\$1,000,000 in land costs, \$21,000 in construction costs per parking stall, \$1,500,000 in construction costs for the commercial space, and up to \$500,000 in site remediation costs). The capital costs of the project will be financed from four sources: The City’s Land Acquisition Fund (\$1,000,000), TID #36 supported borrowing (\$7 million), City General

Fund supported General Obligation Borrowing (\$5 million), and Parking Utility Reserves (\$3 million). Of the TID-financed portion of the capital costs, approximately \$4.6 million will come from increment generated by the Spark and Cosmos project, with Gebhardt Development and American Family Insurance providing personal and corporate guarantees for this amount. The remaining TID-financed portion of the costs will use increment generated by other projects planned or under construction within TID #36. If, in the future, additional unallocated increment is generated within TID #36, the TID may be used to reimburse the City for the General Obligation borrowing portion of the project financing, subject to additional project plan amendment approvals.

5: Parking Utility Leases with Gebhardt Development and American Family

The City and Parking Utility is designing and expects to build and operate a 600-stall parking garage. Of these 600 stalls, Gebhardt Development and American Family Insurance will lease up to 550 for daytime usage on Mondays through Fridays. This amount of parking results in a parking ratio of about 2.5 stalls per 1,000 square feet of office space. The Parking Utility will lease these stalls to Gebhardt and American Family at an initial rate of \$56 per stall per month for the first five years. In years six through ten, the lease rate will increase to \$68 per stall per month, and in years ten through fifteen, the rate will increase to \$84 per stall per month. After year fifteen, the parking lease rate will revert to the rate determined by the City's Transit and Parking Commission plus 110%. The remaining 50 stalls (as well as any additional stalls not leased or being used) will be available for hourly parking for daytime usage on weekdays and will be operated similar to other Parking Utility Structures. On evenings and weekends, the Parking Utility will operate the entire structure for hourly and special event uses, again similar to the downtown structures.

6: Parking Structure Design

The City has engaged Graef Engineering to begin work on designing the Parking Garage. Graef was selected through a competitive RFP process. Graef's original budget of \$610,000 was based on pricing for a 450-stall garage. With the City's decision to expand to a 600-stall garage, the design budget will increase to \$770,000. The first phase of design work will create a schematic design for the structure and an updated cost estimate. Once the City is comfortable with the schematic design, Graef's work will move into the design/development and construction documents phases. Following that, the project will move into creating BID documents and to Construction Administration.

7: Parking Structure Operations

The operating model for the Cap East Garage will be streamlined to allow for the facility to be revenue neutral. To accomplish this, the Parking Utility will have limited staffing at the garage, and a fully automated ticketing and payment system.

8: Land use approval processes for Cosmos, Spark, and Parking Structure

The Cosmos Project and the Spark Project are in the early stages of the development review process. Though they are separate projects, Gebhardt and American Family are moving

through the development review process in parallel. They anticipate receiving final approval in late 2016. The Cap East Garage will likewise require land use approvals. As the design process moves forward, the Parking Utility and the consulting team from Graef will submit all required applications and take the Parking Structure through the entitlement process.

Timeline and next steps

The Development Agreement includes a timeline for the project. Upon approval by the Common Council, the City will work with its partners in the agreement on next steps including finalizing agreements and closing on the land transactions (sale to Gebhardt and purchase from MGE). The Gebhardt Development and American Family teams anticipate receiving land use approval in late 2016 and breaking ground in early 2017. With the financing structure in place, the City will await final certification of the TID #36 amendment from the State Department of Revenue in early 2017. The City expects to finalize plans for the Parking Structure in Spring of 2017, and move forward with Bidding and Construction beginning in mid 2017. From a timing standpoint, the goal is for the Parking Structure and two development projects to finish construction and take occupancy at approximately the same time in early 2018.