



TO: Members of the Common Council

FROM: Mayor Paul R. Soglin and the Judge Doyle Project Coordination Team

RE: Judge Doyle Project - Block 88 Private Development Project Element

Date: May 1, 2018

Background:

The City of Madison executed a Development Agreement with Beitler Real Estate Services in July 2016 to redevelop Blocks 88 and 105. Under the Agreement, the City of Madison would build a new underground parking facility on Block 88. Following the completion of the new garage, the City would demolish the Government East Ramp on Block 105. The City would lease the air rights on Block 88 and the property on Block 105 to Beitler to build a mixed-use project including commercial, residential, hotel and parking. The estimated completion date of the public parking ramp is April 2019. To date, both parties have planned that construction on the private development project element would continue on Block 88 as soon as the municipal garage is completed.

The Issue:

In March 2016, in response to the City's request following the submission of its RFP proposal, Beitler proposed to build the 144-unit apartment project with 160 stalls of accessory parking for the tenants and some retail space above the Block 88 municipal garage (the "Private Project"). Beitler provided an estimated construction cost in April 2016 of \$32.0 million. Beitler subsequently had another estimate prepared in April 2017, which estimated the construction cost of the Private Project to be \$42.0 million. Following the City's selection of Cullen Construction to build the Block 88 municipal garage and the start of its construction in the fall of 2017, Beitler had Cullen Construction prepare another estimate of the Private Project construction cost. That cost estimate was \$48.5 million.

On January 9, 2018, Beitler and the City Project Team met to review the estimated construction costs of the Private Project. At \$48.5 million, Beitler concluded the Private Project wasn't feasible and that it wasn't prepared to proceed with the Private Project unless the costs did not exceed the original \$32.0 million budget. Alternatives to an apartment project were discussed and Beitler proceeded in January and February to test the market for alternative uses such as a grocery store, a retailer or medical offices. Beitler concluded from that market investigation that the alternative uses were not feasible. In addition, both Beitler and the City engaged LVDA, the project architect, and Cullen Construction in value-engineering exercises and further design and cost analyses to seek ways to reduce the costs.

The diagram to the right is a cross-section of Block 88 from Wilson Street looking towards the Capitol Square. Pinckney Street is on the right and the Madison Municipal Building is on the left. The salmon colored area is the City's municipal garage that's under construction. The turquoise area is the private accessory parking, the darker blue area is the retail area, the yellow area is the apartment project and the gray area between the turquoise and yellow areas is the structural slab that transfers the load from the apartment tower for the column spacing in the ramp below. Together, the turquoise, blue, yellow and gray areas (everything above the salmon colored area) constitute the Private Project as described in the Development Agreement. The turquoise, gray and blue areas are the Podium.

If the Private Project does not commence when the municipal garage is completed in April 2019, the City of Madison will have to cap the underground ramp to comply with zoning and building code regulations and be a prudent property manager.

The City is presented with three options if Beitler doesn't continue the construction of the above grade apartments and parking immediately upon the City's completion of the underground garage on Block 88.

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municipal garage and essentially preclude the opportunity to build accessory parking above the structural slab in the future. A load transfer slab would need to be added later if future development on top of the structure required different column spacing. The purpose of the load transfer slab is to transfer the structural load of the construction above the ramp to accommodate the column spacing of the ramp below. Without accessory parking, many development options would be eliminated from consideration since accessory parking is a key element in siting most land uses. The likely users would generally be limited to those without a high demand for significant accessory parking, typically governmental or institutional uses. A potential expansion of City offices sometime in the future would be a likely use. However, the purpose of placing the municipal garage underground was to create a platform to add tax-base and future lease revenues flowing to the City.

Option 2: Construct the Podium (two floors of parking above grade and the load transfer slab above the parking). The construction cost of this option is estimated at \$9.92 million. This option will cap the municipal garage and provide the opportunity to build a wide variety of uses (e.g. apartments, office, retail) with the accessory parking to support those land uses. It would allow a higher and better land use to be constructed, maximizing the City's investment in the underground municipal garage solution that the Common Council selected in 2016.

Option 2A: Construct the Podium with one floor of parking instead of two floors of parking. The construction cost of this option is estimated at \$7.5 million. This option, while less costly, will reduce the development potential of the development to be constructed above the parking in the future and the resulting tax base and lease revenues to the City.

It should also be noted that each option will require a major alteration to the approved planned development zoning to be approved by the Common Council.

Path Forward:

The Common Council made a decision to place the proposed Block 88 municipal garage below grade in its unanimous decision to select Beitler Real Estate Services' proposal on April 16, 2016. That decision concluded that an above ground ramp would be less expensive but would mean a loss of the property taxes and lease revenues from the above ground private development. A path forward should seek to preserve that land use decision. To that end, Option 2 would be the preferred path forward.

According to the City's Development Agreement with Beitler (see Exhibit B – Ground Lease Agreements Term Sheet – of the Development Agreement), Beitler will pay \$755,000 to lease Blocks 88 (\$180,000) and 105 (\$575,000), with these amounts escalating by 5% every 5 years. In addition, the Parking Utility could realize net revenues of approximately \$300,000 annually from retail leases and the above-grade parking stalls. Under the proposed resolution, these revenues are dedicated to replenishing the \$11 million allocated for hard and soft costs associated with constructing the podium that was to have been paid by the developer. Based on this revenue stream, the \$11 million would be repaid to the Parking Utility Reserve Fund in approximately 12 years, assuming an interest rate of 2.5%. The repayment approach proposed in this resolution is similar as that approved by the Council in March 2017 (see RES-17-00214 – Legistar #46425).

Approximately \$6.6 million of expenditure authority remains unused in the project budget. The unused expenditure authority could increase depending on the amount of the construction budget contingency (\$2.4 million) that might be utilized in constructing the public parking structure and bicycle center.

As of December 31, 2016, the Parking Utility had reserves of \$34.4 million. The Parking Utility is adding approximately \$5.5 million to its reserves annually. Construction of the Capitol East Parking Garage and the Judge Doyle Parking Garage, including the amount proposed to be appropriated in this resolution, will reduce Parking Utility Reserves by \$27.1 million (\$3.6 million for Capitol East and \$23.5 million for Judge Doyle).

Under the proposed resolution, \$4.4 million would be appropriated from Parking Utility reserves to increase the total project budget to \$50.4 million. The \$4.4 million would be added to the estimated unused expenditure authority in the project of \$6.6 million, to provide a total of approximately \$11 million. The estimated cost of completing the Podium under Option 2 provides the foundation for full range of future development (e.g., office, apartment).

Real estate development is subject to many externalities beyond our control and the Judge Doyle project has been no exception. Nevertheless, the City will be best served by delivering a development site above the municipal garage that can be developed to its potential when the market timing is right, whether Beitler decides to proceed with development or not.

Timing for this decision is important because the Block 88 municipal garage is under construction. The City must decide which option it wishes to move forward on because the design documents, zoning approvals, building permits and bidding results need to be in place by January 2019. A project schedule through the end of 2019 is included as Attachment A.

Attachment A
Judge Doyle Garage and Podium Schedule

May 1	Common Council Resolution introduced for referral
May 7	Finance Committee considers resolution
May 9	TPC considers resolution
May 15	Common Council considers resolution LVDA Concept Design Complete
May 16	City gives LVDA go-ahead to develop Schematic Design for the Podium
May 16 - July 13	LVDA Schematic Design documents and UDC materials City and Beitler complete lease documents for Block 88 and 105
July 13 – 25	City of Madison Review and Approval of SDs
August 1	City files major alteration amendment to the Block 88 GDP and SIP
August 8	UDC meeting
August 13 – September 7	LVDA Design Development documents
August 20	Plan Commission meeting
September 4	Common Council considers GDP/SIP Amendment
September 7 – 17	City of Madison Review and Approval of DDs
Sept 7 – November 30	City clears conditions and records zoning documents LVDA Construction Documents City and LVDA complete specification for the GE Ramp demolition
November 7	BPW authorizes bidding process for Podium and demo of the GE Ramp
November 30 – December 10	City of Madison Review and Approval of CDs for the Podium
December 4	Common Council authorizes bidding process
December 10	City issues building permit for Block 88 garage
December 14	City issues bid documents for Podium construction (GE Demo Bid timeline – TBD)
December 26	Block 88 garage construction arrives at grade

January 11, 2019	Bids due on Podium construction
January 16	BPW considers bids
January 22	Council awards Podium project
January 31	Construction contract executed for Podium City issues building permit for Podium
February 1	Podium construction commences
June 30	Podium construction completed Apartment construction on Block 88 can start
July 15	Occupancy permit issued for Judge Doyle Garage and Podium
August 1	Government East Demolition commences
October 31	GE Demolition complete Hotel construction on Block 105 can start

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File #: 51484 Version: Name: Substitute - Amendment to the 2018 Capital Budget to Design and Construct the Above Grade Parking, Retail and Slab ("the Podium") on the Block 88.

Type: Resolution Status: Passed

File created: 5/1/2018 In control: [FINANCE COMMITTEE](#)

On agenda: 5/15/2018 Final action: 5/15/2018

Enactment date: 5/21/2018 Enactment #: RES-18-00403

Title: SUBSTITUTE - Authorizing an Amendment to the 2018 Capital Budget to Design and Construct the Above Grade Parking, Retail and Slab ("the Podium") on the Block 88 Public Garage and Directing Further Actions as a Component of the Judge Doyle Development Project.

Sponsors: [Paul R. Soglin](#), [Michael E. Verveer](#), [Rebecca Kemble](#)

Attachments: 1. [Memo on Block 88](#), 2. [Judge Doyle Project Update and Decisions -- May 2017.pdf](#), 3. [Leg file 51484 JDS Powerpoint TPC 5.9.18.pdf](#), 4. [51484 v1.pdf](#), 5. [51484 Version 2.pdf](#), 6. [51484 Version 3.pdf](#)

[History \(8\)](#)[Text](#)**Fiscal Note**

The 2018 adopted capital budget includes \$41,791,659 for construction of the Judge Doyle Public Parking Structure (MUNIS project #11471), \$1 million for a bicycle center (MUNIS project #11160), and \$1.3 million for city fleet stalls in the public parking structure (MUNIS project #11319). Total funding authorized for the project, including funds already expended, is \$45,965,112. This includes \$19.1 million from Parking Utility Reserves, \$24 million from TID 25, \$2.3 million GO debt and \$565,322 from a federal TIGER grant. Based on accepted bids for the public parking garage and the estimated cost of building out the bicycle center, the total cost for the project is estimated at \$39,411,061. As such, approximately \$6.6 million of expenditure authority remains unused in the project budget. The unused expenditure authority could increase depending on the amount of the construction budget contingency (\$2.4 million) that might be utilized in constructing the public parking structure and bicycle center.

As of December 31, 2016, the Parking Utility had reserves of \$34.4 million. The Parking Utility is adding approximately \$5.5 million to its reserves annually. Construction of the Capitol East Parking

Garage and the Judge Doyle Parking Garage, including the amount proposed to be appropriated in this resolution, will reduce Parking Utility Reserves by \$27.1 million (\$3.6 million for Capitol East and \$23.5 million for Judge Doyle).

Under this resolution, \$4.4 million would be appropriated from Parking Utility reserves to increase the total project budget to \$50.4 million. The \$4.4 million would be added to the estimated unused expenditure authority in the project of \$6.6 million, to provide a total of approximately \$11 million. The estimated hard and soft costs of completing first floor retail space, two above-grade parking decks and associated access ramps, as well as a load transfer slab on top of the structure (together called "the podium") that can serve as the foundation for future development (e.g., office, apartment), is \$11 million.

According to the City's Development Agreement with Beitler Real Estate Services (see Exhibit B - Ground Lease Agreements Term Sheet - of the Development Agreement), Beitler will pay \$755,000 to lease Blocks 88 (\$180,000) and 105 (\$575,000), with these amounts escalating by 5% every 5 years. In addition, the Parking Utility could realize net revenues of approximately \$300,000 annually from retail leases and the above-grade parking stalls. Under this resolution, these revenues are dedicated to replenishing the \$11 million allocated for the cost of constructing the podium that was to have been paid by the developer. Based on this revenue stream, the \$11 million would be repaid to the parking utility Reserve Fund in approximately 12 years, assuming an interest rate of 2.5%. The repayment approach proposed in this resolution is similar to that approved by the Council in March 2017 (see RES-17-00214 - Legistar #46425).

Title

SUBSTITUTE - Authorizing an Amendment to the 2018 Capital Budget to Design and Construct the Above Grade Parking, Retail and Slab ("the Podium") on the Block 88 Public Garage and Directing Further Actions as a Component of the Judge Doyle Development Project.

Body

WHEREAS, on April 19, 2016, the Common Council adopted RES-16-00317 to approve the selection of Beitler Real Estate Services LLC (the "Developer") as the Judge Doyle Development Team with which to commence negotiations on proposal version B (underground public parking garage, retail space, bicycle center and apartments on Block 88, and a hotel and apartments on Block 105) (the "Project"), and directed the Judge Doyle Negotiating Team to immediately initiate negotiations with the selected development team and to report back to the Board of Estimates by June 27, 2016; and

WHEREAS, on July 5, 2016, the Common Council adopted RES-16-00510, to authorize the Mayor and City Clerk to execute the Development Agreement with the Developer for the Project; which was executed by the parties on July 12, 2016, and

WHEREAS, the City and Developer worked together to plan and coordinate the development of the Project during 2016 and 2017 including the preparation of a land use application to rezone the sites, which was approved by the Common Council on May 1, 2017; and

WHEREAS, the City of Madison prepared plans and specifications for the public garage and bicycle center, issued plans for the construction of the garage and bicycle center and awarded the construction to JP Cullen Construction, the low bidder, on September 5, 2017, for which construction started in October 2017; and

WHEREAS, the Developer continued to develop the plans for the above grade apartments, retail, and private accessory parking including updated pricing from JP Cullen Construction which identified substantial increases in construction costs from earlier estimates; and

WHEREAS, the Developer has informed the City that it will not proceed with Block 88 development at this time without significant cost reductions to the Developer, and requiring the City to assume the cost of accessory parking, retail and load transfer slab (together the "Podium"); and

WHEREAS, development options have been analyzed by the City to determine the best course of action to complete the municipal garage and cap the ramp to preserve future development options by the Developer or others, and maintain the Common Council desire to maximize the above-grade land use and increased tax base options, as expressed in RES-16-00317, adopted on April 16, 2016; and

WHEREAS, the City has estimated the cost to construct the Podium as a City asset to be approximately \$11 Million, of which approximately \$6.6 Million is available from the authorized funding for the project in the 2018 Adopted Capital Budget; and

WHEREAS, operation of the approximately 160 stalls of parking and approximately 8,000 square feet of retail space in the Podium will generate additional revenue streams for the Madison Parking Utility, and the revenues to be created by the Judge Doyle project's public-private venture creates a unique opportunity to cover the additional cost with interest by using the early years' ground lease payments from Blocks 88 and 105;

NOW, THEREFORE BE IT RESOLVED that the Common Council does hereby authorize an amendment to the 2018 Capital Budget to increase the funding authorization by \$ 4.4 million from Parking Utility Reserves for the Judge Doyle Parking Garage Project to design and construct the Podium to be repaid to the Parking Utility with interest at the earnings rate in the city investment pool using ground lease revenues paid by the developer, net revenue from lease of the retail space and net revenue from the above-grade parking stalls.

BE IT FURTHER RESOLVED, that the Common Council does hereby direct City staff to execute an amendment to the Judge Doyle Garage Design Services Agreement with LVDA, the City's Judge Doyle Garage architect, in an amount not-to-exceed \$700,000, to design the Podium and prepare construction specifications for the Podium and the demolition of the Government East Ramp for the City of Madison.

BE IT FURTHER RESOLVED, that the Common Council does hereby direct the City's Judge Doyle Project Negotiating Team to continue to work with the Developer on amendments to the executed Development Agreement and Developer Services Contract between the City and Developer to include a significantly reduced time for the start of the private development of blocks 88 and 105 on block 105 and an even more significantly reduced time for the start of the private development on block 88 **and negotiate to remove Section 11.12 from the Development Agreement**, to conform those agreements to the actions taken by this resolution, and to report back to the Common Council with a proposed Amended Development Agreement for consideration by November 15, 2018.