

January 23, 2014

Mr. George E. Austin, Judge Doyle Square Project Director
Room LL-100, Madison Municipal Building
215 Martin Luther King Jr. Blvd
Madison, Wisconsin 53703

Re: Judge Doyle Square Question and Answer Session hosted by JDS Committee

Dear Mr. Austin:

JDS Development, LLC is submitting the following general comments in response to the question and answer interview session hosted by the JDS Committee on December 16, 2013 at Monona Terrace. These comments are in addition to the letter we submitted on December 11, 2013 providing general and specific comments to the *Judge Doyle Square RFP City Staff Team Analysis* dated November, 2013. The original December 11, 2013 letter can be found following the new letter.

We have chosen to submit these additional comments because of the questions and concerns we heard from the JDS Committee. We believe it's important for the JDS Committee to understand the risks of renovating and maintaining MMB as city offices. We are proposing a plan that includes distinctive and superior design elements that have been implemented successfully in other locations and will optimally use MMB to create one of the most unique destination hotels in the nation. We believe this offers the most appropriate use of this important historic asset and will maximize the public benefit of this historic icon.

Q: What cost premium is associated with renovating and continuing to use MMB for city offices?

- Our cost estimate to renovate MMB for hotel purposes is \$21.7 million.
- The hotel cost estimate is based on detailed design and engineering studies of the building, not the programmatic estimate done for purposes of estimating costs associated with use as City offices.
- There are unique costs associated with MMB for office use over and above hotel use. These additional costs to renovate MMB for office use are mainly due to mechanical, electrical and plumbing (MEP) systems.
- By code, office MEP systems will require an entire forced air system whereas a hotel can operate with a heat pump system that is far more economical to build and operate. The systems for office require considerably larger primary equipment and ducted distribution for heating and cooling, an entire ducted air supply and return system, air exchange systems with complicated penetration requirements by code and many others.
- We estimate the added costs for a ducted HVAC system and associated electrical and plumbing services could add \$4 to \$7 million over and above our costs estimates for the hotel use.
- As we noted in our original letter, the city should also plan for additional costs estimated in the \$4 to \$5 million range for staging, logistics, barricades, temporary MEP systems, code, etc. associated with renovating an occupied building.

Q: What is the cost premium for operating MMB as city offices?

- Similar to construction there will be added operating costs associated with using MMB as offices.
- These costs are derived from the unique nature of construction of commercial space in this building over and above what we would normally estimate for these systems in a conventionally built commercial office building or hotel.
- The volume of spaces in MMB, which by code requires heating and cooling, is a greater volume of space than a purpose built office building or hotel. Associated air exchanges to condition this greater volume of space will result in higher costs of occupancy versus a conventional office building or hotel over the useful life of the building.
- We would estimate these added operational costs over the useful life of the building to add as much as \$5 million of additional operating cost to the City's cost of occupancy.

Q: Will above ground parking diminish the pedestrian experience along Pinckney Street?

- By incorporating proper façade design consistent with the architecture of the overall structure, lighting features, signage, and other amenities we can create an environment that completely masks above grade parking if that is the desire of the City.
- From the pedestrian's perspective, all floors of the development project above ground will look and feel like the architecture of the overall structure. This is a common urban design technique used to address this same concern in dense downtown districts.
- The parking façade examples provided below include 3 to 4 levels of parking above first level commercial and retail uses. Above ground parking can be treated in a way that maintains a great pedestrian experience.

Chicago, IL



Milwaukee, WI

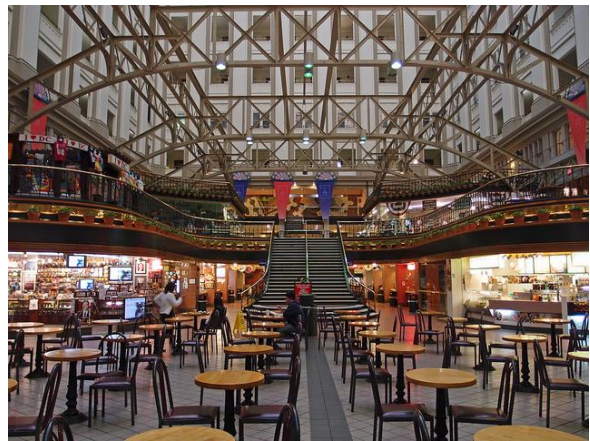


Q: In the long term, is MMB more suitable for private or public use?

- Simply stated, there is probably no more active public use for a prominent building like the MMB than a hotel use. We support the opinion of the City's Planning Director that activating MMB with a private use would create a better connection along Martin Luther King Blvd. between Monona Terrace and the State Capitol.
- 24 hour activation of MMB as a hotel will allow the public access to the building at a variety of times to enjoy its prominent downtown location and historic/landmark characteristics.
- MMB as a hotel will be unique to Madison as it will never be replicated anywhere in the nation.
- The hotels presented on the following pages are examples of great adaptive reuse projects across the country that can serve as models for the renovation of MMB.

Old Post Office Pavilion; Washington D.C.

The Old Post Office Pavilion in Washington D.C. is being converted into a unique destination, full service hotel. This project sits amongst hundreds of traditionally flagged/branded hotels but will retain a unique quality that separates it from competition. The property will make use of historic rooms to create meeting rooms and gathering places such as an extensive dining area in the lobby.



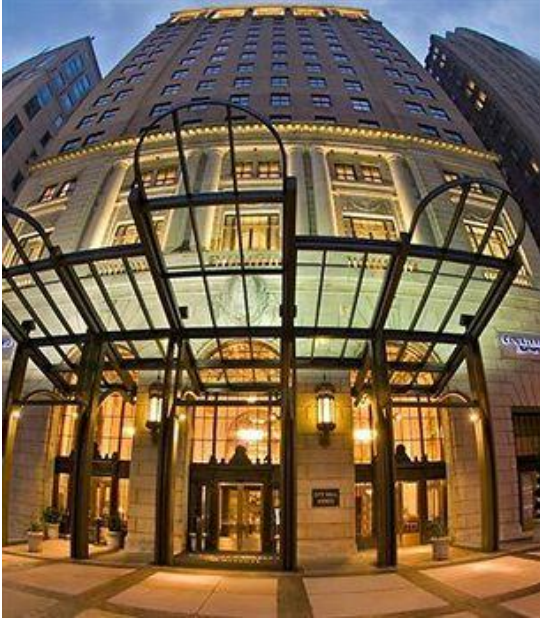
Loews Philadelphia Hotel

The Philadelphia Savings Fund Society (PSFS) was the first savings bank in the United States. The PSFS building is considered one of the most significant buildings of the 20th century, revolutionizing urban landscape. The hotel takes full advantage of the historical features of the building. The once three story banking room is now a beautiful banquet space that has preserved the historical features, such as the banks safe, Cartier clocks, and original marble. The Loews Philadelphia Hotel contains 581 rooms situated in one of the most significant and historical buildings in the country.



Courtyard by Marriott Philadelphia Downtown

Listed on the National Register of Historic Places, the hotel has recaptured the grandeur of the original 1926 City Hall Annex building. Located one block from the convention center and a short walk to the historic and cultural districts, the hotel puts guests in the heart of the city.



Renaissance Denver Downtown City Center Hotel

A historic gem recreated in the Colorado National Bank featuring a stunning three story atrium of white marble colonnades. This hotel is located just three blocks from the Colorado Convention Center in the midst of the 17th Street Financial District.



Hotel Monaco; Washington D.C.

The Hotel Monaco is located inside the neoclassical General Post Office building, a National Historic Landmark constructed in 1839 that was the first all-marble building. The main post office area was transformed into the hotel lobby and the mail-sorting pavilion became the hotel's main restaurant.



Union Station Hotel, Autograph Collection; Nashville, TN

This hotel is located in the heart of Music City and convenient to all downtown businesses and entertainment venues. The splendidly restored 1900 railway station hosts 125 luxurious rooms, 12,000 square feet of elegant meeting space and features including stained-glass windows, dark walnut paneling and stone fireplaces. This classic downtown Nashville hotel is a shining gateway to the past, perfectly blending modern convenience with warm, historic elegance.



Q: How will Room 260 be treated if MMB is renovated into a hotel?

- We are committed to maintaining Room 260 and believe it could serve as a great, unique meeting and gathering space. This will become one of Madison's most active community spaces creating a far higher profile for this distinctive space than its prior use.
- We look forward to reviewing the City's report that outlines the historically significant features of the entire building.

The topics discussed by the JDS Committee do not negate the massive economic difference between the two proposed projects. In addition to the \$41 to \$45 million in public funding needed for the Journeyman proposal over ours there will likely be more costs associated with renovating MMB for city office purposes that have yet to be considered. These additional costs could add another \$8 to \$12 million to the economic difference. These costs would all need to be borne by the City of Madison under a scenario that does not use MMB for hotel purposes.

We welcome the opportunity to discuss these issues in further detail with the JDS Committee as this process continues.

Sincerely,

JDS Development, LLC

December 11, 2013

Mr. George E. Austin, Judge Doyle Square Project Director
Room LL-100, Madison Municipal Building
215 Martin Luther King Jr. Blvd
Madison, Wisconsin 53703

Re: Judge Doyle Square RFP City Staff Team Analysis

Dear Mr. Austin:

Pursuant to your request, JDS Development, LLC has reviewed the *Judge Doyle Square RFP City Staff Team Analysis* dated November, 2013 and provide the following general and specific comments that we believe address findings in the *Judge Doyle Square RFP City Staff Team Analysis* that are not an accurate representation of the true and factual differences between the competing development proposals.

GENERAL COMMENTS

We routinely work in the public sector and represent governmental entities on complex development assignments so we understand and appreciate the challenges in framing comparative analysis between multiple project proposals of this nature. Often times the financial and physical parameters of multiple development proposals are so similar that identifying distinguishing characteristics can be very difficult. With respect to the *Judge Doyle Square RFP City Staff Team Analysis*, we believe the most important characteristics that distinguish the JDS and Journeymen proposals could not be more distinct or striking and do not feel the *Judge Doyle Square RFP City Staff Team Analysis* clearly presents the factual differences between these proposals. We are providing this letter as a means of describing what we believe are the true factual differences between these proposals.

We believe it is important to acknowledge that we prepared two complete development plans at the request of the City of Madison. Our second development alternative was structured very similar to the competing proposal submitted by Journeyman. In completing this development plan we identified what we considered to be **fundamental shortcomings in the design and financial structure that would make this approach infeasible without massive and unprecedented levels of public investment by the City of Madison** based on market demand assumptions for Block 105 that could not be proven at this time. This drove our interest in pursuing what we determined to be a project with superior design and financial strength and something we would support with our own equity investment to position the project for long-term financial success.

What we found to be most troubling in the *Judge Doyle Square RFP City Staff Team Analysis* is the analysis that attempts to narrow a clear public funding differential that will be required by the City of Madison. The slide below attempts to outline a narrowing of the public funding differences between the two proposals from more than \$34 million to something in the range of \$13 million. This is not an accurate representation of the facts as presented by the competing development interests nor does it include the full public funding differential between these proposals.

Potential public investment adjusted by benchmark model

Public Investment	Journeyman	JDS – 1
Impact on TIF from Parking Reserves	\$9 million	\$14 million
Impact on TIF from change in equity	-\$4 million	+\$9 million
Impact on TIF from change in debt load	--	+\$8 million
REVISED TIF*	\$52 million	\$48 million
Revised Parking Utility Contribution	\$19 million	\$12 million
TOTAL PUBLIC INVESTMENT excluding offices*	\$87 million	\$77 million
Likely additional office investment	\$26 million	\$23 million
TOTAL INVESTMENT* (Judge Doyle + City Offices)	\$113 million	\$100 million

JDS – 1 can be expected to have a \$13 to \$34 million advantage depending on their ability to support higher debt and equity levels

Note: JDS-2 pro forma states that “the economics do not support the private investment needed to build that program...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.” As a result, there is insufficient information to model this scenario.

* These figures assume the Parking Utility burden is reduced through increased TIF support; include the opportunity cost of in-kind land/building contributions; project comparable debt loads based on cash flow; achieve approximately 20% IRR on equity

What strikes us as most unusual is we have made a proposal to the City of Madison that was deemed to be in compliance with the requirements of the RFP dated September 30, 2013. We have been recognized by the City of Madison in this process for our demonstrated ability to complete projects of far greater complexity and financial investment than Judge Doyle Square. We made a commitment of our own equity of more than \$22 million (far greater than the competing proposal) supported by a return on investment (ROI) threshold that is completely consistent with the institutional capital markets for assets of this class. Nonetheless, the *Judge Doyle Square RFP City Staff Team Analysis* suggests that, contrary to our own capital commitments to Judge Doyle Square, an additional \$17 million would need to be funded by the City of Madison to allow us to achieve a ROI that was nearly twice what was proposed by JDS.

While we certainly appreciate the City of Madison looking to protect our ability to achieve a competitive ROI we cannot fathom the City proposing to more than double the level of public investment to allow us to achieve an ROI nearly twice what we outlined in our proposal. However, if this is important to the City of Madison we would be glad to entertain any such proposal by the City of Madison that would allow us to greatly elevate our ROI.

The *Judge Doyle Square RFP City Staff Team Analysis* attempts to “level” the two competing proposals by making the adjustments described above and others that we do not believe are accurately represented or confirmed at this time.

Public Investment	Journeyman	JDS – 1	
Impact on TIF from Parking Reserves	\$9 million	\$14 million	
Impact on TIF from change in equity	-\$4 million	+\$9 million	Unsubstantiated Equity Commitment
Impact on TIF from change in debt load	--	+\$8 million	
REVISED TIF*	\$52 million	\$48 million	City is proposing additional \$17 million of additional TIF not requested in the JDS proposal
Revised Parking Utility Contribution	\$19 million	\$12 million	
TOTAL PUBLIC INVESTMENT excluding offices*	\$87 million	\$77 million	
Likely additional office investment	\$26 million	\$23 million	
TOTAL INVESTMENT* (Judge Doyle + City Offices)	\$113 million	\$100 million	

A summary of our specific thoughts to the proper adjustments to Slide 92 in the *Judge Doyle Square RFP City Staff Team Analysis* are highlighted on the table above and in more detail in the table that follows.

City Staff Team Analysis Adjustments	Comment / Issues
<i>Judge Doyle Square RFP City Staff Team Analysis</i> suggests we need \$9 million more in TIF to reduce our equity investment and \$8 million more in TIF to decrease the debt load	<ul style="list-style-type: none"> • Suggestions are made that this \$17 million is necessary for us to “raise” equity. Our equity is our own internal cash equity not external equity to be raised from institutional sources. • We have committed to an equity investment that is likely unprecedented in the Madison market. • We are a local development team approaching this as a long term investment to create a generational asset in downtown Madison.
20.1% benchmark return on investment	<ul style="list-style-type: none"> • We are surprised that the City of Madison is proposing to provide greatly MORE public money in order to nearly double the developer’s returns on investment. • The return in our RFP reply is completely consistent with the institutional capital markets for assets of this class.
Journeyman unsubstantiated additional equity investment of \$4 million	<ul style="list-style-type: none"> • Is there a commitment from Journeyman to fund this additional equity?
Journeyman proposal to secure \$4.1 million of net equity from NMTC	<ul style="list-style-type: none"> • Journeyman needs a significant NMTC allocation to finance their project yet they do not have committed tax credit allocations. • Is there a commitment by Journeyman to fund the additional equity in the event that an NMTC commitment is not secured?
City Rental Agreement for Convention Space subsidy to Journeyman is not included in the analysis on this slide	<ul style="list-style-type: none"> • There is no representation of the \$7 million city lease payments over ten years to Journeyman on this slide.

PUBLIC INVESTMENT	Journeyman	JDS-1	
TOTAL PUBLIC INVESTMENT Using City Benchmark Model (Judge Doyle + City Offices)	\$113 million	\$100 million	
Eliminate Unfounded Equity Adjustments	+\$4 million	-\$9 million	
Eliminate Unnecessary Debt Adjustment	--	-\$8 million	
Recognize City Rental Agreement Subsidy	+\$7 million	--	
TRUE REPRESENTATION OF PUBLIC INVESTMENT	\$124 million	\$83 million	Minimum Δ \$41 million
Potential Subsidy to Replace NMTC Source	+\$4 million	--	
TRUE REPRESENTATION OF PUBLIC INVESTMENT	\$128 million	\$83 million	Potential Δ \$45 million

It is our opinion that the true public finance difference between the JDS and Journeyman proposals is in the range of \$41 to \$45 million dollars.

SPECIFIC COMMENTS

The remainder of this letter addresses additional concerns we have with the findings in the *Judge Doyle Square RFP City Staff Team Analysis*, presented in a question and answer format.

Q: Is the City's cost estimate to renovate MMB valid?

- We believe the City's estimate to renovate MMB is valid but is likely missing construction logistics and staging costs related to the complex renovations to the building while maintaining its occupancy by the City of Madison.
- We estimate renovating MMB will cost an additional \$4 million to \$5 million above the City of Madison cost estimate of \$25 million to address construction logistics inherent in a major renovation for issues such as temporary barricades, temporary HVAC systems, environmental controls, and other similar costs. This is based on current work we are completing in Wisconsin of similar complexity and our own cost estimating for the MMB Building.
- This is based on our experience working on several large scale renovation projects while maintaining occupancy. We are currently undertaking a massive renovation at Lambeau Field and have assessed these issues for MMB in relation to our current experience in Green Bay.

Q: What is our approach to workforce utilization?

- Few firms nationally can demonstrate the experience and expertise we have in the management of targeted business and workforce utilization goals on large and complex projects.
- For example, in Wisconsin, we exceeded all targets for the Kohl Center and Lambeau Field projects.
- At The Edgewater Hammes Company, J.H. Findorff & Son Inc. and the Building and Construction Trades Council of South Central Wisconsin created a unique initiative to offer nationally-recognized pre-apprenticeship certification in the Madison area for the first time. The initiative is aimed at connecting area residents with jobs and increasing the number of disadvantaged and minority workers in the skilled trades.
- Steve Breitlow, president of the Building and Construction Trades Council of South Central Wisconsin offered the following public comments: "This is the first time that a private developer like Hammes Company has joined with labor and other groups to create a worker training program of this significance. With the help of our community-based partners, we look forward to a successful initiative that supports the careers of skilled workers and the workforce needs of

contractors and their clients. We look forward to advancing this partnership to other projects in the city and state.”

Q: Details about the property and parking management plans were not fully defined.

- Our project team owns and manages a real estate portfolio with nearly 90 million square feet of commercial property. This is one of the largest private commercial real estate holdings in the United States. The point is we have extraordinary talent and resources to manage all facets of the Judge Doyle Square project from hospitality to commercial, residential, retail and parking components.

Q: Do the operating revenues and NOI margins suggest we are developing a select service hotel?

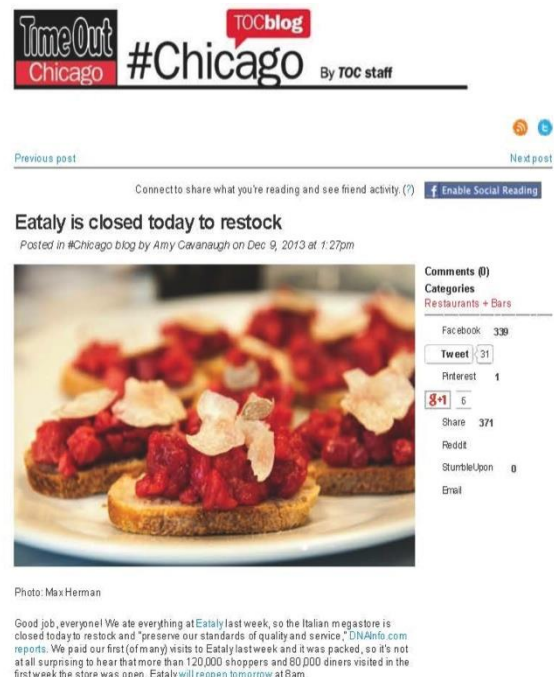
- It's not clear how the *Judge Doyle Square RFP City Staff Team Analysis* calculated the 42% NOI margin they indicate, but it's important to note that our financial model accounts for revenues and the corresponding expenses of the food and beverage operations using a lease / sub-lease structure. We do not believe the *Judge Doyle Square RFP City Staff Team Analysis* accurately reflects the operating assumptions in our financial models.
- If we were to recognize the full revenue and expense of food and beverage our operating margins (versus a sublease structure as noted above) would be consistent with the industry standards of roughly 33% as outlined in the *Judge Doyle Square RFP City Staff Team Analysis*.
- The *Judge Doyle Square RFP City Staff Team Analysis* suggests the operating margin indicates JDS is moving away from a full service hotel, but the construction costs per key in the JDS proposal are higher than those in the Journeyman proposal supporting the higher quality, destination caliber hotel we are proposing.
- We have clearly demonstrated our commitment to creating a destination caliber hotel as the anchor to Judge Doyle Square --- supported by our own commitment of capital in an amount greater than \$22 million.

Q: Is the Food Emporium concept feasible?

- We have offered many excellent examples of how this concept can strengthen a destination development of this caliber.
- Perhaps the best and most recent example to the Food Emporium is a recently opened Eataly in Chicago.
- Eataly just opened its doors and more than 120,000 shoppers and 80,000 diners visited in the first week the store was open.

Q: Does the amount of debt and corresponding debt service coverage for our project signify the need for additional TIF?

- We have demonstrated the ability to successfully finance challenging, complicated projects
- We are modeling a more conservative 6.50% interest rate (vs. 5.25% to 5.50% for Journeyman)



The screenshot shows a blog post from Time Out Chicago. The header includes the 'Time Out Chicago' logo and a '#Chicago' hashtag with 'By TOC staff'. Below the header, there's a section for social media sharing with buttons for Facebook, Twitter, and Email. The main title of the post is 'Eataly is closed today to restock', followed by the text 'Posted in #Chicago blog by Amy Cavanaugh on Dec 9, 2013 at 1:27pm'. The main image is a close-up of food, likely bruschetta with tomatoes and cheese. To the right of the image, there's a sidebar with 'Comments (0)', 'Categories Restaurants + Bars', and social media share counts: Facebook 330, Tweet 31, Pinterest 1, Share 371, Reddit, StumbleUpon 0, and Email.

- If we elect to pursue and are successful in securing NMTC financing, it is our intent to apply the value of the tax credit investment towards reducing the debt, thereby further securing the long term viability of the project.

In closing, we believe that the *Judge Doyle Square RFP City Staff Team Analysis* represents a good summary of the overall considerations between the two competing development proposals. We are pleased that the *Judge Doyle Square RFP City Staff Team Analysis* recognizes the distinctive and superior design concepts presented in our preferred development plan. **As stated above, we are very troubled by the fact that the *Judge Doyle Square RFP City Staff Team Analysis* does not accurately reflect the massive economic difference between the JDS and Journeyman proposals of \$41 to \$45 million in additional public funding by the City of Madison.** It is our strong belief that these two factors require primary emphasis and the other conditions addressed in the *Judge Doyle Square RFP City Staff Team Analysis* are important but do not command the level of weighting as these two most important criteria.

We welcome the opportunity to discuss these issues in further detail with the Judge Doyle Square Committee on Monday, December 16, 2013.

Sincerely,

JDS Development, LLC