



Section I: Definition of assignment and underlying assumptions.

Landmark Research, Inc.

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A MARKET AND FINANCIAL PARAMETERS STUDY
OF RAIL CORRIDORS
IN THE MADISON Isthmus

SECTION I
DEFINITION OF ASSIGNMENT AND
UNDERLYING ASSUMPTIONS

Landmark
Research
Inc.

Landmark
Research
Inc.

May 6, 1983

James A. Graaskamp, Ph.D., SREA, CRE
Jean B. Davis, MS

Mr. John Urich
Principal Planner
Community Development Planning
Strategy Planning Unit - DPD
Madison Municipal Building
215 Monona Avenue
Madison, WI 53710

Dear Mr. Urich:

We are transmitting to you our final report as per City of Madison contract #38071 in the following format:

There are twenty sets of four report sections with each report section bound as follows:

- Section I - Definition of Assignment and Underlying Assumptions
- Section II - East Wilson/Williamson Rail Corridor
- Section III - West Washington Rail Corridor
- Section IV - Alternative Land Bank Vehicles, Purchase Financing, and Constraints on Timing

Please convey our appreciation for the cooperation of Chairpersons Nicole Gotthelf and Billy Feitlinger and the many contributions of their committees. We also owe considerable content to the insight of Mike Nagy, Jerry Tucker, and particularly, Tony Frey, all of whom have an exceptional professional grasp of their areas of responsibilities.

The East and West Rail Corridors are an exceptional opportunity for revitalization of the Isthmus and integration of the Marquette and Brittingham Neighborhoods into the downtown Madison environment.

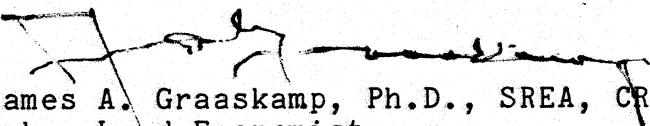
Landmark Research, Inc.

Mr. John Urich
Page Two
May 6, 1983

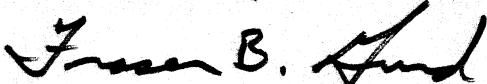
A quick response by the Committees in defining a Master Plan, allocating tasks to the CDA, organizing community leaders and marshalling planning agencies is necessary to avoid spoiling the opportunity as a result of uncoordinated efforts by a few real estate mavericks.

Thank you for the opportunity to participate in this effort to define strategic alternatives, to identify potential markets, and to sketch financial requirements.

FOR LANDMARK RESEARCH, INC.


James A. Graaskamp, Ph.D., SREA, CRE
Urban Land Economist


Jean B. Davis, MS


Fraser B. Gurd, MS

jc

TABLE OF CONTENTS

I. DEFINITION OF ASSIGNMENT AND UNDERLYING ASSUMPTIONS

	<u>PAGE</u>
LIST OF EXHIBITS	I-iii
A. Initial Reasons for Study	I-1
B. General Definition of Study Areas	I-4
C. General Objectives of the Study	I-4
D. Specific Task Definition	I-7
E. Specific Contract Definitions Refined by the Committees	I-9
F. Specific Expansion of Research by Contractor	I-10
G. Assumed Socio/Economic Scenario for Madison to 1995	I-13
H. Organization of Report	I-27
I. Time Lines for Public Implementation of Alternative Scenarios for Development	I-28
1. Preparation of a Master Plan and Zoning Recommendations	I-29
2. Tax Incremental Financing	I-30
3. Industrial Revenue Bonding	I-31
4. Private Redevelopment	I-32
5. HUD Section 108 Loans (Guaranteed by Block Grants)	I-33
APPENDICES	I-35
- Agreement for Professional Services (Copy of contract between the City of Madison and Landmark Research, Inc.)	I-36
- Basic Rules and Regulations of HUD Loan Guarantee Programs (HUD Section 108)	I-47

TABLE OF CONTENTS

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

	<u>PAGE</u>
LIST OF EXHIBITS	II-iv
A. Definition of Assignment	II-1
B. The 600 Block	II-30

TABLE OF CONTENTS (Continued)

II. EAST/WILSON WILLIAMSON RAIL CORRIDOR

	<u>PAGE</u>
1. Physical Attributes	II-30
a. Size	II-30
b. Topography	II-32
c. Soils	II-32
d. Utilities	II-33
e. Existing Uses	II-33
2. Legal-Political Constraints	II-39
a. Zoning	II-39
b. Historic District	II-42
c. Marquette Neighborhood Association (MNA)	II-45
3. Site Linkages	II-47
4. Dynamic Attributes	II-50
5. Environmental Attributes	II-52
C. Intersection Reconstruction Alternatives	II-63
1. Redesign Proposal--City Traffic Engineering	II-63
2. Redesign Proposal--Landmark Research	II-68
D. Alternative Reuse Concepts for 600 Block	II-75
1. City Acquisition of 600 Block Parcels	II-75
2. Warehouse/Distribution Solution Alternative	II-75
3. Apartment/Condominium Solution	II-81
4. Tax Increment Potential of 600 Block Redevelopment	II-91
E. The 700 Block	II-92
1. Physical Attributes	II-92
a. Size	II-92
b. Topography	II-93
c. Soils	II-93
d. Utilities	II-94
e. Existing Ownerships (See Exhibit II-23)	II-94
f. Existing Uses and Tenancies	II-97
2. Legal-Political Constraints	II-103
3. Site Linkages	II-104
4. Dynamic Attributes	II-105
F. Alternative Reuse Concepts for 700 Block	II-107
G. Market Potential for Class B and C Office Space on the 700 Block	II-140
H. The 800 Block	II-166
1. Physical Condition and Current Uses	II-167
2. Financial Feasibility	II-174
3. Effective Demand	II-177
I. Rail Corridor Fragments	II-182

TABLE OF CONTENTS (Continued)

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

	<u>PAGE</u>
J. Financial Limitations of Wilson Street Land Bank	II-183
APPENDICES	II-195
- Arlan Kay Report	II-196
- City of Madison M-1 Zoning Ordinance	II-220
- Environmental Impacts of Special Significance - Marquette Gateway Plan and Redevelopment of Blocks 600 - 800	II-221
- Katherine Rankin Letter of December 23, 1982	II-226
- East Wilson Street - Office Survey	II-228
- Kitty Rankin Letter of November 30, 1981	II-240
- Details on Rent and Financing of Four Alternative Financing Packages for 66 Passive Solar Units on Block 800 of Williamson Street (Supports Exhibit II-42)	II-242
- Summary of Results from Consumer Panel Regarding Proposed Housing Design for 800 Block of Williamson Street	II-274
- Basic Rules and Regulations of HUD Loan Guarantee Programs (HUD Section 108)	II-285

TABLE OF CONTENTS

III. WEST WASHINGTON RAIL CORRIDOR

	<u>PAGE</u>
LIST OF EXHIBITS	III-iii
A. Definition of Assignment	III-1
B. Parcels A, B, and C	III-18
C. Parcel D, and Items 1, 2, and 3	III-19
D. Parcel E	III-25
E. Parcels F, G, and H	III-31
F. Financial Parameters for Acquisition of West Washington Rail Corridor	III-49

TABLE OF CONTENTS (Continued)

III. WEST WASHINGTON RAIL CORRIDOR

	<u>PAGE</u>
APPENDICES	III-62
- An Agreement for the Coordination of Property Acquisition, Future Uses of Property and Joint Planning for the South Campus and West Washington Avenue Rail Corridor Areas	III-63
- An Inventory of Potentially Historic Structures in the West Railroad Corridor, Prepared by Katherine H. Rankin, Preservation Planner, October, 1981	III-76

TABLE OF CONTENTS

IV. ALTERNATIVE LAND BANK VEHICLES, PURCHASE FINANCING AND CONSTRAINTS ON TIMING

	<u>PAGE</u>
LIST OF EXHIBITS	IV-iii
A. Ideal Organizational Structure	IV-1
B. Basic Alternative Structures and Their Fit to Above Criteria	IV-3
C. Direct Acquisition by City of Madison Agencies	IV-4
D. Redevelopment Corporation Via Wisconsin Statutes 66.405	IV-13
E. Private/Public Land Bank Corporation	IV-15
F. Certain Constraints on Financing Costs of Purchase and Sale	IV-31
G. Financial Parameters of Combined East-West Purchase	IV-40
APPENDICES	IV-50
- Basic Rules and Regulations of HUD Loan Guaranty Programs (HUD Section 108)	IV-51

TABLE OF CONTENTS (Continued)

IV. ALTERNATIVE LAND BANK VEHICLES, PURCHASE FINANCING
AND CONSTRAINTS ON TIMING

	<u>PAGE</u>
APPENDICES (Continued)	
- Community Development Block Grant Program Requirements (Letter from Hickory Hurie of April 15, 1983)	IV-55
- Creation of Community Development Authority	IV-59
- Railroad Corridor Development Fund (Letter from Alderman Anne Monks of December 21, 1982)	IV-67
- Cash Flow Output at 11% Interest with Grant of \$1.475 Million	IV-69
- Cash Flow Output at 8.5% Interest with \$1.475 Million in Grants	IV-72
- Cash Flow Output at 8.5% Interest with \$2.475 Million in Grants	IV-75

LIST OF EXHIBITS

I. DEFINITION OF ASSIGNMENT AND UNDERLYING ASSUMPTIONS

<u>EXHIBIT</u>	<u>PAGE</u>
I-1 Membership and Supporting City Staff: East Wilson Rail Corridor Steering Committee, West Washington Rail Corridor Study Committee, and the Madison Rail Corridor Oversight Committee for the Steering Committees	I-3
I-2 Map of Original Study Area, Railway Acquisitions and Potential TIF District - East Wilson/ Williamson Rail Corridor	I-5
I-3 Map of Original Study Area, Railway Acquisitions and Potential TIF District - West Washington Rail Corridor	I-6

LIST OF EXHIBITS

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
II-1 Map of Original Study Area, Railway Acquisitions and Potential TIF District - East Wilson/Williamson Rail Corridor	II-2
II-2 City of Madison - Map of Land Use Recommendations for East Wilson/Williamson Rail Corridor	II-3
II-3 Listing of East Wilson/Williamson Rail Corridor TIF District Parcels - By Block and Including Most Probable Market.	II-5
II-4 Aerial Photograph with Encroachments on Corridor Area Delineated.	II-28
II-5 Site Map of 600 Block	II-31
II-6 Schematics of Post Office Annex and Garage - Overhead View, Front and Side Views	II-35
II-7 Photos - Exterior and Interior of Post Office Annex and Garage.	II-37

LIST OF EXHIBITS (Continued)

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
II-8 Adjacent Land Uses Map.	II-40
II-9 Subject Area Zoning Map	II-41
II-10 Third Lake Ridge Historic District Map and Guidelines.	II-43
II-11 Brief Summary of Marquette Neighborhood Association Plan Recommendations.	II-46
II-12 Photographs of 600 through 900 Blocks in Present Condition and Blair/Nolen Intersection in Present Condition	II-49
II-13 East Wilson/Williamson Street - Allocation of Potential Net Assessed Value Increase for TIF .	II-54
II-14 Existing Intersection Design and Traffic Volume.	II-64
II-15 City's Redesign Plan for Intersection	II-66
II-16 Design Criteria of the Ad Hoc Sixth District Traffic Committee.	II-67
II-17 Landmark Research Redesign Plan for Intersection - Gateway Plan	II-69
II-18 Preliminary Estimate of Land Acquisition and Relocation Costs of Marquette Gateway Plan by City Real Estate Department.	II-76
II-19 Alternative Residential Development - Block 600 - (Sketches drawn by Arlan Kay) . . .	II-82
II-20 Financial Parameters of 44-Unit Apartments on 600 Block Assuming Tandem Mortgage Subsidy and Heavy Land Write-Down	II-85

LIST OF EXHIBITS (Continued)

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
II-21 Financial Parameters of Conventionally Financed 44-Unit Apartment Project on 600 Block	II-88
II-22 Tax Increment From 44-Unit Condominium on 600 Block	II-90
II-23 Sketch of 700 Block with Existing Uses.	II-95
II-24 Ownership, 1982 Assessment Data, and Estimate of Acquisition Cost for 700 Block	II-98
II-25 Sketch of Alternative Scenario I (Assume no railroad land purchase and city parking on Ela site)	II-108
II-26 Sketch of Alternative Scenario II (Assume railroad land purchase for parking and commercial/retail building on Ela site) . .	II-109
II-27 Pro Forma, Cash Flows and Investment Results for Scenario 1, Miller-Horne Office Conversion to Class C Space, \$4.75 Rent per Square Foot, 12.5% Interest Rate	II-112
II-28 Pro Forma, Cash Flows and Investment Results for Scenario 2, Miller-Horne Office Conversion to Class B Space, \$6.00 Rent per Square Foot, 12.5% Interest Rate	II-117
II-29 Pro Forma, Cash Flows and Investment Results for Scenario 1, Miller-Horne Office Conversion to Class C Space, \$4.75 Rent per Square Foot, 9% Interest Rate.	II-122
II-30 Pro Forma, Cash Flows and Investment Results for Scenario 2, Miller-Horne Office Conversion to Class B Space, \$6.00 Rent per Square Foot, 9% Interest Rate.	II-127

LIST OF EXHIBITS (Continued)

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
II-31 Pro Forma, Cash Flows and Investment Results for Scenario 2, Miller-Horne Office Conversion to Class B Space, \$6.00 Rent per Square Foot, 12.5% Interest on Monthly Amortized \$608,000 1st Mortgage, 9% Interest on Interest Only \$300,000 2nd Mortgage	II-132
II-32 Photographs of Proposed Marquette Gateway Redevelopment Plans	II-138
II-33 Pro Forma, Cash Flows and Investment Results for New Three Story Retail-Commercial and Residential Building on Ela Site, Two Floors Residential - \$.50 per Square Foot per Month, One Floor Retail - \$5.00 per Square Foot per Year, 12.5% Interest Rate	II-146
II-34 Pro Forma, Cash Flows and Investment Results for New Three Story Retail-Commercial and Residential Building on Ela Site, Two Floors Residential - \$.50 per Square Foot per Month, One Floor Retail - \$5.00 per Square Foot per Year, 15% Interest Rate with Equity Kicker, \$45 per Square Foot Construction Costs	II-151
II-35 Pro Forma, Cash Flows and Investment Results for New One-Story Retail-Commercial Building on Ela Site, \$5.00 Rent per Square Foot, 15% Interest Rate, \$30 per Square Foot Construction Costs	II-156
II-36 Pro Forma, Cash Flows and Investment Results for New One-Story Retail-Commercial Building on Ela Site, \$5.00 Rent per Square Foot, 12.5% Interest Rate, \$30 per Square Foot Construction Costs	II-161
II-37 Site Plan of Proposed Passive Solar Housing Project on 800 Block of Williamson	II-168

LIST OF EXHIBITS (Continued)

II. EAST WILSON/WILLIAMSON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
II-38 Photograph of Passive Solar Housing Model Prepared for 800 Block of Williamson	II-169
II-39 Passive Solar Unit Floor Plan - Loft Model. . .	II-170
II-40 Passive Solar Unit Floor Plan - One Bedroom Plus Loft Model	II-171
II-41 Passive Solar Unit Floor Plan - Two Bedroom Plus Loft Model	II-172
II-42 Rent and Financing Summary of Four Alternative Financing Packages for 66 Passive Solar Units on Block 800 of Williamson Street	II-175
II-43 Summary of East Wilson/Williamson Telephone Interview Housing Survey.	II-178
II-44 Cost Estimates of Gateway Plan Implementation as Phase II of Redevelopment of Blair-John Nolen Intersection.	II-184
II-45 Assumptions and Land Bank Cash Flow Implications for Land Use Pricing of East Wilson Street Corridor Assuming \$1,475,000 in Subsidies for Gateway Plan . . .	II-187
II-46 Assumptions and Land Bank Cash Flow Implications for Land Use Pricing of East Wilson Street Corridor Assuming \$2,475,000 in Subsidies for Gateway Plan.	II-190
II-47 Potential Source and Application of TIF Dollars.	II-192

LIST OF EXHIBITS (Continued)

III. WEST WASHINGTON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
III-1 Map of Original Study Area, Railway Acquisitions and Potential TIF District - West Washington Rail Corridor	III-3
III-2 West Washington Rail Corridor Acreage of Rail Parcels to be Acquired	III-4
III-3 Listing of West Washington Rail Corridor TIF District Parcels - By Street Address and Including Most Probable Market	III-6
III-4 City of Madison - Map of Land Use Recommendations for West Washington Rail Corridor	III-16
III-5 Size Summary and Projected Prices and Projected Assessed Values of Rail Parcels to be Acquired	III-17
III-6 West Washington Rail Corridor - Allocation of Net Potential Assessed Value Increase For TIF	III-20
III-7 Typical Floor Plan and Sketch of Prototype Research Park Rental Building with Financial Details	III-27
III-8 Three-Story Garden Apartment Prototype and Resulting Tax Increment	III-34
III-9 Renovation of Findorff Warehouses into Apartments with Additional Six-Story Tower and Resulting Tax Increment	III-40
III-10 Two Intermediate Six-Story Condominium Apartment Towers and Resulting Tax Increment	III-46
III-11 Statement of Assumptions Affecting Purchase and Sale Prices of West Washington Rail Corridor Land	III-57

LIST OF EXHIBITS (Continued)

III. WEST WASHINGTON RAIL CORRIDOR

<u>EXHIBIT</u>	<u>PAGE</u>
III-12 Cash Flow Output and Land Sale Price at 11% Interest	III-54
III-13 Cash Flow Output and Land Sale Price at 8-1/2% Interest	III-57
III-14 Cash Flow Output and Land Sale Price Assuming Application of \$2.2 Million in TIF Write-Downs to Assumptions In Exhibit III-12	III-60

LIST OF EXHIBITS

IV. ALTERNATIVE LAND BANK VEHICLES, PURCHASE FINANCING
AND CONSTRAINTS ON TIMING

<u>EXHIBIT</u>	<u>PAGE</u>
IV-1 Comparison of Legal Vehicles for Land Banking of Rail Corridor Purchase	IV-5
IV-2 Perceived Disadvantages of Private/ Public Land Bank Concept by Business and Political Community	IV-21
IV-3 Potential Entities with an Interest in Optioning Selected Rail Corridor Parcels on a Pre-Sale Proprietary Land Bank Share Basis . . .	IV-23
IV-4 Map of West Washington Rail Corridor Parcels . .	IV-26
IV-5 Map of East Wilson/Williamson Rail Corridor Parcels	IV-27
IV-6 Typical Railroad Lease Form	IV-33

LIST OF EXHIBITS (Continued)

IV. ALTERNATIVE LAND BANK VEHICLES, PURCHASE FINANCING
AND CONSTRAINTS ON TIMING

<u>EXHIBITS</u>	<u>PAGE</u>
IV-7 Statement of Assumptions Affecting Purchase and Sale Prices of Combined East Wilson and West Washington Rail Corridor Land	IV-42
IV-8 Cash Flow Output at 11% Interest with \$2.475 Million in Grants	IV-46
IV-9 Sensitivity Analysis - Land Retail Sales Price Range (Price per Square Foot) Combined Rail Corridors	IV-49

A MARKET AND FINANCIAL PARAMETERS STUDY
OF RAIL CORRIDORS
IN THE MADISON Isthmus

SECTION I *
DEFINITION OF ASSIGNMENT AND UNDERLYING ASSUMPTIONS

SECTION II
EAST WILSON/WILLIAMSON RAIL CORRIDOR

SECTION III
WEST WASHINGTON RAIL CORRIDOR

SECTION IV
ALTERNATIVE LAND BANK VEHICLES, PURCHASE FINANCING
AND CONSTRAINTS ON TIMING

FOR

CITY OF MADISON
PLANNING AND DEVELOPMENT DEPARTMENT

AS OF

MAY 1, 1983

PREPARED BY
LANDMARK RESEARCH, INC.

TABLE OF CONTENTS

I. DEFINITION OF ASSIGNMENT AND UNDERLYING ASSUMPTIONS

	<u>PAGE</u>
LIST OF EXHIBITS	I-iii
A. Initial Reasons for Study	I-1
B. General Definition of Study Areas	I-4
C. General Objectives of the Study	I-4
D. Specific Task Definition	I-7
E. Specific Contract Definitions Refined by the Committees	I-9
F. Specific Expansion of Research by Contractor	I-10
G. Assumed Socio/Economic Scenario for Madison to 1995	I-13
H. Organization of Report	I-27
I. Time Lines for Public Implementation of Alternative Scenarios for Development	I-28
1. Preparation of a Master Plan and Zoning Recommendations	I-29
2. Tax Incremental Financing	I-30
3. Industrial Revenue Bonding	I-31
4. Private Redevelopment	I-32
5. HUD Section 108 Loans (Guaranteed by Block Grants)	I-33
APPENDICES	I-35
- Agreement for Professional Services (Copy of contract between the City of Madison and Landmark Research, Inc.)	I-36
- Basic Rules and Regulations of HUD Loan Guarantee Programs (HUD Section 108)	I-47

LIST OF EXHIBITS

I. DEFINITION OF ASSIGNMENT AND UNDERLYING ASSUMPTIONS

<u>EXHIBIT</u>	<u>PAGE</u>
I-1 Membership and Supporting City Staff: East Wilson Rail Corridor Steering Committee, West Washington Rail Corridor Study Committee, and the Madison Rail Corridor Oversight Committee for the Steering Committees	I-3
I-2 Map of Original Study Area, Railway Acquisitions and Potential TIF District - East Wilson/ Williamson Rail Corridor	I-5
I-3 Map of Original Study Area, Railway Acquisitions and Potential TIF District - West Washington Rail Corridor	I-6

I. DEFINITION OF ASSIGNMENT AND UNDERLYING ASSUMPTIONS

A. Initial Reasons for Study

A number of major land use decisions and opportunities with major implications for the City of Madison have converged into a set of interrelated issues that must be resolved in 1983 if long range planning for central Madison is to have marketing validity, financial viability, and community commitment:

1. The Milwaukee, St. Paul and Pacific Railroad Company is in receivership and has concluded that its lands in central Madison are surplus to its needs (with the exception of a two-track corridor) and wishes to dispose of both its major holdings of 20+ acres flanking West Washington Avenue and miscellaneous pieces of 9+ acres paralleling East Wilson Street in the 600 to 1200 blocks.
2. The City of Madison is pushing for completion and financing of the John Nolen/Blair Street intersection and corridor plan as Phase 1 of a neighborhood traffic bypass plan conceived without regard to economic development implications.
3. The Marquette Neighborhood Association published its 1982 neighborhood goals and land use plans and announced its intent to further pursue refinement of the Williamson Street corridor for residential and ancillary uses; it also restated objectives to push neighborhood boundaries and control as far north into the railway corridor as possible.
4. Dane County expansion of office park facilities at Truax Field, relocation of MATC to Truax, and University support of the grandiose research park plans of Wisconsin for Research, Inc., clearly threaten the

employment base and ancillary demand for housing, retail, and service facilities in the City of Madison Isthmus.

5. The long term City of Madison plans have focused on the rail yards west of West Washington in response to the negotiation of a land use contract with the University of Wisconsin which is expanding its Garage, Maintenance, and Stores Divisions into lands between Park and Murray Streets and straddling the rail corridor. Completion of long term planning of the rail corridor requires identification of market needs that are both financially feasible and compatible with the political sensibilities of adjacent areas such as the Bassett and Brittingham neighborhoods.

The potential abandonment of the Milwaukee Road Corridor was seen as an opportunity to redress these issues, and the response of the Madison City Council was to create three Ad Hoc committees. The membership of these committees and supporting City Staff are identified in Exhibit I-1 under their respective titles: East Wilson Rail Corridor Steering Committee, West Washington Rail Corridor Study Committee, and the Madison Rail Corridor Oversight Committee for the Steering Committees. In response to a general solicitation or request for proposal, these committees then selected Landmark Research, Inc., to carry out a series of research tasks which were defined with the aid of the Madison City Planning Department. This report is the final work product of a contract dated July 1, 1982, between Landmark Research, Inc., and the City of Madison, and approved by the City Council.

EXHIBIT I-1

MEMBERSHIP AND SUPPORTING CITY STAFF:
EAST WILSON RAIL CORRIDOR STEERING COMMITTEE,
WEST WASHINGTON RAIL CORRIDOR STUDY COMMITTEE,
AND THE MADISON RAIL CORRIDOR OVERSIGHT COMMITTEE
FOR THE STEERING COMMITTEES

CITY STAFF SUPPORT

Anthony Frey, Principal Planner
Jerry Tucker, Relocation Officer
Mike Nagy, Traffic Engineer

MEMBERS OF EAST WILSON RAIL CORRIDOR STEERING COMMITTEE

Ald. William Feitlinger (Council)
Ald. Anne Monks (Council)
Ald. Philip Blair (Plan Commission)
Mr. Richard Wagner (Regional Plan Commission)
Ms. Susan Springman (Mayor)
Mr. John Urich (Dept. of Planning & Development)
Mr. Jessie Jacobs (Marquette Neighborhood Org.)
Ms. Mary Bennett (Wil-Mar Neighborhood Assoc.)
Mr. John Koffel (Williamson Street Bus. Assoc.)
Ms. Susan King (Comm. Dev. Authority)
Mr. Tom Neujahr (Developer)
Ms. Judy Olson (Member-at-large)
Mr. Paul Weiker

MEMBERS OF WEST WASHINGTON RAIL CORRIDOR STUDY COMMITTEE

Ald. Nicole Gotthelf
Ald. Kathy Kuester
Ald. Kendall Witte
Mr. John Brown
Mr. Steve Porter
Mr. Peter Williams
Ms. Barbara Robins

MEMBERS OF RAIL CORRIDOR OVERSIGHT COMMITTEE FOR THE
STEERING COMMITTEES

Ald. William Feitlinger
Ald. Nicole Gotthelf
Ald. Philip Blair
Ald. Eve Galanter
Ald. Pam Wrzeski

B. General Definition of Study Areas

After meeting with the East Wilson Street Committee, the general or original study area was defined as it appears in the map in Exhibit I-2. This area is generally north of Williamson Street and south of a line representing the operating corridor to be retained by the railway, narrowing to a point near the southwest intersection of Williamson and Blair and extending east to Baldwin Street. The committee further chose to focus conceptual analysis on the 700 and 800 blocks together with rail corridor parcels available between Bearly Street and Baldwin Street.

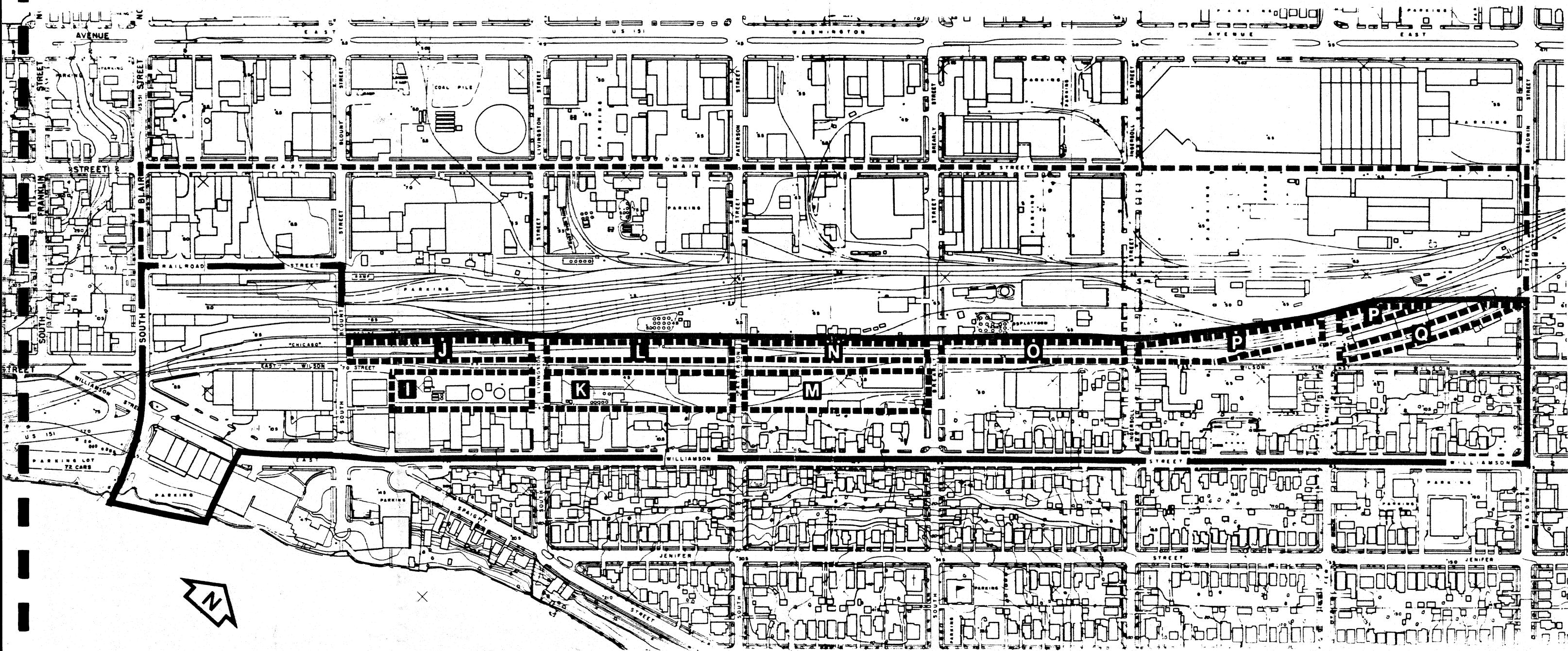
After meetings with the West Washington Avenue Committee, their general study area was defined as it appears on the map in Exhibit I-3, an area generally north of Regent and Proudfit Streets, east of Park Street, west of Monona Bay, and generally south of Dayton and Bedford Streets. In addition to Parcels A through H owned by the railroad, planning concepts were to address certain additional property positions in the study area numbered 1 through 6 in Exhibit I-3.

C. General Objectives of the Study

The basic thrust of the study is to identify effective demand and potential markets for the parcels within the study areas and to provide conceptual financial parameters that could form the basis for a master plan of land use which, over the

EXHIBIT I-2

MAP OF ORIGINAL STUDY AREA,
RAILWAY ACQUISITIONS AND POTENTIAL TIF
DISTRICT - EAST WILSON/WILLIAMSON RAIL CORRIDOR



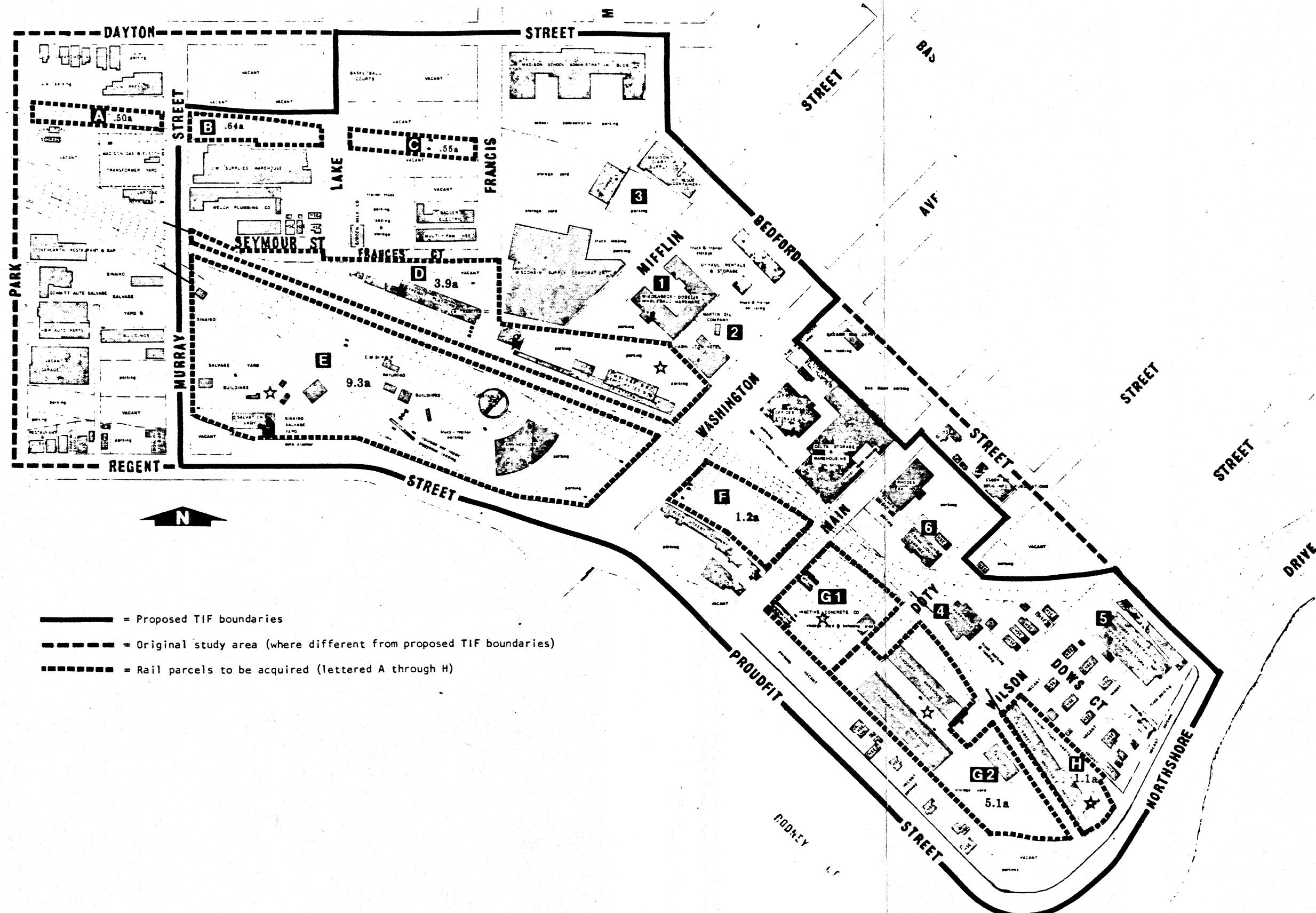
— Proposed TIF boundaries

— = Original study area (where different from proposed TIF boundaries)

— = Rail parcels to be acquired (lettered I through Q)

EXHIBIT I-3

MAP OF ORIGINAL STUDY AREA,
RAILWAY ACQUISITIONS AND POTENTIAL TIF
DISTRICT - WEST WASHINGTON RAIL CORRIDOR



next ten years, reasonably might be expected to be viable, politically acceptable, and administratively doable in the Madison context of intensive political involvement, limited economic growth, and the absence of a strong, proven business power structure or City agency capable of cost effective development. Recommendations as to land use are expected to avoid pitting one aldermanic district against another, present land users against the city, or financial prudence against ambitious architectural dreams.

The City indicated that it did not wish to play the role of land banker. Neighborhood groups expected that any relocation of businesses or residences which is needed to implement land use plans would be accomplished with patience and sensitivity.

D. Specific Task Definition

The City of Madison Department of Planning and Development, represented by Tony Frey, secured approval of an agreement for certain professional services by the Madison Common Council on February 16, 1982, of Resolution number 37,792, and on June 1, 1982, Resolution number 38,071. The general scope of services, briefly abstracted from a lengthy contract in the Appendix to this Section, included:

1. An architectural survey of present property conditions on East side model blocks (subcontracted to architect Arlan Kay and Associates).

2. Comprehensive economic feasibility studies of alternative uses for selected parcels and blocks defined by the Committees.
3. Identification of barriers to redevelopment that might be identified in attitudes of investors, developers, neighborhood politics, traffic patterns, financing, etc.
4. Research and identification of unmet needs in the study areas where there was effective demand and development opportunities.
5. Qualification of redevelopment potentials for selected scenarios given minimum and maximum levels of public subsidy and participation.
6. Qualification of redevelopment potentials given two alternative intersection and traffic plans for the 600 to 900 blocks of East Wilson.
7. Identification of special environmental impacts, such as historical buildings, storm water issues, aesthetics, and negative impacts to be eliminated.
8. Three levels of market research for both East and West rail corridors.
 - a. Economic demand in selected segments of the Madison market of tenants.
 - b. Effective demand for specific parcels among developers.
 - c. Effective demand for purchase of the rail corridor in whole or in part.

While the above items were defined extensively and allocated specific task numbers and budget allocations, in the writing of the final report these responsibilities were met on a block-by-block basis or parcel-by-parcel basis to provide more comprehensive discussion of each parcel as appropriate.

This reorganization is essentially the outline of Sections II, III, and IV as detailed in this report's overall table of contents.

E. Specific Contract Definitions
Refined by the Committees

The two Steering Committees first met to refine the tasks specified by the contract, primarily in regard to refinement of study areas, identification of specific model blocks to be explored, and specification of residential uses and selective alternative uses to be tested for developmental feasibility. In addition, individual members of the Steering Committees were interested in various elements of the interview and survey methods utilized by Landmark Research, Inc. In the process of probing both the collective attitudes of property users already located in the respective study areas, various citizens felt some proprietary concern and obligation to contribute their perceptions to plans for the area. Thus, the Steering Committees became not only an administrative body, but also a forum for the testing of ideas, methods, possible information sources, and stimulating inquiry in which the consultants found an unexpected, creative, and constructive energizer in the creative process of feasibility. We believe that the Steering Committees and the research consultant achieved a very high level of educational exchange and that the report which follows

is a compendium of hundreds of individual inputs. In response to this synergy of constructive leadership from the Committees, the contractor felt honor bound to push the research into areas not originally anticipated by the contract but critical to moving the planning process forward from a conceptual stage to actual master planning. The Committees deserved progress, and we think their attitudes achieved more than had been first anticipated.

F. Specific Expansion of Research
By Contractor

As initial investigation unfolded and meetings were held with the Steering Committees, some limiting assumptions regarding alternative uses on some blocks were made by the Committees and by the contractor to clarify the tasks of the original contract. The Committee was concerned with conceptual studies for redevelopment of blocks 700 through 800 in the East Wilson/Williamson Rail Corridor, but Landmark Research, Inc., also recognized that the potential for these blocks depended on what was done in the transition zone of the 600 Block. The fate of the 600 Block would be determined by the final design scheme for the Williamson/John Nolen intersection. Therefore, the contractor expanded its concerns to include the 600 Block at no additional charge and participated in a series of traffic engineering meetings on two alternative concepts for

the intersection (one plan was provided by Landmark Research, Inc.). At the time of this writing, the City of Madison is proceeding with its original plans for this intersection while detailing and budgeting cost for the Landmark alternative for East Wilson. The preliminary estimate of costs of the Landmark alternative as prepared by the City is \$2.5 million dollars and is further detailed in Section II. The physical plan greatly increases the probability for intensive development of Machinery Row and the Postal Annex sites and should accomplish some reduction in automobile traffic entering the Marquette neighborhood from Blair Street.

A second major expansion of the contract was the contractor's recognition of the need to convert consumer statements about the attributes desired for inexpensive, high density housing into a specific plan to provide cost parameters. Arlan Kay created a design prototype which exploits passive solar, provides interesting interior spaces unlike current ticky tacky boxes, permits alternative combinations of one to three bedroom units, which on Williamson Street might also have some commercial adaptation, and reflects the steep gable, frame, turn-of-the-century textures of the immediate neighborhood. The contractor worked with Arlan Kay to design a flexible module, compatible with production procedures and utility modules of Wick Building Systems in Mazomanie. A three

dimensional model and alternative site plans were produced from this new styled housing unit, and a consumer panel and luncheon was held at East Williamson Street's neighborhood restaurant, Boehm's. The consumers were generally enthusiastic about the housing concept, and photographs of these models as well as panel results are included in this report. The plans and concepts are available to anyone wishing to develop the subject area accordingly, and are further detailed in Section II-D.

In addition, Arlan Kay and Associates produced a number of air photo overlays to suggest the visual implication of alternatives described as feasible in the report. Thus, the architectural consultant also pushed well beyond the limits and specifications of his contract.

A third element of the study greatly expanded by Landmark Research, Inc., was the analysis of alternative redevelopment organizations and agencies for expediting, financing, and accelerating the rail corridor redevelopment opportunities.

Feasibility of some uses for some of the parcels desired by the Committee requires significant subsidy by the public sector when the public sector is short of general revenues at every level. Since we can only build concepts we can finance, preliminary feasibility requires review and selection of the most probable organizational vehicle that can achieve both

financing and land use objectives of the interested community involved.

G. Assumed Socio/Economic Scenario for Madison to 1995

Real estate development is constrained by trends in community employment, demography, and politics, as well as in finance, and by physical factors like topography, traffic, and other infrastructure. The drive wheel is effective demand while supply can respond within the limits of the financial and political realities of the moment. Specific proposals for the rail corridors must operate within the broad economic, demographic, perceptual, and political constraints below.

PREMISE 1: Of the ten major megatrends forecast by John Naisbitt [1], four work against Madison and constrain redevelopment while five provide opportunity for Madison and the rail corridors.

1. To the benefit of Madison:

- Shift from industrial society to information processing society (Madison has always been in the information business with less than 15 percent of employment in

[1] See Chapter 1, Megatrends, John Naisbitt, Warner Books, Inc., New York, 1982.

industrial categories. Madison will, therefore, have less structural unemployment than eastern Wisconsin). [2]

- Shift to high tech/high touch society (Despite great sophistication in science, medicine, finance, and agribusiness, Madison has always been a mellow, humanistic, casual society).
- Shift from centralized government to decentralized government, business ownership, and community structures (Weak mayor--strong Council representing diverse neighborhoods has always reflected a lack of centralized political power in Madison).
- Shift from short-term expediency programs to long-term planning by both public and private strategists (New leadership in City Planning and Development agency explicitly reflects this trend).
- The household, the basic building block of the society, is shifting toward multiple options in terms of household lifestyles, locational preferences, work patterns, and

[2] See Chapter 14, "Expectations for Wisconsin's Economy and the Means to Realize Them," Wisconsin's Economy in 1990: Our History - Our Present - Our Future, William A. Strang, The University of Wisconsin - Madison, School of Business, Madison, Wisc., 1982.

recreational outlets. Increased diversity or segmentation requires development to think small and avoid apparent economies of mass production. (Housing surveys in Madison continually reveal preference for small scale residential multifamily units under tenant control.)

2. To the detriment of Madison:

- . A national economy with insulated interest rates is becoming a world economy which is capital shy and prone to inflation, causing rising interest rates to the detriment of municipal capital budgets for redevelopment.
- . Shift from institutional help such as federal subsidies and grants to self-help at every level of society is eliminating federal and state capital subsidies for urban development.
- . Shift of economic power and population to California, Texas, and Florida -- north to south -- parallels unequal spending of federal resources in the south due to the skill of their elected representatives.
- . Shift from representative democracy to participatory democracy means longer lead times in terms of speed and efficiency of construction, further reducing effectiveness of limited subsidies.

PREMISE 2: Areas of potential growth in Madison relate to the University, the medical centers, suburban services, and possibly the arrival of a few high tech employers. Nevertheless, Naisbitt wrote, "Recent studies have convinced government and business observers that small businesses, not big corporations, are responsible for most of the new jobs created and most of the nation's economic growth, and that they are most productive and innovative as well.

"The most widely cited study is by David Birch of MIT's Program on Neighborhood and Regional Change. The study, which surveyed approximately 80 percent of all business enterprises in the United States between 1969 and 1976, showed that nearly two-thirds of all new jobs created were generated by businesses employing 20 people or less. During the 1970s, by contrast, the Fortune 1,000 produced virtually no job growth, according to Birch (The National Federation of Independent Businesses, however, is willing to acknowledge that the Fortune 1,000 created 10.6 percent of all jobs during the 1970s)." [3]

THEREFORE, it is not likely that some big corporate employer or financial institution will appear to sponsor

[3] Naisbitt, p. 146.

redevelopment in downtown Madison on a grand scale, but rather redevelopment and growth will occur as the result of judicious subsidy of firms and little entrepreneurs already found in the Isthmus area.

PREMISE 3: The economic base for downtown Madison is government employment, financial services, and professional offices other than medical. For a variety of reasons Madison downtown employment, resident population, and commercial and most residential space requirements will remain fundamentally constant for the remainder of the decade.

THEREFORE, space users will be found primarily from those already within the Wilson/Williamson Street Corridor. New apartments and new office space are not likely to create a wave of immigration but may reduce the leakage of viable businesses and higher income households from the Isthmus.

PREMISE 4: Census tract 19 including the Wilson/Williamson Street Corridor has one of the City's lowest income levels, greatest diversity of ethnic groups, and the lowest property values [4], and has suffered significant decline in population as people have been able to afford to live elsewhere in Madison:

[4] U.S. Department of Commerce, Bureau of Census, 1980 Census of Population and Housing, Census Tract, Madison, Wisconsin, SMSA.

POPULATION TRENDS, 1960-1980

					<u>PERCENT CHANGE</u>		
	<u>1960</u>	<u>1970</u>	<u>1974</u>	<u>1980</u>	<u>1960-70</u>	<u>1970-74</u>	<u>1974-80</u>
Census							
Tract 19	8,240	6,841	6,054	5,677	-17.0%	-11.5%	-6.2%
Madison	126,706	171,769	168,671	170,616	+35.6%	-1.8%	+1.2%

RESOURCE: U.S. Department of Commerce, Bureau of Census, Report for 1960, 1970, 1980.

The highest per capita incomes in Tract 19 are found southeast of Jenifer Street and along Lake Monona. As the topography drops, moving northwest from Lake Monona to East Wilson Street, so do the per capita income levels and age levels. Effective demand in the Williamson Street area is insufficient to justify new fully costed buildings.

THEREFORE, residential users may relocate within the area to improve value received per rental dollar, but external demand to relocate into the area at higher rent levels to justify new construction (possible exception would be lake frontage such as found at the Fauerbach Condominium) cannot be identified and may not be welcomed by residents who fear something akin to gentrification.

PREMISE 5: Commercial users already within the Wilson/Williamson Street Corridor are there because it is a central point with low cost space for distribution throughout Dane County.

THEREFORE, alternative replacement space must be subsidized in terms of improved access to major roads at any point of relocation equal to present location.

PREMISE 6: Many commercial users are in the neighborhood because obsolete space is the lowest cost alternative available to marginal or seed enterprises. Lack of effective demand has prevented the normal succession of uses. The resulting stagnation is abetted by the railroads which have leased land in the past (the northern tier of lots on the Wilson/Williamson Street Corridor) at nominal rents to enterprises likely to generate railroad car loadings. These leases have short terms and have discouraged private investment in elaborate improvements or building maintenance, greatly impeding acquisition of obsolete improvements to permit succession to a higher and better use.

THEREFORE, acquisition of rail lands not actually needed for through rail traffic will facilitate movement toward a normal succession of land uses on Williamson Street frontage.

PREMISE 7: To abandon sidetracks and sell corridor land, the railroad must petition the Interstate Commerce Commission (ICC) and demonstrate minimal injury to other enterprises due to loss of service. Current users on the 700 and 800 blocks or on the West Washington Corridor could testify against abandonment of sidetracks so that speedy redevelopment without

surprises from the ICC would require generous subsidy for the relocation of a number of tenants on the corridors. If the ICC determines property to be surplus to transportation operations, the property would then be transferred to the Madison tax roll, discouraging railway action until the railway is assured of immediate sale to avoid increased overhead. On the other hand, the Milwaukee Road is currently soliciting offers from leaseholders to buy leased land at retail prices well above bulk sale unit prices.

THEREFORE, the implication is that creation of an entity to purchase corridors could co-opt alternative markets for the railroad and achieve a bargaining position necessary to accomplish a substantial bulk price discount. Moreover, the implication that property values are transferred to the Madison tax roll carries the suggestion that the rail corridor has a base of zero in measuring the tax increment potential for TIF purposes. (This needs legal review by City attorneys.) The TIF district must be in place before the recognition of land as surplus and/or transfer to a private entity in order to capture the increment.

PREMISE 8: Recent renegotiation of railroad leases has increased income to the Milwaukee Road on the northern tier of lots between Williamson and East Wilson Streets. For example, the northern one-half of the 800 Block went from \$6,000 to

\$7,500, a 25 percent increase, which, if capitalized at 12 percent, suggests a value of \$62,500 for approximately 79,000 square feet or \$.80 per square foot. When capital costs of buildings belonging to the tenants and relocation expenses are added, total land acquisition costs exceed parameters justified by low density residential types of buildings or parking to support commercial.

THEREFORE, desired types of redevelopment in the East Wilson/Williamson area will require land write-downs or other capital subsidies from TIF funds, block grant loans, or other economic development funding sources.

PREMISE 9: Land pricing of the rail corridor is not only inflated by aggressive new rent levels sought by the railroad, but may have been inflated by the ongoing assemblage of lands in the area by public utilities such as Madison Gas & Electric and the Madison Water Utility and by the City of Madison assessment patterns governed by these comparables. It is judgmental as to whether these purchases for assemblage were those of a captive buyer and therefore not acceptable as comparable sales in the courtroom.

THEREFORE, negotiation of purchase price with the railroad must rely on a bulk discount which is less than the opportunity cost of delay to the railroad. These factors are maximized by negotiating a single acquisition of all available lands from

the Milwaukee Road by a single buyer who would take the responsibility and risk for the parceling and the pace of resale to an investor/developer/user. At the same time, bulk purchase permits averaging of cost and it facilitates the transfer of values created in a few legitimate high density redevelopments toward the subsidy of low density land uses preferred by neighborhood residents. Financing a bulk purchase will require a lower interest factor found with tax exempt or HUD urban redevelopment financing alternatives.

PREMISE 10: Any purchase of railway land by a City agency, statutory redevelopment corporation, or City controlled entity would require payment of relocation costs under federal standards of eminent domain compensation and payment of appraised value (not negotiated value) for property acquired so that bulk price must be attained by private civic groups.

THEREFORE, this group must protect vested interests of existing leasehold owners to have their cooperation. Old fashioned bulldozer removal of rail corridors not only is incompatible with a high touch, decentralized society concerned for neighborhood individuals and enterprises but is also too expensive for state and local governments.

PREMISE 11: In general, purchasing power of tenants, measured in terms of rents or capital improvements currently along Williamson Street, is too low to represent effective demand for

renovated or new space. At the same time, the presence of certain adverse uses such as sidetracks, industrial garages, and the old public image of Madison Gas & Electric power plants effectively discourages enterprises and households of better than average means from shifting toward the area from elsewhere on the Isthmus.

THEREFORE, acquisition of rail corridor and rearrangement of tenancies must be primed by public investment whose return is made difficult by: (1) neighborhood concern for low density development and, (2) acquisition of lands at a realistic bulk price by negotiation with the railroad which is conditioned to expect relatively high square foot prices by a few small parcel transactions with Madison Gas & Electric and former leaseholders, essentially, captive purchasers.

PREMISE 12: Neighborhood perception of the rail corridor width encompasses the northwestern railroad corridor, Madison Gas & Electric lands, vacant storage yards owned privately or by the Madison Water Utility, as well as vague territorial claims north to Main Street. This public perception has led in the past to unrealistic neighborhood expectations for new housing development and greenways with extensive lagoons to be used as thermal cooling points for Madison Gas & Electric and other facilities. In fact, the corridor available from the railroad

is only 250 feet wide at its widest point and its continuity is constricted by prior purchases of particular parcels.

THEREFORE, the redevelopment plan expectations should be reduced to protecting the integrity of Williamson Street and certain residential enclaves along the 1100 and 1200 blocks between Williamson and Wilson Streets. Acquisition of the narrow rail corridor east of Bearly will provide sites for relocation of certain inharmonious or adverse uses now intermixed with residential uses on Williamson Street. The pull-back of adverse uses to the newly acquired rail corridor will permit in-fill projects compatible with the residential character on the sites of the relocated enterprises. Railroad corridor acquired between Bearly and Blount will permit construction of a one-way Wilson Street for strong delineation of the Marquette Neighborhood border vis-a-vis the encroaching Madison Gas & Electric presence.

PREMISE 13: The will of the City Council to focus limited redevelopment resources on one area for high impact in a short period of time is diluted by log rolling to divide Block Grant Funds through the convolution of capital budget voting procedures for financing and by emasculating City development agencies with excessive committee management. Moreover, City staff is fully committed to other priority projects so that

speed in responding to rail corridor opportunity will require contracting for planning services.

THEREFORE, it is recommended that the City and neighborhood associations designate or create a single acquisition-disposition entity to have exclusive responsibility for land banking and land planning of the rail corridor acquisition. As part of this designation it should be given a specified set of subsidies, a master plan with zoning in place, and a policy statement as to what type of uses would qualify for Council approval for economic development or other specific City aids. The entity should be only quasi-public and have dividends for shareholders to force the discipline of solvency at the same time that it is managed with pro-development aggressiveness by someone with a profit sharing bonus as motivation, not a civil service sinecure.

PREMISE 14: The only available subsidies for Wilson/Williamson Street projects are, in order of probability, suitability, and amount:

- A. HUD loan program 108
- B. Industrial Revenue Bonds (IRB)
- C. Tax incremental financing (TIF)
- D. Block grant funds via Madison Development Corporation (MDC) or Block Grant Committee
- E. Rehabilitation loans from MDC for renovation of existing structures in the 600 and 700 blocks of Williamson Street via Madison Development Corporation or Common Wealth Development, Inc., or other City programs
- F. Loans for residential co-ops insured by FHA as part of City Co-op Loan Program

- G. Wisconsin Housing Finance Authority neighborhood multifamily residential loans
- H. Railroad financing of land sale with 2 to 3 year take-out on purchase contract
- I. City Parking Utility Revenue Bonds for lot with meters

THEREFORE, once projects are identified for selected parcels, the City or neighborhood must organize an impact group to carry them through the procedures of one of the above programs.

PREMISE 15: The Department of Housing and Urban Development (HUD) provides financing of land acquisition and redevelopment by a unit of general local government or its designated public agency (CDA, MDC, or Common Wealth) if the City is willing to pledge its multi-year block grant commitments as a guarantee. The interest rate is a function of the Treasury borrowing rate under Subpart M-Loan Guarantees.

THEREFORE, it is assumed that the City of Madison would not compromise its future block grants on long term land development where repayment is not guaranteed by pre-sale contracts. (See Appendix for basic rules and regulations of HUD Section 108 loan guarantee programs.)

PREMISE 16: Tax increment financing must be the primary source of funding for the write-down required after bulk purchase of the railroad land with private capital and industrial bond financing. Rail land can be traded for privately owned parcels involved in relocation or assemblages within study block areas.

Unfortunately, high density, high value improvements such as Capitol Centre and the Jackson Clinic are not suitable or even desirable for the lands in question. However, these projects do provide the prototype for gerrymandering the TIF district borders.

THEREFORE, two TIF zones should be formed to create resources to augment justified capital investment of low rent, low cost redevelopment on a majority of the corridor.

1. TIF Corridor #1 should include the entire corridor zone extended to Williamson Street on the south, Blair Street on the west, and including the Machinery Row site on the 600 Block of Williamson Street (see Exhibit I-2). Ideally, it should also include the Cardinal Hotel parcel in the 400 Block of East Wilson and the Rhode properties in the 500 Block of East Wilson Street. These parcels are not available unless their owners request inclusion in the TIF District.
2. TIF Corridor #2 should include the areas bounded by Bedford, Northshore, Proudfit, Regent, Murray, the rear lot line of University lands along Dayton, Lake, and Dayton (see Exhibit I-3).

H. Organization of Report

This final report has been organized into a general introductory background in Section I, two separate sub-

committee reports, in Sections II and III, and a white paper on structuring and financing the purchase of the rail lands designated as Section IV. Each of these sub-reports is directed to its specific Steering Committee and can be separately duplicated and circulated as such. Section II is designated as the East Wilson/Williamson Rail Corridor Steering Committee report while Section III is the West Washington Rail Corridor Study Committee report. Each of these sub-reports contains a final section giving the consultant's recommendations for creating a vehicle for redevelopment of the respective corridors. These recommendations are the result of considerable study of alternatives as an expansion of services by Landmark Research, Inc., and the short white paper is the substance of Section IV of the report.

I. Time Lines for Public Implementation of Alternative Scenarios for Development [5]

Planner Tony Frey has reviewed the time lines necessary to meet various public responsibilities which might be required by different redevelopment scenarios.

[5] Based on a memo prepared by Tony Frey, Principal Planner, for CDA, dated March 17, 1983.

1. Preparation of a Master Plan
and Zoning Recommendations

Regardless of how or under whose auspices the rail property is acquired and developed, a publicly approved master plan for incorporation into the City's official land use plan and subsequent zoning recommendations which can be initiated by the Common Council are advisable for minimal public control of redevelopment in both rail corridor areas. At present, it appears that most of the market and community preference basis is in place for the preparation of a basic (land use, transportation, public facilities, etc.) master plan for all the West Washington Corridor and portions of the East Wilson Corridor and can be consolidated for recommendation to the Rail Corridor Committees. Should this assumption be correct, basic master plan recommendations along with zoning recommendations can be ready for reporting to the Common Council in document form by the end of June, 1983. Amendment of the official land use plan to incorporate the master plan recommendations would require about 90 days. Should the review and hearing process go smoothly, the process of amending the zoning map could be carried out almost concurrently. The earliest estimate by Frey is that master plan recommendations and zoning amendment recommendations

could be a matter of official policy by the end of September of this year.

2. Tax Incremental Financing

It appears that tax incremental financing will be a necessary tool for any of the project development scenarios suggested by Landmark Research, Inc. The Project Development staff advises that a minimum of 50 weeks is necessary to carry out the complete tax incremental financing process, beginning with public review of applications from developers and ending with the execution of development agreements, guarantees of increments and so forth. Note that the process must be initiated by a developer or a private entity so that the creation of a land banking entity that is not a public agency could initiate the TIF process to save time for the future land purchasers/developers. Between the beginning of the process and its execution there are eight categories of activities and approvals which must occur in order to create the district, execute agreements, and make funds available.

In the event that tax increment proceeds are to be used for land write-down, the municipality (through the Community Development Authority) must also complete all work and actions relative to the declaration of blight and the creation of an official redevelopment project area with

an accompanying and approved redevelopment project plan. This process is necessary when the city acquires private property for purposes of redevelopment to be carried out by either public or private bodies. Frey's estimates of time required to carry out the process are based on a redevelopment project which would encompass the properties owned by the railroads in the West Washington Rail Corridor. Smaller assemblages of property would require less time and greater assemblages of property more time. Time estimates are also based on the assumption that a Committee participatory process would be used in carrying out the redevelopment plan. Eighteen months at a minimum would be required to complete ten sequential steps in creating an official redevelopment project area and project plan, beginning with the blight study and ending with adoption of changes to the City's Master Plan and Zoning Ordinance. Designation of the project area and declaration of blight as well as the approval of an official redevelopment plan require a two-thirds vote of the Common Council.

3. Industrial Revenue Bonding

The Landmark preliminary report recommends that Industrial Revenue Bonding be used to finance the acquisition of rail property by a private corporation and for other development activities as well. The municipal

process authorizing the issuance of tax-exempt industrial revenue bonds for use by private investors requires a minimum of 18 weeks, assuming that all materials and cost and expenditure assurances by the developer would be made available in a most expeditious fashion. The process is carried out in a number of steps beginning with a determination of eligibility for the use of industrial revenue bonds and the acceptance of an application by the developer. The process continues with an adoption by the Council of a comfort resolution and further continues with the submittal of additional information by the applicant which is necessary for preparation and approval of a final resolution.

4. Private Redevelopment

Private redevelopment carried out under Wisconsin Statutes 66.405-25 (Urban Redevelopment) requires the preparation of a development plan with somewhat different characteristics than that required for a public redevelopment project. It is estimated by Tony Frey that about the same amount of time, 18 months, would be required to go through the plan preparation and approval process for a development plan emanating from a private redevelopment corporation. That process would begin with authorizing a memorandum of understanding between the municipality and

the redevelopment corporation and end with the Plan Commission and Common Council approval of the project area, the statement of blighting conditions and the statements and determinations which comprise the development plan.

City of Madison planning staff believes that any of the implementation alternatives analyzed by Landmark Research, Inc., will require a City/Community Development Authority (CDA) responsibility in the form of some type of land acquisition, declaration of official redevelopment project and adoption of a redevelopment plan. The redevelopment role appears to be mandatory with any public acquisition of property for which the purpose is redevelopment. Although some portions of the West Rail Corridor may be developed without tax increment financed land write-down, large assemblages of property designated for residential use would surely require such assistance. The private land-holding corporation preferred by Landmark Research, Inc., would be acquiring rail property in bulk, a good portion of which would be used for residential development. Hence, even in this scenario, a City/CDA role is essential for the furtherance of the project.

5. HUD Section 108 Loans
(Guaranteed by Block Grants)

In the event that an interim property acquisition by the City or the CDA becomes a necessary holding action for

the rail property in anticipation of a private corporation for land banking, there appears to be HUD funding available in the form of loans to the City/CDA for the purpose of acquiring such land. Such loans can be collateralized by pledges of future Block Grant allocations to the City. This approach would, of course, expose the city and the project to significant relocation liability as well as the risk of having to acquire at a cost higher than might be obtained through private negotiations. Thus, it should be viewed only as a method of necessity.

Landmark Research, Inc., suggests that use of this HUD program would unnecessarily delay the project and increase acquisition cost for the land bank. The City might wish to use it to acquire selected parcels within the Master Plan area but outside the scope of the rail corridor development.

APPENDICES

AGREEMENT FOR PROFESSIONAL SERVICES

THIS AGREEMENT, entered into as of July 1, 1982; by and between the City of Madison, a municipal corporation of Dane County, Wisconsin, hereinafter "City", and the Landmark Research Inc., hereinafter "Contractor";

WITNESSETH:

WHEREAS, the Madison Common Council on 2/16/82, adopted Resolution No. 37,792, which authorized the Department of Planning and Development to solicit proposals for consultant services, and

WHEREAS, the Madison Common Council on 6/1/82, adopted Resolution No. 38,071, authorizing the Mayor and City Clerk to enter into contract with the firm, Landmark Research Inc., for consultant services for a fee not to exceed \$32,400.00.

NOW, THEREFORE, in consideration of the mutual covenants, promises, and agreements hereinafter set forth; it is agreed by and between the parties hereto as follows:

SCOPE OF SERVICE

The Contractor will provide the City those consultant services specifically described in a scope of services, attached to and made a part of this agreement as Appendix "A".

STUDY AREA

The Contractor shall conduct consultant services specified in the Scope of Services for geographic areas specified in Appendix "B", attached to and made a part of this agreement.

METHOD OF PERFORMANCE AND TIMING

The Contractor will work closely with the City during the course of the assignment. To facilitate this, it is agreed that:

1. The Contractor will be available to the City for the specific purpose of reporting to committees and organizations specified by the City.
2. The City will be responsible for answering all inquiries from governmental officials, groups or agencies, communications media, etc.
3. The Contractor shall complete the work specified in the Scope of Services no later than December 31, 1982; or by a later date mutually agreed to by the Contractor and the City of Madison Department of Planning and Development.

DATA AND ASSISTANCE TO BE PROVIDED TO THE CONTRACTOR BY THE CITY

The City shall provide the Contractor with such data and assistance as is specified in the scope of services of this Contract and such other data and assistance as may be reasonably available.

COMPENSATION

The City shall pay the Contractor for services provided for in the scope of services of this Contract an amount not to exceed \$32,400.00. Such sum shall be payable on the basis of monthly certifications by the Contractor as to the completed percentage of the total scope of services of this Contract, as of the date of the claim.

The Contractor shall not exceed the amounts specified in Appendix "C", Allocation of Total Compensation to Technical Work Activities, attached to and made a part of this Agreement, unless authorized by the City of Madison Department of Planning & Development following written notification by the Contractor.

CHANGES

The City may, from time to time, request changes in the scope of the services of the Contractor to be performed hereunder. Such changes, including any increase or decrease in the amount of Contractor's compensation, which are mutually agreed upon by and between the City and the Contractor, shall be incorporated as written amendments to this Contract.

ASSIGNMENT OF PERSONNEL

All the services required hereunder will be directly performed by the Contractor, the Contractor may not subcontract any portion of the work, excepting that work identified in the April 28, 1982, revised proposal to be conducted by Arlan Kay and Associates, without the written approval of the City.

COMPLIANCE WITH LOCAL LAWS

The Contractor shall comply with all applicable laws, ordinances, and codes of the State and local governments, and shall commit no trespass on any public or private property in performing any of the work embraced by this agreement. In addition, the Contractor shall comply with the Affirmative Action Ordinances of the City of Madison, and Affirmative Action Articles attached as Appendix "D" and incorporated into this contract by reference.

ASSIGNABILITY

The Contractor shall not assign any interest in this contract, and shall not transfer any interest in the same without the prior written approval of the City; provided, however, that claims for money due or to become due the Contractor from the City under this contract may be assigned to a bank, trust company, or other financial institution, or to a trustee in bankruptcy, without such approval. Notice of any such assignment or transfer shall be furnished promptly to the City.

INTEREST OF LOCAL PUBLIC OFFICIALS

No member of the governing body of the City of Madison, or any officer, employee, or agent of the City who exercises any functions or responsibilities in connection with the review or approval of the work to which this contract pertains shall have any personal interest, direct or indirect, in this contract or the proceeds thereof.

INTEREST OF CONTRACTOR

The Contractor covenants that he presently has no personal interest, direct or indirect, in any property or business of any kind, and shall not acquire any such interest, which would conflict in any manner or degree with the performance of his services under this contract.

INDEMNIFICATION

The Contractor agrees to indemnify, defend, and save harmless the City of Madison, its employees, and agents, from and against all loss or expense (including cost and attorney fees) by reason of any claim or suit, or of liability imposed by law upon the Contractor or his agents or employees for damages because of bodily injury, including death at any time resulting therefrom, sustained by any person or persons or on account to damages to property, including loss or use thereof, whether caused by or contributed to by the Contractor or his agents or employees.

INSURANCE

The Contractor agrees that in order to protect itself and the City under the indemnity agreement set forth in the paragraph above, it will at all times during the term of this agreement keep in force and effect comprehensive general liability insurance, including contractual liability insurance, and auto liability insurance policies issued by a company or companies authorized to do business in the State of Wisconsin with liability coverage providing for therein in the amounts of at least \$300,000 per occurrence for personal or bodily injury and \$50,000 for property damages. Coverage afforded shall apply as a primary with the City named as additional insured. The Contractor and Insurer shall give 30 days advance written notice of cancellation or non-renewal of material changes during the term of this agreement. Upon execution of this agreement, the Contractor shall furnish the City with a certificate of insurance and upon request, certified copies of the required insurance policies..

FINDINGS CONFIDENTIAL

All of the reports, information, data, etc., prepared or assembled by the Contractor under this contract are confidential and the Contractor agrees that they shall not be made available to any individual or organization without the prior written approval of the City.

TERMINATION

This agreement may be terminated at any time by written, mutual agreement of the parties, provided all applicable laws and regulations are complied with.

The City shall have the right at its option to terminate this agreement and be free from all obligations hereunder in the event that the Contractor is in default, or violates any of the terms, conditions, assurances, or certifications of this agreement.

In the event of such default or violation by the Contractor, the City shall send the Contractor by certified mail, a notice or demand to cure default, explaining the nature and extent of the default or violation. The Contractor shall cure or remedy said violation or fault within 10 working days after receipt of said notice, unless a longer time is agreed upon by both parties in writing. In case the default is not cured or remedied within 10 working days or a longer time agreed upon, the City may exercise its option to terminate this agreement.

The City shall also have the right at its option to terminate this agreement and be free from all obligations hereunder upon the happening of any one of the following events upon 5 days written notice:

1. The death or disability of such employees or agents of the Contractor so that the Contractor is unable to perform according to the terms of this agreement;
2. The occurrence of any event beyond the control of either party to this agreement which renders it impossible to continue performance pursuant to this agreement;
3. The refusal of the Contractor to perform the services required by the City pursuant to the terms of this agreement.

The Contractor shall not be relieved of liability to the City for any damages sustained by the City by virtue of any breach of this Agreement by the Contractor, and the City may withhold any payments to the Contractor for the purpose of set-off until such time as the exact amount of damage is due the City from the Contractor is determined.

In the event the City cancels this agreement and determines that it has not sustained any damage, giving rise to a right to withhold payment, the City will pay the Contractor for services performed and not submitted as of the date of the cancellation.

SEVERABILITY

It is mutually agreed that, in case any provision of this agreement is determined by a court of law to be unconstitutional, illegal, or unenforceable it is the intention of the parties that all the other provisions of this agreement remain in full force and effect.

IN WITNESS THEREOF, the parties hereto have set their hands at Madison, Wisconsin.

Signed this day of , 1982.

CITY OF MADISON, WISCONSIN
A Municipal Corporation

WITNESS:

Dinda Lewis

Jul Skornicka
Jul Skornicka, Mayor

Jean Traeger

Dolores J. Miller, Asst. City Clerk
Elton H. Hael, City Clerk

WITNESS:

Doris E. Bresna

CONTRACTOR

Jean B. Dennis

APPROVED: CITY COMPTROLLER

APPROVED AS TO FORM:

Paul R. Reilly
Paul R. Reilly, City Comptroller

Henry A. Genpeler
Henry A. Genpeler, City Attorney

APPROVED FOR AFFIRMATIVE ACTION:

APPENDIX "A"
SCOPE OF SERVICES
LANDMARK RESEARCH INC.

1. Inventory of Present Property Conditions:

This work will survey all existing buildings in the model block study area selected by the steering committee. The work will include an analysis of physical deterioration, condition, and compliance with the building codes. The following items will be surveyed: Structural conditions (foundation, frame and roof); exit capacities; stairways and doors; condition of the electrical system; condition of the mechanical system (HVAC and plumbing); overall fire safety and class of construction. Owners and users of the buildings will be identified by review of the tax records and interviews with occupants. A schematic land use map will be prepared using the above information plus a review of the Sanborn and zoning maps.

2. Economic Feasibility Studies:

This work will begin with discussions with representatives of the Madison Department of Planning and Development and the City's project steering committee to insure common understanding of the issues and objectives of the feasibility studies and to define the appropriate test of feasibility and measurements of success. Comprehensive feasibility studies will be done on three properties selected by the steering committee and on three properties selected by Landmark Research Inc. The steering committee, with the assistance of Landmark Research Inc. will select a model study block containing the six properties.

The feasibility studies are intended to identify and analyze the economic and investment attributes of the selected properties as redevelopment projects. The feasibility studies will rely on site and improvement attributes, on development costs, on market research, on the preferences of the City and local interest groups, and on the analysis of present barriers to redevelopment. An exploration will be made of all possible new and existing sources of financing available from private and semi-private sources; as well as from Federal, State, and municipal levels of government. Economic feasibility studies will also focus on the feasibility and/or desirability of packaging multi-purpose projects, so those with the greatest economic feasibility will provide a subsidy for needed, but less solvent projects, such as housing for low and moderate income persons.

To encourage the use of private capital in the redevelopment process, local developers will be interviewed to determine their perceptions of the study area as it exists today, and what changes will need to occur to promote private investment. Local investors will also be interviewed to determine their acceptable measures of project/investment success.

Following a review of the model block's attributes including physical and legal-political characteristics, linkages which contribute towards effective demand for the property, dynamic traits which exist in the minds of people and which affect their decision-making behavior, and the environmental characteristics which impact socially and financially upon the public; two alternative redevelopment scenarios will be tested for preliminary financial

analysis and effective demand. An initial screening will be conducted to convert targeted market rents to the justified investment value by the "backdoor" method of analysis. The "backdoor" method will test the tolerance of the development costs of the alternative redevelopment projects for variance in key assumptions which include revenues, expenses, financing, and investor return. Included in the analysis are measures of absorption rates, capture rates, vacancy rates, expense ratios, income ratios, and debt cover and/or default ratios. To further refine the economic analysis, computerized discounted cash flow studies will be utilized for the proposed alternative redevelopment scenarios which appear to be most economically feasible and which have uses which remain viable from the more static preliminary screening.

3. Present Barriers to Redevelopment:

Interviews will be conducted with local neighborhood groups, members of the City Planning and Development Department, local investors, local historians and other interest groups to identify and analyze barriers and/or difficulties which have been experienced in the past and which can be expected in the redevelopment of the study area, and specifically, in the model block properties selected for economic feasibility studies.

4. Unmet Real Estate Market in the Study Area:

This work will identify unsatisfied real estate market demands for the study area. Perceived demands and consumer needs will be based on analysis of information to include previous market-type studies for the area, opinion surveys, and preference polls conducted during the past five years. Sources of information and analysis of this information will be provided by the City or other consultants under the general technical direction of Landmark Research Inc. To the extent the information and analysis will allow, effective demand in the form of qualified potential absorption and capture rates will be projected for various real estate markets which seem suitable for the study area. Projections will also be qualified by analysis of available 1980 Census Data regarding population, households, income levels, and allocation of discretionary income.

As a supplement to the above analysis, approximately 50 interviews with merchants and their customers, in a portion of Williamson Street to be selected by the steering committee will be completed and analyzed by Landmark Research Inc. The findings will be used to suggest suitable and supportable land uses for the selected area.

Should the City contract for alternative and expanded, Task #7 then funds reserved for Task #7 in this scope of services will be reallocated to Task #4 for use in obtaining primary market data based on survey research.

5. Redevelopment Potential with Minimum and Maximum Levels of Public Influence and Participation:

This work will be generally applied to two basic alternative land use scenarios for the study area and specifically applied to the selected model study block. For the model block, schematic land use plans will be developed and a preliminary financial ranking will be done for each alternative scenario. Forms of public influence and participation to be

analyzed will include various applications of financial assistance, the provision of "front-end" development services, coordinative roles between private investment interest, the City and local interest, and assistance in marketing and merchandising of completed real estate improvements.

6. Special Environmental Circumstances:

This work will conduct an examination and analysis of visual and environmental factors which are important to the attractiveness and livability of the study area. Factors will include visual relationships between buildings and landscape, the availability of open space, and the relationship between traffic, parking and other transportation services and land use patterns. Four schematic drawings of the model block will be prepared. They will include base maps, portrayal of existing blocks, and development alternatives 1 and 2.

7. Detailed Market Research for Both the East and West Rail Corridors:

This work will conduct detailed market research for both the East and West Railroad Corridor properties. Analysis will be conducted at three levels for a determination of the conditions under which real estate markets for each level will most probably occur. The three levels are best described by the potential purchasers or users of property: 1). Initial investors in rail property for the purchase of buying bulk quantities for long-term property holding, given the opportunity presented by the bankruptcy of the Milwaukee Road Railroad; 2). Intermediate developers or investors who would buy land directly from the railroad or from long-term property holders for specific real estate investment projects; and 3). The ultimate consumer who occupies space as a tenant and/or owner. The price capacity and the absorption of the last group, the consumers, will be used to determine the offering price an intermediate developer could pay. It will also be used to determine the financial structure of a long-term property holding program in terms of its capital, and, therefore, will set the upper limit of price that can be offered to the railroads. Market parameters will be researched for each of the three levels of market demand. Particular attention will be given to market conditions that will attract private investment capital either directly or in the form of joint ventures with public capital for bulk purchase of railroad property to be subject to redevelopment.

Market parameters include distinct market segments for a variety of feasible land uses and estimates of the number of units required by the segment which will be further defined by size, price, and absorption rate over multiple periods of time. The supply of product to be generated will be generalized by the type of space unit in terms such as high-rise, low-rise, townhouse, garden apartment, student loft, specialty shopping and recreation spaces, such as restaurants, which will help support an overall density necessary to fund the purchase and redevelopment of railroad corridor property.

A scenario will be created for financing the purchase of rail property in bulk or by smaller units assuming their availability by 1984. A variety of uses will be identified which are compatible with the physical, legal, linkage, image, and environmental restraints of the corridors, assuming the City will provide an inventory of the physical and legal/political attributes of the corridors and will prepare graphic illustrations of these uses under Landmark direction.

Intensive interviews will be conducted with neighborhood groups and with opinion leaders who will sharpen the existing image and environmental elements. Several alternative use scenarios will be defined for various portions of the study areas. Using the alternative scenarios, interviews will be conducted with the developer/investor teams in the Minnesota-Milwaukee-Chicago-Madison fraternity of developers to determine the elements necessary to attract capital to this type of development for purchase of rail property in bulk or in smaller units.

The work will identify the market demand for a variety of land uses, such as one or two types of residential, office, commercial, industrial and recreation/open space. Study methodology will include interviews with developers, realtors, retailers, property owners in and around the railroad corridors, and Madison elected officials and neighborhood representatives. Using previous Isthmus housing market studies as a point of departure, systematic survey research will be conducted to quantify the current residential market for given locations in the study areas and to quantify the market demand for office, commercial, industrial and recreational uses as described in the potential use scenarios.

Landmark Research Inc. reserves the right to develop market data from previous housing studies done by public and private sponsors, from existing or to-be-designated surveys of downtown and commercial users, or to convert, by analogy, a variety of data sources that are deemed relevant to forecasting the elements of market support for reuse of the rail corridors.

8. Administration/Technical Coordination:

The work of Landmark Research Inc. will be conducted under the administration and general technical coordination of the City of Madison Department of Planning and Development.

9. Reports:

A final report describing the study, its findings, and recommendations will be produced by Landmark Research Inc. Twenty copies will be provided to the City of Madison.

APPENDIX "B"
STUDY AREA
LANDMARK RESEARCH INC.

For Scope of Services technical work activities #1 through #4, the study area is described by the following boundaries: Blair Street, East Wilson Street, Baldwin Street, Jenifer Street, and Williamson Street.

For Scope of Services technical work activity #7, the study areas are described by the following boundaries: East Rail Corridor: Blair Street, Main Street extended to Baldwin Street, Baldwin Street, and East Wilson Street. West Rail Corridor: Park Street, Dayton Street, Bedford Street, North Shore Drive, Proudfit Street and Regent Street.

APPENDIX "C"
ALLOCATION OF TOTAL COMPENSATION TO
TECHNICAL WORK ACTIVITIES

LANDMARK RESEARCH INC.

<u>TECHNICAL WORK ACTIVITY</u>	<u>ALLOCATION</u>
1. Inventory of Present Property Conditions.	\$ 2,000
2. Economic Feasibility Studies.	6,000
3. Present Barriers to Redevelopment.	1,280
4. Unmet Real Estate Market in the Study Area.	5,000
5. Redevelopment Potential with Minimum and Maximum Levels of Public Influence and Participation.	3,220
6. Special Environmental Circumstances.	2,500
7. Detailed Market Research for Both East and West Rail Corridors.	12,400
<hr/>	
TOTAL COMPENSATION	\$32,400

APPENDIX "D"

Landmark Research Inc.

ARTICLES OF AGREEMENT

ARTICLE I

The Contractor shall take affirmative action in accordance with the terms outlined in this proposal and the provisions of this contract to insure that applicants are employed without regard to race, religion, color, age, marital status, handicap, sex or national origin and that the employer shall provide harassment-free work environment for the realization of the potential of each employee. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation and selection for training including apprenticeship insofar as it is within the control of the Contractor. The Contractor agrees to post in conspicuous places available to employees and applicants notices to be provided by the City setting out the provisions of these nondiscrimination clauses.

ARTICLE II

The Contractor shall in all solicitations or advertisements for employees placed by or on behalf of the Contractors state that all qualified or qualifiable applicants will be employed without regard to race, religion, color, age, marital status, handicap, sex or national origin.

ARTICLE III

The Contractor shall send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding a notice to be provided by the City advising the labor union or workers representative of the Contractor's commitments. Such matters shall be posted in conspicuous places available to employees and applicants for employment.

ARTICLE IV

The Contractor agrees that it will comply with all provisions of the Affirmative Action Ordinance of the City of Madison including the contract compliance requirements. In the preparation of its Affirmative Action Plan, the Contractor shall prepare its plan pursuant to the guidelines found in Part 60-2 of Chapter 60 of Title 41 of the Code of Federal Regulations. In addition, the Contractor in the performance of its duties under this contract shall be mindful of the requirements of the Wisconsin Fair Employment Act and Executive Order 11246 and 11375 as they may apply to this contract.

ARTICLE V

In the event of the Contractor's failure to comply with the Equal Employment Opportunity and Affirmative Action Provisions of this contract including the affirmative action undertaking outlined in this proposal or any of the rules, regulations or orders herein referred to, it is agreed that the City at its option may do any or all of the following:

1. Cancel, terminate or suspend this contract in whole or in part.
2. Declare the Contractor ineligible for further City contracts until the Affirmative Action requirements are met.
3. Recover on behalf of the City from the prime Contractor 0.5 percent of the contract award price for each week that such party fails or refuses to comply, in the nature of liquidated damages, but not to exceed a total of five percent (5%) of the contract award price, or three thousand dollars (\$3,000), whichever is less; provided that no liquidated damages shall be recovered by the City if the contractor has accomplished at least fifty percent (50%) of the minority and female work force utilization goal contained in his or her Affirmative Action Plan. If a subcontractor is in non-compliance, the City may recover from the prime contractor 0.5 percent of the contract award price for each week that such party fails or refuses to comply, in the nature of liquidated damages, but not to exceed a total of five percent (5%) of the contract award price, or three thousand dollars (\$3,000), whichever is less; provided that no liquidated damages shall be recovered by the City if the subcontractor has accomplished at least fifty percent (50%) of the minority and female work force utilization goal contained in his or her Affirmative Action Plan. The preceding sentence shall not be construed to prohibit a prime contractor from recovering the amount of such damage from the noncomplying subcontractor.

ARTICLE VI

The Contractor shall include the above provisions of this contract in every subcontract so that such provisions will be binding upon each subcontractor. The Contractor shall take such action with respect to any subcontractor as necessary to enforce such provisions, including sanctions provided for noncompliance.

ARTICLE VII

The Contractor shall allow the maximum feasible opportunity to minority-owned businesses to compete for any subcontracts entered into pursuant to this contract.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Assistant Secretary for Community Planning and Development

24 CFR Part 570

[Docket No. R-79-498]

Community Development Block Grants; Loan Guarantees

AGENCY: Department of Housing and Urban Development.

ACTION: Final rulemaking.

SUMMARY: The Secretary is issuing final rules on Subpart M of the regulations for the community development block grant program governing loan guarantees under section 108 of the Housing and Community Development Act of 1974, as amended ("section 108"). Rules governing loan guarantees have been revised to incorporate changes authorized by Title I of the Housing and Community Development Act of 1977.

EFFECTIVE DATE: October 5, 1979.

FOR FURTHER INFORMATION CONTACT: Paul D. Webster, Financial Analyst, Office of Block Grant Assistance, HUD/Community Planning and Development, Room 7178, 451 Seventh Street, S.W., Washington, D.C. 20410, (202) 755-6328.

SUPPLEMENTARY INFORMATION: On January 18, 1978 revisions to Subpart M were published in the Federal Register (43 FR 2714) as an interim rule. Interested parties were given until March 1, 1978 to submit views and comments. All comments were considered carefully in development of the final rule. There follows a discussion of the significant comments and the changes that were made.

Eligible Applicants

There were several comments objecting to the limitation on eligibility to metropolitan cities and urban counties. Commenters on this issue recommended for a number of reasons that eligibility be extended to communities receiving Comprehensive Grants with multiyear funding commitments under the Small Cities program. All commenters argued that such communities are on a par with metropolitan cities and urban counties with respect to their access to an assured source of funds for loan repayment.

The Department agrees that small cities with multiyear funding commitments can offer adequate security, provided the loan guarantee covers the same period as the

commitment. As indicated in the interim rule, an ability to furnish adequate security is the principal criterion of eligibility to apply for loan guarantee assistance. Therefore, it is deemed appropriate to extend eligibility to these communities. As the first step to accomplish this, a proposed rule soon will be published in the Federal Register that would include small cities receiving Comprehensive Grants with multiyear funding commitments as eligible applicants.

Careful consideration was given to including these communities as eligible applicants under this rule. However, further rulemaking is deemed essential for the following reasons.

Since the interim rule limited eligibility to entitlement recipients, many loan guarantee requirements were developed in light of requirements applicable to entitlement grants. These include application submission requirements, criteria for disapproval of loan guarantee requests, and reduction in the amount of loan guarantee assistance requested. Requirements on the maximum loan amount and the loan repayment period are also consonant with the entitlement grant concept.

Loan guarantee requirements also should be consonant with the requirements of the Small Cities program. At the same time, the interests of the Department as guarantor must be protected. However, both objectives cannot be achieved without extensive revision of this rule. Provisions of this subpart pertaining to the loan repayment period, review and approval of applications, submission requirements, and the maximum loan amount will all require modification. In addition, preapplication submission requirements must be developed and included in this subpart.

Further rulemaking will obtain for the Department the useful comments and recommendations of interested parties on the substantial changes resulting from extending eligibility and will help avoid the risk of arbitrary action. Publication of the proposed rule will have the added benefit of assuring that the impact of extending eligibility on the administration of the Small Cities program is fully considered.

Based on the foregoing considerations, the requirements of this section will not be changed at this time.

Eligible Activities

The introductory statement of this section has been changed to note that for purposes of determining the eligibility of activities for which loan guarantee assistance may be provided, § 570.204 does not apply. Section

570.204, which authorizes assistance to be provided directly to certain qualified private entities, is inapplicable since further grants or loans may not be made from guaranteed loan funds.

Section 570.701(a) has been clarified to indicate that acquisition of real property must be by the unit of general local government or its designated public agency.

The introductory statement of § 570.701(c), governing related expenses, has been revised to indicate that such expenses must be related to the acquisition, rehabilitation, development, or use of the real property assisted under this subpart.

Section 570.701(c)(4) has been clarified to better delineate the types of property improvements that are eligible for construction, reconstruction, or installation with loan guarantee assistance. These include all of the types of public improvements and public utilities eligible for assistance under Subpart C, and those eligible public facilities under Subpart C which are not buildings. For example, parking lots, water and sewer lines, and utility lines would all be eligible for loan guarantee assistance; however, a fire station or a public parking garage would be ineligible. As a further criterion of eligibility, expenses eligible under § 570.701(c)(4) must be related to the preparation for development or use of the assisted property.

Application Requirements

The requirement specified in § 570.702(a)(2) that an application for loan guarantee assistance include a proposed instrument effecting a pledge of grant has been deleted. This requirement is no longer necessary because the form of the pledge of grant required as security for repayment of obligations guaranteed under this subpart shall be prescribed by HUD and included as a provision of the contract required under § 570.703(b)(1). The requirement for an opinion of counsel as to the applicant's legal authority to make such pledge has also been deleted. In lieu of this opinion of counsel, the applicant shall be required to submit a certification providing assurance that it possesses legal authority to make the pledge of grants required under § 570.703(b)(2).

The reference to "community development budget" in § 570.702(b) is changed to "cost summary."

In paragraph (d) of § 570.702, which governs HUD review and approval of applications, subparagraphs (1), (2), and (3) of the interim rule have been redesignated as subdivisions (i), (ii), and (iii) of subparagraph (1) of the final rule.

In § 570.702(d)(1)(i), as redesignated, the reference to "§ 570.306(b)(2)" has been changed to "570.311(c)."

Section 570.702(d)(1)(ii) of the final rule has been revised to clarify that a loan guarantee request may be disapproved whenever the Secretary determines that the guarantee constitutes an unacceptable financial risk. This change is essential to permit consideration of all factors relevant to determining financial risk, including but not limited to: length of proposed repayment period, ratio of expected annual debt service requirements to expected annual grant amount, an applicant's status as a metropolitan city or urban county during the proposed repayment period, and an applicant's ability to furnish adequate security pursuant to § 570.703(b).

A new provision, § 570.702(d)(2), has been added which specifies the reasons for which HUD may reduce the amount of loan guarantee assistance requested. This provision corresponds to § 570.311(e) and is added to ensure that loan guarantee funds are approved for use in a manner consonant with statutory and administrative requirements applicable to approval of block grant funds.

Paragraph (e)(2) of this section has been modified to indicate the applicability of environmental review requirements for multiyear projects to designated public agencies. Changes have also been made to conform this provision to the requirements of § 570.301(d).

Loan Requirements

Section 570.703(a) has been modified to indicate the requirement pertaining to the maximum loan amount also applies to notes or other obligations issued by designated public agencies. The reference to "§ 570.102" is changed to "§ 570.311."

Section 570.703(b)(1) has been changed for the sake of clarity to note that the contract required under this provision shall be entered into with HUD.

Section 570.703(c)(2) has been changed to more clearly reflect the full scope of the Secretary's authority to apply pledged grants. In this regard, the Secretary is authorized to apply grant funds pledged pursuant to paragraph (b)(2) of this section, whether or not there has been a default by the borrower requiring payments pursuant to the Secretary's guarantee. This authority is reflected in the contract required by paragraph (b)(1) of this section.

Section 570.703(e) has been changed to note the applicability of this provision to designated public agencies.

Comments Not Acted Upon

Several comments were received which after due consideration were not accepted. There follows a discussion of these comments.

Some commenters recommended that § 570.703(b), which pertains to the contract and pledge of grants required as security, be modified to accommodate the requirements of states having limitations prohibiting political subdivisions from incurring indebtedness beyond the current fiscal year. The proposed regulation has been retained because it reflects the statutory provision (section 108(d)) on which it is based more precisely than the alternatives presented by the commenters; however, where the form of the contract or pledge is an obstacle to participation under the loan guarantee provision, HUD will consider modifications on a case by case basis, provided such modifications do not impair the security for the loan guarantee or result in nonconformance with the statutory provision.

Section 570.702(a)(3), requiring that applicants certify that neither they nor public agencies own property suitable for the purpose for which the guarantee is being requested, was criticized as being too restrictive. It was recommended that this requirement be waived under specified circumstances. Although waiver of this requirement will be considered under extenuating circumstances, such circumstances will not be specified in the regulations. If a particular application of this requirement meets the criteria for a waiver under § 570.4, a request for waiver of the requirement will be considered.

One commenter noted that the Act authorizes the Secretary, at her discretion, to require other security to be furnished (e.g., tax increments), and urged that § 570.702(c) be changed to indicate that approval of a loan guarantee request reflects consideration of such other security. HUD will utilize this authority and require revenues which may result from activities financed under this subpart and which constitute program income under § 570.506 to be pledged as additional security. However, the pledge of such revenues will not be a factor in the determination as to whether a loan guarantee covering a repayment period of six years or less is an acceptable financial risk. This does not preclude an applicant from developing a financial plan which provides for the utilization of other revenues, in lieu of block grant funds, for payment of principal or interest. It is, however, the applicant's

responsibility to determine whether other revenues are sufficient for that purpose. Because HUD will make no determination as to the sufficiency of other security, the recommended change was not adopted.

It was recommended that a new provision be added to § 570.702 which would require the applicant to comply with the procedures prescribed by the Advisory Council on Historic Preservation in 36 CFR Part 800 if the project would affect resources listed or eligible for listing in the National Register of Historic Places. This requirement is set forth in § 570.804 and is made applicable under § 570.705 to activities or projects assisted under this subpart. It is therefore unnecessary to repeat the requirement in a separate provision.

A Finding of Inapplicability with respect to Environmental Impact has been prepared in accordance with HUD Handbook 1390.1. A copy of the Finding is available for inspection and copying during business hours in the Office of the Rules Docket Clerk, Room 5216, Department of Housing and Urban Development, 451 Seventh Street, S.W., Washington, D.C. 20410.

Accordingly, 24 CFR Part 570 is amended by revising Subpart M as set forth below.

PART 570—COMMUNITY DEVELOPMENT BLOCK GRANTS

Authority: Title I, Housing and Community Development Act of 1974 (Pub. L. 93-383, 88 Stat. 633).

Subpart M—Loan Guarantees

§ 570.700 Eligible applicants.

(a) Units of general local government entitled to receive basic grant amounts under § 570.102 (metropolitan cities and urban counties) may apply for loan guarantee assistance under this subpart. Loan guarantee assistance will be limited to such entitlement recipients in order to assure a reasonably certain source of repayment.

(b) Public agencies may be designated by eligible units of general local government to receive a loan guarantee on notes or other obligations issued by the public agency in accordance with this subpart. In such case the applicant unit of general local government shall be required to pledge its current and future entitlement grants as security for the notes or other obligations issued by the public agency.

§ 570.701 Eligible activities.

For purposes of determining the eligibility of the following activities for which loan guarantee assistance may be

provided, the requirements of Subpart C (other than § 570.204) shall apply:

(a) Acquisition by the unit of general local government or its designated public agency of real property (including improvements thereon) including acquisition for economic development purposes.

(b) Rehabilitation of real property (including improvements thereon) owned or acquired by the unit of general local government.

(c) Payment of the following expenses related to the acquisition, rehabilitation, development, or use of the real property:

(1) Interest on obligations guaranteed under this subpart.

(2) Relocation payments and assistance for individuals, families, businesses, nonprofit organizations, and farm operations displaced by activities financed with loan guarantee assistance. (Further information regarding relocation costs is set forth in § 570.602.)

(3) Clearance, demolition and removal of buildings and improvements, including movement of structures to other sites.

(4) Construction, reconstruction, or installation of public improvements, utilities, or facilities (other than buildings) related to the preparation for development or use of the real property. For example, parking lots, water and sewer lines, and utility lines would be eligible for loan guarantee assistance, but a fire station and a public parking garage would be ineligible.

§ 570.702 Application requirements.

An application for loan guarantee shall be made as a part of an application for grant assistance or as a Community Development Program amendment. Except as provided in the following paragraphs, the applicant shall comply with the application requirements outlined in Subpart D.

(a) *Other submission requirements.* In addition to the documentation required to be submitted with a grant application, an application for loan guarantee shall include the following:

(1) A schedule for repayment of the loan which identifies the sources of repayment;

(2) A certification providing assurance that the applicant possesses legal authority to make the pledge of grants required under § 570.703(b)(2).

(3) When the proceeds of the loan are to be used for acquisition of real property, a certification providing assurance that real property already owned by the applicant or a local public agency is not suitable for the intended use of the land to be acquired, and a brief statement of the reasons why the existing land inventory is inadequate.

(b) *Community Development Program.* The project summary shall specify those activities that will be financed with loan guarantee assistance. Proceeds from guaranteed loans shall be identified as an anticipated resource in the cost summary.

(c) *Economic feasibility and financial risk.* The Secretary will make no determination with respect to the economic feasibility of projects proposed to be funded with the proceeds of guaranteed loans; such determination is the responsibility of the applicant. In determining whether a loan guarantee constitutes an acceptable financial risk, the Secretary will consider the applicant's current and future entitlement block grants as the primary source of loan repayment. Approval of a loan guarantee under this subpart is not to be construed, in any way, as indicating that HUD has agreed to the feasibility of a project beyond recognition that block grant funds should be sufficient to retire the debt.

(d) *HUD review and approval of applications.* The Area Office shall review the application for compliance with application requirements specified in Subpart D and this subpart, and forward the application together with its recommendation for approval or disapproval of the requested loan guarantee to HUD Headquarters.

(1) The Secretary will approve the loan guarantee request unless:

(i) One or more of the criteria for disapproval specified in § 570.311(c) are applicable.

(ii) The Secretary determines that the guarantee constitutes an unacceptable financial risk. Factors that will be considered in assessing financial risk shall include, but not be limited to, the following:

(A) The length of the proposed repayment period;

(B) The ratio of expected annual debt service requirements to expected annual grant amount;

(C) The applicant's status as a metropolitan city or urban county during the proposed repayment period; and

(D) The applicant's ability to furnish adequate security pursuant to § 570.703(b).

(iii) The guarantee requested exceeds the maximum loan amount specified under § 570.703(a).

(2) The Secretary may approve loan guarantee assistance for an amount less than requested for the following reasons:

(i) Activities are not eligible under Subpart C or § 570.701;

(ii) Activities do not meet other program requirements, such as benefits

to low- and moderate-income persons described in § 570.302; or

(iii) The applicant's performance does not meet the standards prescribed in § 570.909.

(3) The Secretary will notify the applicant in writing that the loan guarantee request has either been approved or disapproved. If the request is disapproved the applicant shall be informed of the specific reasons for disapproval. If the request is approved, the Secretary shall issue an offer of commitment to guarantee obligations of the applicant or the designated public agency subject to such conditions as the Secretary may prescribe, including the conditions for release of funds described in paragraph (e).

(e) *Environmental review.* (1) The applicant shall comply with HUD Environmental Review Procedures (24 CFR Part 58) leading to certification for the release of funds for each project carried out with loan guarantee assistance. These procedures set forth the regulations, policies, responsibilities, and procedures governing the carrying out of environmental review responsibilities of applicants.

For the purposes of this paragraph, the "release of funds" shall be deemed to occur at the time of guarantee of notes or other obligations by the Secretary.

(2) The environmental assessment of a multiyear project financed with loan guarantee assistance, performed under 24 CFR Part 58, should encompass the entire multiyear scope of activities. Upon certification that the applicant has completed the environmental requirements for a multiyear project, HUD may issue its release of funds for the entire project. The continued authority of an applicant (or the designated public agency, where appropriate) to commit Title I funds to a multiyear project or to be reimbursed for the expenditure of local funds for costs of such project, after completion of environmental requirements and HUD release of funds, shall be subject to the continued relevance and completeness of the environmental assessment performed. The applicant shall, prior to any further commitment of funds to the project, complete the requirements of 24 CFR Part 58 relating to the updating of environmental clearances in the event that:

(i) There is any significant or substantial change in the nature, magnitude or extent of the project;

(ii) There is any significant or substantial change in the environment affecting the project; or

(iii) Previously conducted environmental reviews are insufficient due to changed circumstances, including

the availability of additional data or advances in technology.

§ 570.703 Loan requirements.

(a) *Maximum loan amount.* No guarantee or commitment to guarantee shall be made with respect to any note or other obligation if the total outstanding notes or obligations guaranteed under this subpart (including principal and interest thereon) on behalf of the applicant or public agency duly designated by the applicant would thereby exceed an amount equal to three times the amount of the entitlement grant approval for the applicant pursuant to § 570.311; however, this maximum amount is to be reduced by the amount of any grant funds required by HUD to be applied to the repayment of urban renewal temporary loans pursuant to § 570.802.

(b) *Security requirements.* To assure the repayment of notes or other obligations and charges incurred under this subpart and as a condition for receiving loan guarantee assistance, the applicant (or the applicant and designated public agency, where appropriate) shall:

(1) Enter into a contract with HUD, in a form acceptable to the Secretary, for repayment of notes or other obligations guaranteed hereunder;

(2) Pledge any grant approved or for which the applicant may become eligible under this Part; and

(3) Furnish, at the discretion of the Secretary, such other security as may be deemed appropriate by the Secretary in making such guarantees, including increments in local tax receipts generated by the activities assisted under this Part or disposition proceeds from the sale of land or rehabilitated property.

(c) *Use of grants for loan repayment.* Notwithstanding any other provision of this Part:

(1) Grants allocated to an applicant under this Part (including program income derived therefrom) are authorized for use in the payment of principal and interest due (including such servicing, underwriting, or other costs as may be authorized by the Secretary) on the notes or other obligations guaranteed pursuant to this subpart.

(2) The Secretary may apply grants pledged pursuant to paragraph (b)(2) of this section to any amounts due under the note or other obligation guaranteed pursuant to this subpart, or to the purchase of such obligation, in accordance with the terms of the contract required by paragraph (b)(1) of this section.

(d) *Debt obligations.* Notes or other obligations guaranteed pursuant to this subpart shall be in the form and denominations prescribed by the Secretary. Such notes or other obligations shall be issued and sold only to the Federal Financing Bank under such terms as may be prescribed by the Secretary and the Federal Financing Bank.

(e) *Taxable obligations.* Interest earned on obligations guaranteed under this subpart shall be subject to Federal taxation as provided in Section 108(j) of the Act.

All applicants or designated public agencies issuing guaranteed obligations must bear the full cost of interest.

(f) *Loan repayment period.* As a general rule, the repayment period for a loan guaranteed under this subpart shall be limited to six years. However, a longer repayment period may be permitted in special cases where it is deemed necessary to achieve the purposes of this Part.

§ 570.704 Federal guarantee.

The full faith and credit of the United States is pledged to the payment of all guarantees made under this subpart. Any such guarantee made by the Secretary shall be conclusive evidence of the eligibility of the obligations for such guarantee with respect to principal and interest, and the validity of such guarantee so made shall be incontestable in the hands of a holder of the guaranteed obligations.

§ 570.705 Applicability of rules and regulations.

The provisions of Subparts A, B, C, D, J, K, and O shall apply to this subpart, except to the extent they are specifically modified or augmented by the provisions of this subpart.

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