

05-13-2020 Town Council Meeting

Responses to Council Questions

ITEM #2: Update on the East Rosemary Redevelopment Project

Council Question:

Is it possible to get a walk-through of the estimated costs to the Town on Wednesday, updated to reflect some of the newer information? Since there is more clarity of some of the details now, such as how much the Town would pay to Grubb at the time of the swap, how much we would lease the Wallace Deck back for, etc., it would be helpful to see where we are in our cost estimates and how much we would have "to play with" so to speak, on the deck design features under consideration.

Staff Response:

Town staff plans to present the cost of the deck broken down into subcomponents for Council to consider their interests at the meeting on Wednesday.

The current proposal leases the Wallace Deck back to the Town for operation and management for \$30,000 per month.

The Town is basing the property exchange on the appraisals that we completed and the property value difference which is currently projected to be roughly \$500,000.

Council Question:

The economic analysis is helpful but, since it was completed in early March, does not reflect any potential impacts due to the pandemic. Has any work been done on thinking through a range of scenarios where the demand for parking could look quite different, in the short and possibly longer terms? Is there anything you can share with us on Wednesday to help us factor that into our decision-making?

Staff Response:

Town Staff will present two scenarios on Wednesday with range of occupancies related to the parking deck and its performance. The current scenarios look at an operating period that begins in 2022 and we hope we are clear from the current economic downturn we are currently in.

Council Question:

One of the risks of this project, as has been pointed out previously, is the possibility that Grubb will not, for whatever reason, end up building (or complete building of) the proposed building. How are we mitigating that risk?

Bob Jessup Response:

Town Staff has had multiple conversations with Grubb about this possibility. Grubb continues to assure us that they have every intention and the financing in place to complete the

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project. Nevertheless, there is no straight-out promise by Grubb to build the building, and even if there were that would not guarantee the building would be built. There are three ways our risk is mitigated:

- 1) Alignment of our interests. It is in Grubb's best interest to build a first-class building and to build essentially as big a building as it can get through the entitlement process. In this case, Grubb wants the same thing that the Town wants, so that mitigates the risk that Grubb won't pursue the common goal.*
- 2) Disincentives for not building. If Grubb does not pursue the prompt building of the New Office Building, there will be losses to Grubb. Grubb will lose the benefit of certain entitlements if it does not begin construction within a time period of obtaining the entitlements. This project is intended to take advantage of the Opportunity Zone investor tax breaks, and the longer it takes to convert the investment into building, the less the tax advantage. Until Grubb takes occupancy of the New Office Building, the property will be subject to Grubb's requirement to allow the Town to make a first offer to purchase. Grubb will lose the right to offer parking in the Wallace Deck once the New Deck is complete, thereby cutting off a source of cash flow to Grubb. If the renovation project proceeds and is complete, Grubb's obligation to provide parking revenue will begin even before there's a need for parking to support the New Office Building.*

These disincentives to Grubb are not benefits to the Town, but they are negative consequences to Grubb that make it less likely Grubb will not go forward.

- 3) Benefits that accrue even if the building is not built. Whether or not the New Office Building is built, the Town will have centralized downtown parking and opened up the Wallace Deck property for new development of one kind or another (and the property will be on the tax rolls all the while). The Town will have completed that project in an expeditious manner while avoiding the need to make capital improvements to the Wallace Deck, and while obtaining a variety of revenue commitments to help pay for the New Deck.*

The Town is not contributing any money to the development of the New Deck or providing any development incentives. The land swap makes the New Office Building possible while allowing the Town to develop the New Deck, with its attendant benefits. If the New Office Building is not built, or is built on a smaller scale, that may represent a lost or diminished opportunity for the Town but will not result in any financial loss.

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Council Question:

Are there hourly or monthly designations for the vacant spaces, detailed on p. 37 of the packet? If so, how many of the vacant spaces are monthly and hourly?

Staff Response:

The vacant spaces are unoccupied hourly spaces at a point in time. Our leased parking generally has a waiting list and would not reflect any vacancy.

Council Question:

Why are there 148 vacant parking spaces between the Wallace and Rosemary decks?

Staff Response:

Those are hourly spaces that are not occupied at the point in time of reference.

Council Question:

What is the status of the discussions involving the Fine lot to this point?

Staff Response:

An offer has been made for the Fine lot by Grubb Properties, who is awaiting a response.

Council Question:

Given the provision on page 4 of the draft Economic Development Agreement (EDA), where clause 2(a) indicates the Town and Grubb would work to complete the entitlement process for the New Deck by June 30th (which is coming up soon), by when would the Town need to make a decision on the EDA by?

Staff Response:

The Town would also need to decide on the EDA by the end of June 2020.

Council Question:

Under the EDA, who would be responsible for the proposed green space/pocket park on a portion of where Lot 2 is now?

Staff Response:

Grubb is committing roughly \$200,000 to grade, grass and build a connector to Varsity Alley for the green space on the Rosemary/Columbia Parking Lot.

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Responses to Council Questions #2

ITEM #2: Update on the East Rosemary Redevelopment Project

Council Question:

It seems that the lease rates, particularly for Grubb, are too low. In the initial years they don't cover debt service, much less operating costs. Since Grubb is getting the benefit of the spaces with minimal financial risk, it seems that they ought to be able to at least cover their true costs.

Staff Response:

We could ask Grubb to consider a higher rate as part of the EDA negotiations.

Council Question:

Do we have a general outline of the terms of the agreement with Grubb? It seems to me that to mitigate our risk, we should be able to back out or renegotiate rates. On the other hand, we should have a pay or play commitment from them for several years.

Staff Response:

There is not a draft agreement for parking. While exploring options for financing, we are not yet sure the best path for the parking agreement. The current framework for Grubb to commit to leasing parking is in the EDA.

Council Question:

I think it would be helpful to have a total view of the parking fund with this deck, especially given the current circumstances and need to subsidize the project for a year or two.

Staff Response:

We will share an update on the parking fund FY 20 year-end projections and FY 21 outlook during the FY 2021 budget update item that is also on the Council agenda this evening.

Council Question:

Have we done any back of the envelope calculations of what the situation would look like if, for some reason, Grubb was unable to build the office building (or built a significantly smaller one)?

Staff Response:

We have run calculations on paying the debt of the new deck using existing income from Wallace and CVS Deck, Fine lot and the affected portion of Lot 2/Rosemary/Columbia Parking Lot.

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Council Question:

Have we had any construction managers/GCs validate our cost estimates?

Staff Response:

We have retained Walker Consultants to oversee the work on behalf of the Town. The following are services to be provided and can include construction oversight:

- 1. Review of plans to ensure project meets all federal, state, and town codes and standards. This would consist of two reviews, early concept (May 2020) and ZCP (July/August 2020), and offer any guidance appropriate to ensure the design is functional and can meet the Town's interests.*
- 2. Work with the Town to develop a Construction Management Plan for the parking deck, including private and public infrastructures, and proposed office building. This would be a best practice plan for minimizing the impact on downtown businesses, residents, and traffic during construction. This would require a review of drafted plans and offer guidance on potential improvements. This element may require meetings with a broader internal Construction Management Team to assess the work and direction of the Plan.*
- 3. Review developer's submitted Opinion of Probable Costs of the parking deck related items. This is a singular review in late July or early August to determine if proposed construction and project costs are in line with similar regional pricing. This will also be a justification of debt used for the Local Government Commission in considering approval of our debt.*

Council Question:

Do we know with any certainty how many spaces in the Wallace deck Grubb plans to preserve/operate?

Staff Response:

Grubb is projecting 200 spaces will be built or retained as a part of building the office building.