



MIDTOWN DISTRICT SANTA FE

Public Progress Reports for February 10 Governing Body Meeting - Discussion Agenda. Documents include:

- January 29: Midtown Development Committee “Strategy Tactics Team” Progress Report
- December 16: Charrette & Predevelopment Update @ ENA 6-Month Period

In direct response to the outcomes of the Midtown Charrette held December 7-9, 2020, the Midtown Steering Committee established the Strategy Tactics Team (STT) to serve as an action-oriented team to develop initial solutions and strategies for moving forward the redevelopment of the Midtown Site.

The STT met for its first time on December 30, 2020 to begin organizing its efforts into categories that were based on the results of the Midtown Charrette; as stated within the Midtown Report: Charrette & Predevelopment Update @ ENA 6-Month Period dated December 16, 2020, which was also submitted to the City's Governing Body. As such, the STT established the following categories:

1. Existing Buildings & Site Conditions

- a. Demolition
- b. Rehab/ Reuse
- c. Civic Buildings - MOU (Library, Arts Complex, Performance Theater)
- d. Garson Studios – existing lease, proposal for operations/ development expansion
- e. Existing Leases * (see Public Finance)
- f. Environmental Assessment
- g. FF&E Assets

2. Master Plan & Phase 1

- a. Scenarios
- b. Connectivity/ Access
- c. Phasing
- d. Phase 1 / Early Start Projects

3. Infrastructure

- a. Investigations, Assessments, Reports (phased)
- b. Phasing
- c. Utility Financing * (see Public Finance)

4. Entitlements

- a. Requirements
- b. Phased
- c. Applicant / Planner

5. Public Finance

- a. Utility Fees / Utility Financing *
- b. Governance Structure (e.g. Metropolitan Redevelopment Area)
- c. Financing Options (e.g. Bond, TID, other)
- d. Cash Flow – Early Start Projects/ Garson Studios, and Budget Phasing to increase cash flow, reduce operational burden, source for funding predevelopment costs
- e. City investment – (planning, assessment, reports)
- f. Enterprise Funds
- g. Other Financing Options (list in order of feasibility and priority)

6. RFEI – Moving Projects Forward

- a. Early Start Projects

- b. Civic Buildings
- c. RFEI and Alternative Procurement Scenarios – pros and cons
- d. Garson Studios

7. Public Engagement

- a. Aligning Planning Schedule with Public Engagement

The STT agreed on creating committees for each category that would have a “Lead” responsible for coordinating meetings and implementing a scope of work for each category, including deliverables, as follows), with Sam Burnett and Daniel Hernandez assisting in coordinating information sharing to align and integrate recommendation and strategies into a comprehensive approach for viably moving forward.

- 1. Existing Buildings and Site Conditions (Lead: Daniel Hernandez and Sam Burnett)**
- 2. Master Plan & Phase 1 (Lead: Eli Isaacson and Stefan Pellegrini)**
- 3. Infrastructure (Lead: Sam Burnett and Sean Moody)**
- 4. Entitlements (Lead: Noah Berke and Eli Isaacson)**
- 5. Public Finance (Lead: Dena Belzer and Mary McCoy)**
- 6. ENA and RFEI (Lead: Andrea Salazar and Daniel Hernandez)**
- 7. Public Engagement (Lead: Alexandra Ladd and Daniel Hernandez)**

The STT will prepare a report to the Midtown Development Committee Staff and Steering Committee prior to making any formal recommendations to the City’s Governing Body. A bi-weekly report packet will be included on the Governing Body discussion agenda, starting February 10. Note: A more formal presentation to the Governing Body is planned for February 24.

MIDTOWN DISTRICT SANTA FE

Date: December 16, 2020
From: Richard Brown, Director of Community and Economic Development
Authors: Daniel Hernandez, Proyecto, Midtown Project Manager
Dena Belzer, Strategic Economics, Land Economics Consultant
To: City of Santa Fe, Governing Body
Midtown Steering Committee
Subject: **Charrette & Predevelopment Update @ ENA 6-Month Period**

EXECUTIVE SUMMARY

The City “Midtown Master Development Committee” (City) and the Developer “KDC Cienda Team Midtown” (Developer) participated in a Charrette from December 7-9, 2020. The primary value of the Charrette was that it clarified assumptions, strengths, weaknesses, opportunities and threats (SWOT) which affect the re-development process and resulting residual land values. It also became clear that drivers of land value in the market will be affected by the SWOT factors identified in the Charrette and contained in this Report, no matter what site disposition process is undertaken, whether an auction, Disposition and Development Agreement (DDA) or other.

The Charrette confirmed the value of the RFEI and the ENA process, in that having a private developer at the table to express assumptions, identify SWOT and begin to develop ways to address them, strengthen overall project viability. The Developer submitted their response to the RFEI predicated on many assumptions, as is standard process in developer procurements of this type. The ENA period was intended for the Developer to test their assumptions and revise their proposal, in collaboration with the City, so that going into the final DDA, there are no surprises on either side, i.e. clear understandings and negotiated terms. The understanding of Midtown that the Developer gained in this process and shared with City staff at the Charrette will certainly serve the project going forward.

City staff, with the Strategic Economics and Proyecto team, will begin exploring more detailed options for assisting the development feasibility by proposing viable risk sharing proposals, identifying and deploying all available public financing sources, and exploring an entitlements process that meets the City’s requirements while providing the flexibility as well as certainty that developers typically require over a multi-year phased development contemplated for a successful Midtown District.

Charrette & Predevelopment Update @ ENA 6-Month Period

REPORT

Purpose

This Memorandum is to provide the Governing Body and the Midtown Steering Committee with a concise update on the Midtown predevelopment and planning process. KDC Cienda, the Master Developer lead of Team Midtown (Developer), and the City of Santa Fe (City), entered into an Exclusive Negotiation Agreement (ENA) on May 4, 2020, which outlined certain industry standard predevelopment due diligence and feasibility analysis responsibilities to form the basis of a Disposition and Development Agreement (DDA). The conclusion of the six-month ENA period on November 4, 2020 marked a significant moment for the parties to convene to identify variables that are either challenges and/or opportunities to the progress of redeveloping the Midtown Site.

To facilitate a collaborative public/private partnership between the Developer and the City, the Director of Community and Economic Development and the Midtown Steering Committee proposed a Midtown Charrette to review analysis undertaken by the Developer for the parties to better understand the strengths, weaknesses, opportunities, and threats (SWOT) regarding the development viability of the Midtown Site, and to problem-solve, maximize opportunities, and outline a path forward.

Midtown Charrette

A Charrette is a meeting in which all stakeholders in a project attempt to resolve conflicts and map solutions. Participants share their work and skills with members of their team and/or partners, and talk through, collaborate, and sketch solutions to explore, and share a broad diversity of strategies for implementation.

The City and Developer held a Charrette on December 7-9, with 23-43 attendees per day in various sessions. A core objective of the Midtown Charrette was to create a shared understanding of the existing opportunities and constraints associated with developing the Midtown site. This collective understanding could then inform a concrete development framework and process to move forward with obtaining land use entitlements, infrastructure improvements, and appropriate development phasing in the Santa Fe real estate market context.

Both parties agreed that the Charrette was timely, provided an opportunity to strategize within a multi-disciplinary framework, and to jointly understand the SWOT parameters of the Midtown site development.

Agenda

Day 1: Physical Planning

- Master planning – infrastructure planning, transportation planning, Phase 1

Day 2: Strategic Planning

- Implementation strategies – entitlements, infrastructure finance, connectivity/access, City/State land swap, public finance, residual land value, market forces

Day 3: Public/Private Partnership

- ENA terms

Charrette & Predevelopment Update @ ENA 6-Month Period

Understandings & Next Steps

Understandings: Key SWOT Development Parameters

The following SWOT parameters were assumptions stated by the Developer and reflect their preliminary analysis, aka, back of the envelope assessment. The Developer did not present formal professional reports, detailed pro formas, or certified assessments to substantiate their SWOT business points listed above. The following SWOT points were presented as reasons to pause the ENA process until the City provided assurances for overcoming the challenges and risks. It should be noted that the City's project team had generally understood from the outset that these SWOT parameters were going to affect residual land value and the underpinnings of the DDA terms for overall development progress and viability. Charrette outcomes confirmed these initial assumptions and helped to identify Next Steps.

1. Existing Buildings

Developer initially planned for the adaptive reuse of many existing buildings as an interim strategy to secure cash flow to pay for early predevelopment and development activities. However, after initial a site and building walk-thru and basic review of available plans, the Developer determined that to get the current buildings into code compliance for occupancy, the cost outweighed projected cash flow. Therefore, the Developer no longer considers reuse of certain buildings as a mid-term revenue generating strategy in their preliminary economic assumptions.

2. Infrastructure

Developer claims to have underestimated the cost for fully assessing existing infrastructure, as part of their due diligence responsibilities. However, based on a review of available base information provided by the City, the Developer has preliminarily projected costs for engineering and constructing fully upgraded infrastructure are estimated to be over \$30 million. The Developer's preliminary assumptions estimates costs on a per acre basis, assuming only developed land (net of roads, parks, and other public amenities) - the infrastructure cost make the land cost-per-acre much higher than land cost-per-acre for other ready to be developed sites in Santa Fe.

3. Connectivity / Access

Developer determined that a minimum of 5-points of auto access will be a critical determinant of the market success at Midtown, particularly since a relatively mid to high-density, mixed-use, commercial development pattern is proposed as part of the master plan land uses. The Developer had assumed that they would be able to obtain a right of way through the "Smith's grocery store" property to gain access between the site and Cerrillos Road. However, the Developer stated that they were unable to reach agreements with the owner on creating this connection/access. Similarly, the Developer stated that they were unable to develop agreements with the property owner to north of the site that could connect St. Michaels Drive to the site. The Developer believes that they will not achieve necessary higher and more economically feasible densities on the site without these and other points of access.

4. Environmental Assessment

Developer had not assumed undertaking any environmental assessments or remediation as part of their site development costs. Environmental assessment was part of the ENA due diligence process, and the City has been prepared to provide preliminary background information and coordination. Given that assessing and potentially remediating areas will add costs to what the Developer stated is already a cost overburdened site, they requested that the burden of environmental activities be on the City.

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5. Land Use Entitlements

When the Developer submitted their response to the RFEI, they assumed that any land use entitlements for the site would be granted through an administrative process, not a full public entitlements process. However, this was an incorrect assumption, as described in the RFEI scope of work. In addition, the ENA expressly stated that the Developer shall prepare and file all applications for City entitlements, including zoning, amendment to the City's general plan, and master plan. The Developer's perspective is that the entitlement process is extensive and expensive. Creating a master plan would require, at a minimum, an infrastructure plan and a transportation plan, as well as agreement on allowable land use uses. The parties agreed that C-2 zoning would allow for the greatest land use flexibility, while the LINC overlay provides important development incentives, as well as guidance for building form and site planning. The Developer expressed concern that the entitlement process presents a potential significant risk to the development and predevelopment schedule.

6. Public Financing and Existing Bond Debt Repayment

Developer has determined that the total cost to develop the entire Midtown campus, including obtaining entitlements, remediating any environmental contamination, replacing infrastructure, providing sufficient access to the site, and repaying existing bond debt, together add up to a very high cost relative to the land's potential value in the marketplace. Given the perceived risk in making this kind of investment, the Developer is requesting that the City consider a land value payment that fits within the Developer's preliminary conceptual financial model, without the expectation that the land value payment is high enough to retire the City's existing bond debt; and, for the City to assume costs and responsibility for providing points of (i) access/connectivity; (ii) obtaining entitlements, and, (iii) removing bond repayment requirements. It should be noted that the City had considered detailed land valuation analysis as part of the ENA due diligence and DDA negotiation process. At the outset, the RFEI noted that Land valuation and "the final land price or lease cost will be negotiated with the City during the disposition and development process to maximize the economic value of the land toward achieving the Midtown Planning Guidelines, inclusive of community development and public policy objectives." 3.G.RFEI.

7. Markets

Developer expressed a general concern about the uncertainty of the market and the impacts it has on risk evaluation for investing predevelopment funds into the project. In their response to the RFEI, the Developer had assumed that their early development phases would be led by "build to suit" commercial uses, such as tech and institutional users. However, the COVID-19 pandemic has created budget risks for the commercial partners, which may no longer be able to raise the funds for anticipated capital expansion at the site. Although market conditions do suggest that an early development phase could focus on residential (market and affordable), the Developer does not seem particularly interested in this approach for reasons that remain unclear, but may be related to their underwriting assumptions that the market value for these Phase 1 residential units might be low.

Next Steps

The Charrette uncovered and confirmed these underlying SWOT assumptions and provided the basis for the City team to begin developing strategies, Next Steps, to overcome the challenges and risks for the City, and to better inform further discussions and negotiations with the Developer. Some areas for further exploration will include:

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A. Public Financing Options

City will research viable public special purpose entities, such as a Metropolitan Redevelopment Area under the NM Metropolitan Redevelopment Code, to maximize the opportunities for accessing favorable financing mechanisms for redevelopment areas/districts. The City, as a public entity, has various public financing instruments and structures to help bridge the projected financing gaps identified in development feasibility studies, which the City will pursue.

B. ENA Review

City to review the terms of the ENA that would minimize risk for both parties and position the City to maximize its potential to ensure that the site is economically beneficial to developers, while achieving the City's economic, as well as other public policy goals. Any amendments to existing procurement, including the ENA, would be pursuant to review and approval of the City's Governing Body.

C. Entitlements and Master Planning

City will review entitlement pathways for achieving the desired development and maximizing the use of the LINC overlay in a potential Phase 1 development. Objectives would be to start creating value on the site while containing, phasing, and strategically placing investment in new infrastructure. Next steps will be to confirm and/or assess if existing sewer, water, and electrical systems are adequate to handle the load from a proposed development program. This approach may yield little or no residual land value for the City, but the trade-off would be that there is new investment at the site that could help build market value momentum for future phases as well as generate some potential cash flow.

D. Connectivity/ Access

City will develop alternative transportation plans that prioritize pedestrian and bicycle access, while ensuring sufficient auto access, that is uniquely Santa Fe based, with a focus on achieving carbon reduction goals and compact, walkable development patterns. Plans would be market tested as part of the initial research.

E. City/State Land Swap

The City team agrees that the City/State land swap will be advantageous for the Midtown site's long-term viability and should proceed. The state land is very important for the site's long-term connectivity/accessibility.

F. Brownfield Remediation

City will request a Target Brownfield Assessment with the NMED.

G. Public Engagement

City is proceeding with the scope of work with the UNM DPAC public engagement team. Some initial items to be developed are an integrated schedule aligning the civic organization grant program, activation events, public forums, and industry sector forums, with the master planning process.

H. Development Economics

City will utilize the services of Strategic Economics, and their urban planning sub-consultant, Opticos, as well as, Proyecto, the City's project manager and development strategist, to analyze and develop the economic underpinning of proceeding in alternative development scenarios with the Developer.

Timeline

The City team is proposing to return with a series of strategies to the Governing Body in February 2021.