

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

JDS Development, LLC appreciates the opportunity to present our proposal for the planning, financing, construction and management of the Judge Doyle Square project. Judge Doyle Square is an exciting opportunity to connect Monona Terrace with the Capitol Square through a mixed-use, urban development. The hotel component of this project needs to be of destination caliber in order to strengthen Madison as a destination and secure the success of Monona Terrace for years to come.

Our vision for the redevelopment of these two blocks is to use the Madison Municipal Building to develop a landmark hotel product that is distinctive to Madison. The project needs to capture all the things that are great about our city and deliver that to visitors and residents. Our plan is to create a unique destination designed to strengthen Madison's urban core and complement our primary destinations — Monona Terrace and Overture Center — by creating a dynamic place with programmatic uses that define Madison's character.



This is one of the last remaining opportunities we have to secure the success of Monona Terrace for the long term. Monona Terrace and the City of Madison need more than a standard hotel to remain competitive.

As required by the RFP the following is being provided as an overview of the public-private financial plan indicating the preliminary projections of the Master Project Budget, the Sources & Uses of Funds and preliminary financial model that comprise the Finance Plan for both Scheme 1 (MMB Used for Hotel) and Scheme 2 (MMB Used as City Offices).

In order to provide a reasonable comparison between the two scenarios the projected cost of renovations to MMB (based on the City's proposed capital budget) has been included in the Scheme 2 budget.

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

ESTIMATED SOURCES & USES OF CAPITAL - SCHEME 1

Below is provided the Sources and Uses of Funds for each block under Scheme 1 (MMB Used for Hotel). Public funds are used to support the parking and bike center. Tax Incremental Financing (TIF) is also needed to support the development of the hotel.

SOURCES AND USES

SOURCES OF FUNDS		
Equity and Tax Credits	\$	22,855,000
Tax Incremental Financing		16,796,000
Debt		68,573,000
City Parking & Bike Center Funding	\$	28,016,000
City Offices		22,900,000
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TOTAL	\$	159,140,000

USES OF FUNDS		
Site Acquisition	\$	-
Demolition & Site Preparation		2,496,322
Hard Costs and FF&E		101,893,612
Architecture and Engineering		6,795,785
Development Services		6,263,396
Soft Costs		18,790,886
City Offices	\$	22,900,000
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TOTAL	\$	159,140,000

Judge Doyle Square Redevelopment - Block 88
Madison, WI

SOURCES AND USES

SOURCES OF FUNDS		
Equity and Tax Credits	\$	17,325,000
Tax Incremental Financing		16,796,000
Debt		51,975,000
City Parking Funding	\$	9,300,000
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TOTAL	\$	95,396,000

USES OF FUNDS		
Site Acquisition	\$	-
Demolition & Site Preparation		1,569,307
Hard Costs and FF&E		71,525,351
Architecture and Engineering		4,758,462
Development Services		4,385,679
Soft Costs		13,157,200
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TOTAL	\$	95,396,000

Judge Doyle Square Redevelopment - Block 105
Madison, WI

SOURCES AND USES

SOURCES OF FUNDS		
Equity and Tax Credits	\$	5,530,000
Tax Incremental Financing		-
Debt		16,598,000
City Parking & Bike Center Funding		18,716,000
City Offices		22,900,000
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TOTAL	\$	63,744,000

USES OF FUNDS		
Site Acquisition	\$	-
Demolition & Site Preparation		927,015
Hard Costs and FF&E		30,368,260
Architecture and Engineering		2,037,322
Development Services		1,877,717
Soft Costs		5,633,685
City Offices	\$	22,900,000
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TOTAL	\$	63,744,000

The supportable values for private financing are based on a projected cap rate in the range of 8.0% to 8.5% in a stabilized year. However, property taxes are estimated based on comparable assessed values per key for other downtown Madison hotels.

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

USES OF CAPITAL BY COMPONENT
– SCHEME 1

The Uses of Funds are also presented by component:

	Block 88	Block 105	TOTAL
USES OF FUNDS			
<i>Private</i>			
Hotel	\$ 86,096,000	\$ -	\$ 86,096,000
Mixed Use	-	22,128,000	22,128,000
Office	-	-	-
Subtotal	<u>\$ 86,096,000</u>	<u>\$ 22,128,000</u>	<u>\$ 108,224,000</u>
<i>Public</i>			
City Offices	\$ -	\$ 22,900,000	\$ 22,900,000
Bike Center	-	964,000	964,000
Parking	9,300,000	17,752,000	27,052,000
Subtotal	<u>\$ 9,300,000</u>	<u>\$ 41,616,000</u>	<u>\$ 50,916,000</u>
TOTAL	\$ 95,396,000	\$ 63,744,000	\$ 159,140,000

Notably in Scheme 1 the cost of parking components is significantly less than in Scheme 2 due to a greater number of above ground spaces. Also, the cost of offices that could serve as a replacement for MMB is included in the Block 105 budget. Again, compared to a renovation of the MMB this approach is also projected to save significant dollars.

14.0 DETAILED PUBLIC / PRIVATE FINANCE PLAN

PRELIMINARY PRO FORMA PROJECTIONS – SCHEME 1

Below are provided the preliminary pro forma financial projections for Scheme 1. Net operating income for the property stabilizes with a debt service coverage ratio (DSCR) of approximately 1.35x annual debt service. The before tax cash flow from the project results in approximately 10% return on equity annually.

SUMMARY OPERATING PRO FORMA - BLOCK 88

	Construction									
	1	2	3	4	5	6	7	8	9	10
OPERATING REVENUES										
Hotel	\$10,917,480	\$11,473,279	\$12,046,943	\$12,287,882	\$12,533,640	\$12,784,313	\$13,039,999	\$13,300,799	\$13,566,815	\$13,838,151
Food & Beverage	1,680,000	1,730,400	1,782,312	1,835,781	1,890,855	1,947,580	2,006,008	2,066,188	2,128,174	2,192,019
Leased Space	164,746	174,779	180,022	185,423	190,886	196,715	202,617	208,695	214,956	221,405
Other Revenues	625,493	661,114	696,735	706,735	726,735	736,735	756,735	766,735	786,735	806,735
<i>Total Revenue</i>	\$13,387,719	\$14,039,572	\$14,706,013	\$15,015,821	\$15,342,215	\$15,665,343	\$16,005,358	\$16,342,417	\$16,696,680	\$17,058,310
OPERATING EXPENSES										
Hotel	\$ 6,230,067	\$ 6,447,858	\$ 6,785,973	\$ 6,925,762	\$ 7,071,375	\$ 7,217,014	\$ 7,368,603	\$ 7,520,348	\$ 7,678,176	\$ 7,839,225
Food & Beverage	1,257,000	1,291,000	1,333,000	1,371,000	1,416,000	1,455,000	1,498,000	1,542,000	1,591,000	1,638,000
Other Expenses	379,845	390,780	400,715	404,715	409,715	412,715	417,715	420,715	425,715	430,715
Property Taxes	450,000	459,000	468,180	477,544	487,094	496,836	506,773	516,909	527,247	537,792
<i>Total Expenses</i>	\$ 8,316,912	\$ 8,588,638	\$ 8,987,868	\$ 9,179,020	\$ 9,384,184	\$ 9,581,565	\$ 9,791,091	\$ 9,999,971	\$10,222,137	\$10,445,731
NET OPERATING INCOME	\$ 5,070,807	\$ 5,450,934	\$ 5,718,145	\$ 5,836,801	\$ 5,958,032	\$ 6,083,779	\$ 6,214,268	\$ 6,342,446	\$ 6,474,542	\$ 6,612,579
Debt Service	\$ 4,211,267	\$ 4,211,267	\$ 4,211,267	\$ 4,211,267	\$ 4,211,267	\$ 4,211,267	\$ 4,211,267	\$ 4,179,653	\$ 4,179,653	\$ 4,179,653
DSCR	1.20x	1.29x	1.36x	1.39x	1.41x	1.44x	1.48x	1.52x	1.55x	1.58x
BEFORE TAX CASH FLOW	\$ 859,540	\$ 1,239,667	\$ 1,506,878	\$ 1,625,534	\$ 1,746,765	\$ 1,872,512	\$ 2,003,001	\$ 2,162,793	\$ 2,294,890	\$ 2,432,926

SUMMARY OPERATING PRO FORMA - BLOCK 105

	Construction									
	1	2	3	4	5	6	7	8	9	10
OPERATING REVENUES										
Mixed Use	\$ 2,531,381	\$ 2,834,739	\$ 2,919,781	\$ 3,007,375	\$ 3,097,596	\$ 3,190,524	\$ 3,286,240	\$ 3,384,827	\$ 3,486,372	\$ 3,590,963
Other Revenues	442,560	451,411	460,439	469,648	479,041	488,622	498,394	508,362	518,530	528,900
<i>Total Revenue</i>	\$ 2,973,941	\$ 3,286,150	\$ 3,380,221	\$ 3,477,023	\$ 3,576,637	\$ 3,679,146	\$ 3,784,634	\$ 3,893,189	\$ 4,004,901	\$ 4,119,863
OPERATING EXPENSES										
Mixed Use	\$ 962,000	\$ 1,077,000	\$ 1,110,000	\$ 1,143,000	\$ 1,177,000	\$ 1,213,000	\$ 1,249,000	\$ 1,287,000	\$ 1,325,000	\$ 1,365,000
Property Taxes	442,560	451,411	460,439	469,648	479,041	488,622	498,394	508,362	518,530	528,900
<i>Total Expenses</i>	\$ 1,404,560	\$ 1,528,411	\$ 1,570,439	\$ 1,612,648	\$ 1,656,041	\$ 1,701,622	\$ 1,747,394	\$ 1,795,362	\$ 1,843,530	\$ 1,893,900
NET OPERATING INCOME	\$ 1,569,381	\$ 1,757,739	\$ 1,809,781	\$ 1,864,375	\$ 1,920,596	\$ 1,977,524	\$ 2,037,240	\$ 2,097,827	\$ 2,161,372	\$ 2,225,963
Debt Service	\$ 1,344,851	\$ 1,344,851	\$ 1,344,851	\$ 1,344,851	\$ 1,344,851	\$ 1,344,851	\$ 1,344,851	\$ 1,334,755	\$ 1,334,755	\$ 1,334,755
DSCR	1.17x	1.31x	1.35x	1.39x	1.43x	1.47x	1.51x	1.57x	1.62x	1.67x
BEFORE TAX CASH FLOW	\$ 224,531	\$ 412,889	\$ 464,931	\$ 519,524	\$ 575,745	\$ 632,673	\$ 692,389	\$ 763,072	\$ 826,617	\$ 891,208

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

**ESTIMATED SOURCES & USES OF
CAPITAL – SCHEME 2**

Below is provided the Sources and Uses of Funds for each block under Scheme 2 (MMB Used as City Offices). Public funds are used to support the parking and bike center. Tax Incremental Financing (TIF) is also needed to support the development of the hotel.

SOURCES OF FUNDS		
Equity and Tax Credits	\$	31,881,000
Tax Incremental Financing		21,220,000
Debt		95,645,000
City Parking & Bike Center Funding	\$	41,115,000
City Offices		25,920,000
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TOTAL	\$	215,781,000

USES OF FUNDS		
Site Acquisition	\$	-
Demolition & Site Preparation		3,683,619
Hard Costs and FF&E		141,791,882
Architecture and Engineering		9,470,455
Development Services		8,728,530
Soft Costs		26,186,513
City Offices	\$	25,920,000
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TOTAL	\$	215,781,000

Judge Doyle Square Redevelopment - Block 88
Madison, WI

SOURCES AND USES

SOURCES OF FUNDS		
Equity and Tax Credits	\$	14,091,000
Tax Incremental Financing		21,220,000
Debt		42,273,000
City Parking Funding	\$	22,571,000
City Offices		25,920,000
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TOTAL	\$	126,075,000

USES OF FUNDS		
Site Acquisition	\$	-
Demolition & Site Preparation		1,647,583
Hard Costs and FF&E		75,092,985
Architecture and Engineering		4,995,811
Development Services		4,604,434
Soft Costs		13,814,187
City Offices	\$	25,920,000
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TOTAL	\$	126,075,000

Judge Doyle Square Redevelopment - Block 105
Madison, WI

SOURCES AND USES

SOURCES OF FUNDS		
Equity and Tax Credits	\$	17,790,000
Tax Incremental Financing		-
Debt		53,372,000
City Parking & Bike Center Funding		18,544,000
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TOTAL	\$	89,706,000

USES OF FUNDS		
Site Acquisition	\$	-
Demolition & Site Preparation		2,036,037
Hard Costs and FF&E		66,698,897
Architecture and Engineering		4,474,644
Development Services		4,124,096
Soft Costs		12,372,326
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TOTAL	\$	89,706,000

The supportable values for private financing are based on a projected cap rate in the range of 8.0% to 8.5% in a stabilized year. However, property taxes are estimated based on comparable assessed values per key for other downtown Madison hotels.

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

USES OF CAPITAL BY COMPONENT
– SCHEME 2

The Uses of Funds are also presented by component:

	Block 88	Block 105	TOTAL
USES OF FUNDS			
<i>Private</i>			
Hotel	\$ 77,583,000	\$ -	\$ 77,583,000
Mixed Use	-	53,691,000	53,691,000
Office	-	17,472,000	17,472,000
Subtotal	<u>\$ 77,583,000</u>	<u>\$ 71,163,000</u>	<u>\$ 148,746,000</u>
<i>Public</i>			
City Offices	\$ 25,920,000	\$ -	\$ 25,920,000
Bike Center	-	964,000	964,000
Parking	22,571,000	17,580,000	40,151,000
Subtotal	<u>\$ 48,491,000</u>	<u>\$ 18,544,000</u>	<u>\$ 67,035,000</u>
TOTAL	\$ 126,074,000	\$ 89,707,000	\$ 215,781,000

Notably in Scheme 2 the cost of parking components is significantly more than in Scheme 1 due to a greater number of below ground spaces. Scheme 2 includes City office cost, based on the estimates carried by the City in its Capital Budget. The cost to renovate MMB is projected to be more than building new office space on Block 105.

14.0 DETAILED PUBLIC / PRIVATE FINANCE PLAN

PRELIMINARY PRO FORMA PROJECTIONS – SCHEME 2

Below are provided the preliminary pro forma financial projections for Scheme 2. There is a significant amount of program in a less than desirable location on the first several floors of the building. As a result the economics for that space do not support the private investment needed to build that program. The City's TIF policy also discourages the use of TIF to provide gap financing for speculative office space or market rate residential. As a result, Scheme 2 net operating income for the property does not support the debt service required to finance the project or provide a return on investment.

SUMMARY OPERATING PRO FORMA - BLOCK 88

	Construction	1	2	3	4	5	6	7	8	9	10
OPERATING REVENUES											
Hotel		\$ 9,452,364	\$ 9,942,705	\$10,448,879	\$10,657,857	\$10,871,014	\$11,088,434	\$11,310,203	\$11,536,407	\$11,767,135	\$12,002,478
Food & Beverage		90,000	92,700	95,481	98,345	101,296	104,335	107,465	110,689	114,009	117,430
Leased Space		99,846	105,927	109,104	112,378	115,749	119,221	122,798	126,482	130,276	134,185
Other Revenues		449,872	475,493	491,114	501,114	511,114	521,114	531,114	541,114	551,114	561,114
<i>Total Revenue</i>		\$10,092,082	\$10,616,825	\$11,144,579	\$11,369,694	\$11,599,173	\$11,833,104	\$12,071,580	\$12,314,692	\$12,562,535	\$12,815,206
OPERATING EXPENSES											
Hotel		\$ 4,996,448	\$ 5,161,979	\$ 5,427,659	\$ 5,536,544	\$ 5,647,556	\$ 5,760,739	\$ 5,876,136	\$ 5,993,791	\$ 6,113,750	\$ 6,236,060
Food & Beverage		59,000	62,000	63,000	66,000	66,000	69,000	70,000	72,000	75,000	78,000
Other Expenses		328,910	337,845	343,780	345,780	349,780	352,780	354,780	357,780	360,780	362,780
Property Taxes		450,000	459,000	468,180	477,544	487,094	496,836	506,773	516,909	527,247	537,792
<i>Total Expenses</i>		\$ 5,834,358	\$ 6,020,825	\$ 6,302,619	\$ 6,425,867	\$ 6,550,430	\$ 6,679,355	\$ 6,807,689	\$ 6,940,479	\$ 7,076,777	\$ 7,214,631
NET OPERATING INCOME		\$ 4,257,724	\$ 4,596,000	\$ 4,841,960	\$ 4,943,827	\$ 5,048,742	\$ 5,153,749	\$ 5,263,891	\$ 5,374,212	\$ 5,485,758	\$ 5,600,575
Debt Service		\$ 3,425,164	\$ 3,425,164	\$ 3,425,164	\$ 3,425,164	\$ 3,425,164	\$ 3,425,164	\$ 3,425,164	\$ 3,399,451	\$ 3,399,451	\$ 3,399,451
DSOR		1.24x	1.34x	1.41x	1.44x	1.47x	1.50x	1.54x	1.58x	1.61x	1.65x
BEFORE TAX CASH FLOW		\$ 832,560	\$ 1,170,837	\$ 1,416,796	\$ 1,518,663	\$ 1,623,578	\$ 1,728,585	\$ 1,838,727	\$ 1,974,762	\$ 2,086,307	\$ 2,201,124

SUMMARY OPERATING PRO FORMA - BLOCK 105

	Construction	1	2	3	4	5	6	7	8	9	10
OPERATING REVENUES											
Office		\$ 2,313,152	\$ 2,590,357	\$ 2,688,068	\$ 2,748,110	\$ 2,830,553	\$ 2,915,470	\$ 3,002,934	\$ 3,093,022	\$ 3,185,813	\$ 3,281,387
Mixed Use		2,535,853	2,839,747	2,924,939	3,012,687	3,103,068	3,196,160	3,292,045	3,390,806	3,492,530	3,597,306
Other Revenues		1,423,240	1,451,705	1,480,739	1,510,354	1,540,561	1,571,372	1,602,799	1,634,855	1,667,552	1,700,904
<i>Total Revenue</i>		\$ 6,272,245	\$ 6,881,809	\$ 7,073,746	\$ 7,271,151	\$ 7,474,182	\$ 7,683,002	\$ 7,897,778	\$ 8,118,683	\$ 8,345,895	\$ 8,579,597
OPERATING EXPENSES											
Office		\$ 578,000	\$ 648,000	\$ 667,000	\$ 687,000	\$ 708,000	\$ 728,000	\$ 751,000	\$ 773,000	\$ 797,000	\$ 820,000
Mixed Use		964,000	1,079,000	1,112,000	1,144,000	1,179,000	1,215,000	1,251,000	1,289,000	1,327,000	1,367,000
Property Taxes		1,423,240	1,451,705	1,480,739	1,510,354	1,540,561	1,571,372	1,602,799	1,634,855	1,667,552	1,700,904
<i>Total Expenses</i>		\$ 2,965,240	\$ 3,178,705	\$ 3,259,739	\$ 3,341,354	\$ 3,427,561	\$ 3,514,372	\$ 3,604,799	\$ 3,696,855	\$ 3,791,552	\$ 3,887,904
NET OPERATING INCOME		\$ 3,307,005	\$ 3,703,104	\$ 3,814,007	\$ 3,929,797	\$ 4,046,621	\$ 4,168,630	\$ 4,292,979	\$ 4,421,828	\$ 4,554,343	\$ 4,691,693
Debt Service		\$ 4,324,459	\$ 4,324,459	\$ 4,324,459	\$ 4,324,459	\$ 4,324,459	\$ 4,324,459	\$ 4,324,459	\$ 4,291,995	\$ 4,291,995	\$ 4,291,995
DSOR		0.76x	0.86x	0.88x	0.91x	0.94x	0.96x	0.99x	1.03x	1.06x	1.09x
BEFORE TAX CASH FLOW		\$ (1,017,454)	\$ (621,355)	\$ (510,452)	\$ (394,662)	\$ (277,838)	\$ (155,829)	\$ (31,480)	\$ 129,833	\$ 262,348	\$ 399,698

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

TIF Policy

The following exceptions to the City of Madison's TIF Policy are likely to apply to this project:

Fifty Percent (50%) Rule. A significant amount of TIF is needed to support the development of the project. The general underwriting by the City for the 50% Rule uses conservative assumptions that reduce the amount of the present value of tax revenues. They also do not factor in the room taxes generated by a hotel property. As a result, the project is not likely to meet the 50% Rule from the TIF Policy. The City would need to decide that such an exception is merited by the need to provide additional unique hotel product in the market that enhances Madison as a destination and supports further business at Monona Terrace.

Self-Supporting Projects. Under the existing TID No. 25 the remaining life is such that the ability to repay the TIF investment in the project is unlikely to occur in such a short period of time. The payback would likely take closer to the full life of a new TIF district and may also need to acknowledge the additional room tax revenues that would be generated by a new destination caliber hotel.

Personal Guaranty. Given that much of the TIF investment in the project is driven by the need to support the size of hotel needed to support a room block for Monona Terrace, a personal guaranty related to the TIF investment is not a reasonable request.

Equity Participation Payment. The equity participation payment requirement does not recognize the amount of debt financing on the project. As a result, such a requirement will make financing for the project very difficult or reduce the amount of debt financing that can be supported by the project. As a result, without an exception from the equity participation payment the project may not be able to move forward.

In general, the Scheme 1 proposal with a destination caliber hotel that supports expanded business at Monona Terrace as well as bringing additional leisure travel to downtown Madison and requires less TIF financing would fare better in terms of the underwriting and return on investment to the City.

CITY FINANCED COMPONENTS

The Finance Plan for both Scheme 1 and Scheme 2 assumes that (1) the Parking (2) the Bike Center and (3) the City Offices, whether in a renovated MMB or in a new building on Block 105 are to be financed by the City. The formal structure of these components will require a lease or license agreement to provide the necessary parking for the commercial components of the project. It will also require either a condominium unit or a lease agreement to address the City Offices on Block 105 in Scheme 1. The Developer will need to work with the City to address the most desirable approach to the ownership structure.

14.0 DETAILED PUBLIC/PRIVATE FINANCE PLAN

FINANCIAL STRENGTH OF THE TEAM

One of the greatest challenges that will impact the Judge Doyle Square development will be the structuring and securing of project financing. One of the greatest strengths of the combined Hammes Company / Majestic Realty team is our proven ability to structure competitive financing for complex real estate transactions involving diverse mixed-use components. These projects are among the most challenging to secure financing for but our current activities are testimony to our proven financial strength and credit capacity to be successful.

Hammes Company / Majestic Realty are currently structuring financings on major commercial real estate transactions throughout the United States. Our involvement includes structured financings involving the direct placement of both debt and equity sources of capital. Many of our current assignments involve debt securitizations involving public finance structures. Between Hammes Company and Majestic Realty we maintain long-standing relationships with leading institutional investors for the placement of both debt and equity transactions.

Perhaps the greatest strength that Hammes Company / Majestic Realty can bring to the Judge Doyle Square project is the financial strength of our combined organizations. The complexity of this project in a turbulent financing environment will require a firm with a proven track record securing project financing for projects of this magnitude.

Hammes Company / Majestic Realty will be pleased to provide more detailed background on our financial strength and banking relationships during later stages of the selection process.