

MEMORANDUM

TO: Mayor Satya Rhodes-Conway and Common Council
FR: Dan Rolfs, Real Estate Development Manager, Matt Robles, Assistant City Attorney
DATE: April 10, 2024

SUBJECT: Truman Olson Grocery Store Cost Increases and Funding Recovery

Overview

This memo provides background information related to Legistar 82890. Costs on the Truman Olson project have increased by approximately \$1,000,000. In this memo, Staff outlines a proposal to allow this project to continue forward.

Background

The City selected the development team of Movin' Out and Rule Enterprises (collectively, the "Developer") to develop and construct a grocery store at the former Truman Olson Army site. The Developer designed, financed, and constructed a building with 150 affordable housing units and a 24,000 SF grocery condo (the Grocery Condo). When the Developer was selected, they were working with Luna's Groceries, a Madison grocer. During this time, the Developer needed to finalize their project financing, including having a buyer for the grocery condo. The City stepped in to purchase the condo for \$4.6 million to allow the Developer to close on their financing for the entire project, and proceed with construction.

As the Developer was finalizing the design of the building and the financing of the project, Luna's Groceries stepped away from the project. Without a grocer to provide insight into the final design of the building, the Developer's architects were forced to make assumptions about the final design of the Grocery Condo. Some of these assumptions were problematic, including those concerning the design of the loading dock and the electrical service to the Grocery Condo. During this same time, City staff began to work with Maurer's Urban Market Madison (MUMM) to see if they were willing and able to step in to operate a grocery store the City's Grocery Condo.

Current Status

City Staff have been working with the MUMM design team to address issues that were identified by the MUMM team during their work to complete the grocery store design. These issues are laid out below, with additional information attached to this memo from MUMM.

Description		Cost
Loading Dock	The ramp adjacent to the loading dock was not built to the standards previously agreed to between the City and the Developer. The ramp will need to be reconstructed to make the loading dock functional.	\$131,388
Mechanical Systems	Grocery store related equipment (HVAC, refrigeration, air handling, etc.) cannot be placed on the roof. To address this issue, a mechanical platform will need to be constructed over the alleyway on the south side of the building.	\$529,600
Electrical	The grocery condo that the City purchased does not have sufficient power to it to allow for a grocery store to operate. Staff has worked with MGE and the store design team to create a solution that will provide the appropriate power to the grocery store.	\$150,000
Plumbing	The grocery store requires a grease interceptor connection into South Park St to operate.	\$57,500
Design & Management	The design team has incurred significant additional costs as they have worked to resolve these issues.	\$90,000
TOTAL		\$958,488

Staff is proposing to provide all \$1,000,000 (rounded) in additional tenant improvement costs (the "Additional TI Costs") to MUMM. The Additional TI Costs would be provided as an increase to the previously approved \$2,900,000 tenant improvement allowance, authorized by the Common Council on March 31, 2023 (Legistar 76475). By authorizing the entire \$1,000,000 in Additional TI Costs, MUMM would be able to proceed with final design and construction of the grocery store. The City would then seek to recover as much as possible from the Developer.

When the City approved the initial \$2,900,000 tenant improvement allowance (Legistar 76475), Staff estimated that it would take ten (10) years for these costs to be repaid through lease payments. If the City is unable to recover any of the approximately \$1,000,000 of Additional TI Costs, the City would be repaid the entire \$3,900,000 of tenant improvement allowance in approximately thirteen (13) years.

The initial approved lease with MUMM is fifteen (15) years, with three (3) additional extensions of five (5) years each.

MGE Power approval

City Staff will coordinate with MGE to bring a new electric service to the Grocery Condo. As part of any resolution to address the issues discussed above, Staff is seeking approval to coordinate with MGE to file all necessary documents, and pay any and all required costs, to ensure that adequate power is brought to the Grocery Condo.