



MIAMI BEACH

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COMMISSION MEMORANDUM

TO: Mayor Matti Herrera Bower and Members of the City Commission

FROM: City Manager Jorge M. Gonzalez

DATE: July 16, 2008

SUBJECT: **REPORT OF THE SPECIAL FINANCE AND CITYWIDE PROJECTS COMMITTEE MEETING OF JUNE 18, 2007.**

NEW BUSINESS

1. Proposed Project for Retail and Garage in the Sunset Harbor Neighborhood

(Handouts and supplemental information submitted and available at the City Clerk's Office.)

ACTION

Motion made by Commissioner Weithorn and seconded by Commissioner Steinberg to have Scott Robins from Scott Robins Companies (SRC), negotiate a design-build contract with Kevin Montez from ACIES Construction, LLC, or other garage contractor, that can be assigned to the City at the time of closing, resulting in a total project cost, that would be consistent with the project costs presented by Mr. Robins to the Committee.

Commissioner Saul Gross called the meeting to order by stating that the items to be discussed are the City's Capital Improvement Projects Budget for FY 2008/2009 including the Sunset Harbor Garage that would normally be considered at this time. The three main reasons for building the Sunset Garage are 1) to take Tremont Towing out of the neighborhood, 2) to relocate the property maintenance facility from Flamingo Park, and 3) parking is in short supply in the Sunset neighborhood. He added that in the broad context, topics to be discussed include other garage projects, funding for those projects, how the Sunset Harbor garage fits within that context, and more specifically, the proposal terms and negotiation status.

City Manager Jorge Gonzalez presented the item by giving an overview of the parking system at the Committee's request for information about resources in the parking system for future development. He explained that the parking system is an Enterprise Fund that is not associated with the General Fund. It is self-sustained through revenue from parking meters, citations, etc. and all revenues as well as expenditures stay in that system. Some resources are used to pay for various improvements to surface lots, various garages, automated pay stations, close circuit television, etc.

He noted that in the past, the City had issued parking bonds to help fund capital improvements within the parking system and that the parking covenants that stand behind those bonds require that we charge fair market rate for the parking system that the bonds were used to fund, therefore it is difficult to change or segregate the way revenues are collected. Funds are then combined between the parking system and parking impact fees that are collected. Parking impact fees are fees developers pay in-lieu of providing parking spaces when new construction or change of use requires it. Currently there is approximately \$14 million in parking impact fees, of which \$8 million is committed in parking system projects, \$400,000 is left in the South Beach area, \$4 million in the Mid Beach area, and \$1.3 million in the North Beach area.

Per fiscal policy, a standard of 2 month operating reserve is set aside in case of emergencies. After the \$4 million reserve, cash available is anticipated to be approximately \$10 million by the end of FY 2007/08 with a possibility of bonding another \$50 million.

Commissioner Ed Tobin recused himself and did not participate in the discussion.

Discussion ensued regarding general information of anticipated available funding in future years versus future parking capital project needs. (Copy of handout attached).

City Manager Jorge Gonzalez presented the item on the Sunset Harbor Garage that was previously discussed at the March 6, 2008 meeting of the Finance and Citywide Projects Committee. At that time, the Administration was directed to move forward with the analysis of the project and return to the Committee in 90 days with a more structured agreement. He noted that at this time he was presenting specific information as to the initial opinion of value, terms of the proposed agreement by the developer, and expressed concerns with some of the terms contained in such term sheet, therefore seeking guidance from the Committee as to whether or not accept it.

He then explained that the concept is to assemble a group of properties in the Sunset Harbor neighborhood that would yield the opportunity to build a parking structure consisting of 620 spaces or on a smaller scale of 300 spaces, with ground floor retail, including enough parking to satisfy the needs of a relocated property maintenance facility from Flamingo Park to 1833 Bay Road. The parking demand that would be generated from the move of the property maintenance facility would be approximately 120 spaces. The demand on the parking system would be approximately 220-240 spaces for a short time each day as employee's transition from their privately owned vehicles to their assigned city vehicles.

The Manager then noted that the developer has assembled the parcels but has an option to purchase the largest piece of land which is now owned and operated by Tremont Towing. The acquisition price for all of the parcels assembled is \$19.8 million. The developers have proposed transfer of title for air rights to the City, ownership of the ground floor by SRC, and the City to construct the parking garage above the first floor of about 600 spaces.

Based upon a number of factors, including the potential demand of 350-520 spaces, three different garage sizes have been evaluated for the site:

<u>Project Components</u>	Small Garage	Medium Garage	Large Garage
Lot Size Required	28,500	47,500	58,500
Total Retail S.F.	18,500	37,500	46,000
Total Parking Spaces	275	520	640

<u>Project Cost</u>	Small Garage	Medium Garage	Large Garage
Purchase of Air Rights	\$13,000,000	\$13,000,000	\$14,000,000
Construction Cost (parking)	6,875,000	13,000,000	16,000,000
Total Development Cost	19,875,000	26,000,000	30,000,000
Air Rights Cost per space	47,273	25,000	21,875
Construction cost per space	25,000	25,000	25,000
Total cost per space	72,273	50,000	46,875

Integra Realty Resources was engaged to conduct an interim appraisal report for both the air rights and the fee simple value of the properties that are included in the proposed transaction for the large garage, which resulted in an opinion of value that demonstrates a value of \$9.4 million for the air rights, and the fee simple value of \$16.1 million.

The Manager then noted that there are two issues to consider, one being how much the City should pay for the acquisition of the air rights when added to the cost of the garage, and the second is the penalties imposed by the developer stated under the Put Option term in the proposed agreement. The Put Option includes the following:

- Subject to force majeure delays, if deadlines are not met, SRC may require the City to purchase the entire site for an additional \$5.8 million, for a total cash payment of \$19.8 million;
- Purchase price shall be the net acquisition price paid for each parcel by SRC; plus
- Soft costs paid by SRC related to the site; plus
- \$10,000,000 for a total cost to the City of approximately \$30 million.

Or

- City may re-convey the air rights to SRC and any improvements constructed on the site to SRC at no cost within thirty days of notice by the City (net loss to the City of \$14,000,000).

Chairman Gross stated that his personal preference is to build the smaller garage which would meet all of the objectives of building a garage in that location and then introduced Scott Robins of SRC for his presentation on the proposal for the project.

Mr. Robins provided a slide show presentation that included an overview of the Sunset Harbor District, the subject and development site, cost analysis for option 1, cost analysis for option 2, analysis on the City appraisal, future potential of the project, and other benefits.

He noted that he requested a cost analysis from independent contractor Kevin Montez

of ACIES Construction, LLC who was one of the principal builders of the Mid-Town Miami garages. The following is the result of the cost analysis including soft and hard costs for a large size garage of 660 spaces and a medium size garage of 458 spaces.

The cost per space for the 660 space garage ranges from a low of \$13,236, to a medium of \$15,118, up to a high of \$16,704. The cost per space for the 458 space garage ranges from a low of \$15,805, to a medium of \$18,204, up to a high of \$20,377. Mr. Robins then went on to present the cost analysis for option 1 which is the 660 space garage. It entails approximately 43,000 sq. ft. of retail space with a total cost of \$25,024,640 which equates to \$37,916 per space. The breakdown of this cost includes the following:

Total land cost	\$	20,000,000
Land owner portion of cost		6,000,000
City's portion of land cost		14,000,000
Construction cost		11,024,640

He then explained different scenarios under which the cost per space would decrease as follows:

Value of Recaptured Flamingo Park Space Approximately 50,000 s.f. at \$200/s.f.	\$	10,000,000
Cost per Space After Reclamation of Flamingo Park Space	\$	22,765
Value of Parking Impact Fee (Overlay District) Approximately 250 spaces at \$35,000/space	\$	8,750,000
Cost per Space After Reclamation of Flamingo Park Space and Impact Fees	\$	9,507

Mr. Robins then presented the cost analysis for option 2 which is the 458 space garage. It entails approximately 31,000 sq. ft. of retail space with a total cost of \$22,332,666 which equates to \$48,761 per space, he then added that while this garage size may be adequate today, it may not be in the future.

He then commented on the City's appraisal report by highlighting that the appraiser is correct when he notes that it appears there has been a premium for the assemblage in the amount of \$3,739,000 or 18% ($\$19,839,000 - \$16,100,000 = \$3,739,000$), but noted that he does not understand why the report reads that the analysis was done as if no structures or encumbrances exist when in fact they do exist. He then discussed other potential revenue sources and other future benefits such as public parking revenue, valet for area businesses, and an increase in tax base; and other intangible benefits such as providing adequate parking for existing buildings that change use from predominantly warehouse to retail, facilitate proper urban infill development, moving the towing facility and other auto repair businesses from within an important residential district, help relieve traffic congestion, reclaim over an acre of land in Flamingo Park, provide an area for neighborhood serving businesses, and provide an incentive for green development by allowing the purchase of parking credits within the garage.

Mr. Robins ended his presentation by stating that by the end of the month of June, the

land reverts back to Tremont Towing, but has the option to extend until December 31, therefore it is imperative to get direction from the Committee. For this reason he wanted to explain that the “Put Option” was written incorrectly in the proposal and that the penalty, between \$6 and \$7 million, would apply only if the City decides not to build the garage after signing an agreement.

Manager Jorge Gonzalez suggested that buying 400 spaces at \$40,000 each, which would equate to a total cost of \$16,000,000, would be a better deal than the proposal presented and reiterated that it would be a better deal if the developer builds the garage even if the City pays a premium per space. He then noted that the terms of the proposal are not acceptable specifically the “Put Option” and the price of the air rights seem to be higher than that of the appraiser’s.

State-Certified General Real Estate Appraiser, Michael Y. Cannon stated that the value ascribed to the property as an assembled site excluding existing development, which involves special interests and an assemblage premium as stated on the report, is valued at \$16,100,000 and 2/3 air rights within the property is valued \$9,400,000. He added that there is no profit involved for the developer for the assemblage of the parcels and that the deduction applied to the developer’s purchase price was based on the assumption that the developer would require 153 parking spaces at \$25,000 construction value per parking space, for a total of \$3,825,000 which the City would be paying for as part of the construction. He then noted that the terms of the proposal need to be restructured but that the City has the beginning of an excellent transaction. The analysis on the report contained the following information:

- Total square feet of land area as assembled for the eight (8) parcels: 58,500 sq. ft.
- Total square feet of four (4) levels of the land area (58,500 sq. ft. x 4): 234,000 sq. ft.
- Maximum (permitted) building height: 50 feet
- Allocated building height to ground level: 20 feet
- Percentage to air rights at 2/3: 66.70%
- Percentage to ground at 1/3: 33.30%
- Maximum floor area ratio: 1.5
- Maximum buildable area per FAR: 87,750 sq. ft.
- Maximum buildable area ground level: 46,000 sq. ft.
- As a percent of land area (coverage): 78.6% ($46,594/58,500$) = .786
- Required on-site parking: 1:300 square feet of building area
- Total required on-site parking spaces: 153 ($46,000 / 300 = 153$)
- Construction value of parking per space: \$25,000
- Total construction value ($153 \times \$25,000$) = \$3,825,000

Total purchase price of the assembled eight (8) parcels of land	\$	19,839,000
Allocation to the "Air Rights" at 2/3 (\$19,839,000 x .667)	\$	13,226,000
Less: Construction value of 153 parking spaces	\$	3,825,000
Allocated value to the "Air Rights" (\$9,401,000 / 175,500 / sq. ft.) =	\$	9,401,000 53.57/sq. ft.
Allocated value to the ground level (\$10,438,000 / 58,500 per sq. ft.) =	\$	10,438,000 183.57/sq.ft.
Percentage to ground level		52.6%
Percentage to air rights		47.4%

Commissioner Steinberg asked if the air rights were appraised based on the developer's purchase price or premium value and not the appraised value. Mr. Cannon stated that he compared the purchase price with assemblage versus value without the assemblage. And the benefit the land owner has is that they don't have to spend \$3,825,000 on onsite parking for the 234,000 sq. feet of retail on the ground level.

The Manager asked if the value of the shell on the ground floor was factored in the appraisal. Mr. Cannon responded that he was not aware that the City would build the ground level shell and that the estimated construction value for 47,000 sq. ft. would be approx. \$150 / sq. ft.

Scott Robins inquired if the community has expressed their feelings regarding the construction of the garage.

Sunset Harbor resident Thomas Ashe said that the current congestion in the area does not justify the size of the proposed project.

Sunset Harbor resident Clark Reynolds stated that it is an incredible opportunity that won't come around twice and that the retail for the area sounds wonderful.

Sunset Harbor resident Fred Pollack noted that given the expense and considering a long term vision, he prefers the larger size garage and favors the retail opportunity which would improve the neighborhood.

Sunset Harbor North Director, Sybil Benazera stated that something to consider is how much retail the neighborhood really wants.

Sunset Harbor North resident, Dwight Kraai said that the key issue is to get rid of Tremont Towing and that Sunset Harbor North & South does not need a significant number of parking spaces.

Miami Beach resident Gabrielle Redfern indicated that she is very supportive of the project because it is important that it becomes a gateway parking facility for people coming into the City across the Venetian and also thinks that the removal of the property maintenance facility from Flamingo Park would allow for a neighborhood

parking facility because that neighborhood is desperate for parking. Flamingo Park Association Co-chairman Jack Johnson said that their primary concern is to get the property maintenance facility out of the park.

Sunset Harbor South resident, Marilyn Baker stated that the townhouses next to Sunset Harbor do not have any guest parking and that the largest size garage should be built.

Miami Beach resident, Greg Russell noted that if there's no parking, the businesses will not come, therefore the parking has to come first and added that a possible problem in the future will be traffic congestion.

Commissioner Steinberg expressed that he is not convinced that the proposal is a good deal based on Mr. Cannon's appraisal. Another concern is the size of the garage and the impact that it will have on the neighborhood, therefore he is not ready to provide an answer as to whether it should be built or not.

Commissioner Weithorn stated that if the construction cost per space is less than \$20,000 she would favor the project and questioned if the deal is realistic under the City's terms.

ACIES Construction, LLC President, Kevin Montez, stated that the construction estimates provided to Scott Robins were based on previous garages built by his company, specifically the Mid Town Miami North and South Block garages and that numbers provided include a base structure and medium finishes. He then added that the numbers were provided on a sliding scale to provide options on finishes, design and soft costs.

Chairman Gross questioned if a contract between the City and Scott Robins/Phillip Levine (SRC) that includes air rights and construction together as a package, would be subject to competitive bidding.

Deputy City Attorney Raul Aguila, replied by saying that in addition to the competitive bidding requirement, there was another issue at the outset of this deal, where one or two of the developers made contributions to an incumbent. That prohibited them from entering into a development agreement with the City which is why the deal was structured the way it was. The intent of the provision was to prohibit people engaged in real estate development from giving campaign contributions and it also disqualified them for a year after the contribution was made and added that the period of disqualification would be up in November.

Chairman Gross stated that the legal issues would not be resolved at this time and that the matter at hand is whether the City should pay \$14 million or \$9 million out of the \$20 million purchase price. He then added that another issue is the size of the garage and that he personally prefers the smaller size but may not be financially feasible.

Mayor Herrera Bower expressed her desire to get the project done but not at any cost and felt that negotiations should continue. She prefers the medium size garage which includes 458 spaces but indicated that further study is necessary to better understand the parking needs in the area.

Mr. Robins expressed his willingness to keep negotiations going and offered to come back with a design-build agreement between him and Mr. Montez to be then assigned to the City.

Motion made by Commissioner Weithorn and seconded by Commissioner Steinberg to have Scott Robins negotiate a design build contract with Kevin Montez, or other garage contractor, assignable to the City at closing, with a total project cost, inclusive of land acquisition, carrying costs, and construction costs, that would be consistent with the proposal made to the Committee by Scott Robins.

2. Capital Project Priorities Workshop

ACTION

Discussion item moved to the June 30, 2008 meeting.