Key Preliminary Findings

• More information needed -- The City will require more information to make a full evaluation and comparison of these projects, especially from JDS.

• Basic comparison of proposals -- Journeyman is delivering more tax base, more hotel rooms, and more parking than JDS, but requires a larger city investment.

• Hotel Proposals -- Generally, the hotel pro formas for both proposals appear to be consistent with industry standards.
Key Preliminary Findings (continued)

- **Key cost driver** – Above-ground vs. underground parking. Ground floor land uses and density impact parking, resulting in cost implications. Also, allocation of above-ground vs. underground parking costs a key issue for level of Parking Utility contribution.

- **Limited equity participation** -- It is unclear how much net equity the developers are actually investing. This remains a critical issue for both proposals.

- **Rate of return assumptions** -- It appears that JDS will accept a lower rate-of-return than Journeyman. This could be an advantage or signal a potential issue.
Today’s Agenda

- Overview of Proposals
- Sources of Capital
- Uses of Capital
- Comparison of Financial Structures
- Questions for Developers
### Overview of Proposals

<table>
<thead>
<tr>
<th>Category</th>
<th>Journeyman</th>
<th>JDS – 1</th>
<th>JDS – 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hotel Rooms</strong></td>
<td>352</td>
<td>308</td>
<td>308</td>
</tr>
<tr>
<td><strong>Parking Stalls</strong></td>
<td>1,275</td>
<td>911</td>
<td>911</td>
</tr>
<tr>
<td><strong>Public Stalls</strong> <em>(inc city fleet)</em></td>
<td>638</td>
<td>554</td>
<td>??</td>
</tr>
<tr>
<td><strong>Total Private Cost</strong></td>
<td>$179 million</td>
<td>$136 million</td>
<td>$190 million</td>
</tr>
<tr>
<td><strong>Est. Value</strong></td>
<td>$107 million</td>
<td>$79 million</td>
<td>$101 million</td>
</tr>
<tr>
<td><strong>Public Investment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$80 million</td>
<td>$45 million</td>
<td>$62 million</td>
</tr>
<tr>
<td><strong>TIF</strong></td>
<td>$47 million</td>
<td>$17 million</td>
<td>$21 million+</td>
</tr>
<tr>
<td><strong>Parking Utility</strong></td>
<td>$30 million</td>
<td>$27 million</td>
<td>$40 million</td>
</tr>
<tr>
<td><strong>Other net investment</strong></td>
<td>$3 million <em>(inc city lease payment)</em></td>
<td>$1 million</td>
<td>$1 million</td>
</tr>
</tbody>
</table>
Differing Valuation Methods Create an Issue
Projected Valuations by Developers - Dollars

Journeyman takes an income approach while JDS appears to use comparables data to arrive at a projected value. As a result, these are not apples to apples comparisons.
Hotel Income and *Apples-to-Apples* Projected Value

Hotel Stabilized Value* (2019)

Taking an income approach produces comparable hotel values. Value remains sensitive, however, to assumptions about the cap rate.

Journeyman projects more income and therefore more tax base.

<table>
<thead>
<tr>
<th>Hotel</th>
<th>~350 rooms</th>
<th>~305 rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>HVS - 350</td>
<td>$60 M</td>
<td>$52 M</td>
</tr>
<tr>
<td>Journeyman</td>
<td>$62 M</td>
<td>$54 M</td>
</tr>
<tr>
<td>HVS - 305</td>
<td>$47 M</td>
<td></td>
</tr>
</tbody>
</table>

* Recasts all figures to treat property taxes comparably; assumes 9% Cap Rate; 2.42% mill rate
JDS is more conservative with regard to room and food revenue projections, but relatively optimistic about margin.
Journeyman anticipates a greater building program – more residential units, more private office, more hotel rooms, more parking – which can be expected to drive more tax base.

* Assumes 9% Cap Rate for Hotel, 6.5% for Residential, 8.0% for Office, 2.42% mill rate, weighted average for JDS
Today’s Agenda

Overview of Proposals

Sources of Capital

Uses of Capital

Comparison of Financial Structures

Questions for Developers
Sources of Capital

Journeyman utilizes more TIF and debt while JDS relies more heavily on a combination of tax credits and equity (though the split remains unknown).

* Assumes $26 million cost of renovation cost for MMB
## Equity Arrangements Need Clarification

<table>
<thead>
<tr>
<th></th>
<th>Journeyman</th>
<th>JDS – 1</th>
<th>JDS – 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>$8,023,108</td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td>Tax Credits</td>
<td>$4,139,854</td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td>Equity + Tax Credits</td>
<td>$12,162,962</td>
<td>$22,855,000</td>
<td>$31,881,000</td>
</tr>
<tr>
<td>City Lease Payment*</td>
<td>($5,677,627)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>NET EQUITY</td>
<td>$2,345,481</td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td>Developer Fees</td>
<td>$6,353,279</td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td>Share of Project</td>
<td>3.7%</td>
<td>??</td>
<td>??</td>
</tr>
</tbody>
</table>

* Present Value at 4% over 10 years

Initial analysis has identified issues regarding amount of equity being invested -- more information is needed from both developers.
While JDS creates less tax base, lower projected costs – particularly in parking – translate to a more favorable ratio of public investment to tax base.
Today’s Agenda

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JDS and Journeyman have similar hotel costs. The primary differences are the cost of parking and the amount of private development on Block 105.

Uses of Capital

- $205 M* for Journeyman
- $159 M for JDS 1
- $216 M for JDS 2

* Assumes $26 million cost of renovation cost for MMB

Uses of Capital:

- Hotel
- Parking
- Bike Center
- Office/Retail/Residential
- City Offices
JDS has fewer rooms but a higher cost per key resulting in similar overall expenditures on the hotel component of the project.
Parking is a major cost driver. JDS appears to be able to lower parking costs by largely avoiding underground parking.

- Journeyman: $38,327
- JDS 1: $29,695
- JDS 2: $44,074

JDS Appears to Deliver Lower Per Stall Parking Costs
Despite Lower Costs, Parking Contributions Similar

The Parking Utility is paying for almost all of the parking in the JDS proposals.
To fund reconstruction of the next parking ramp around 2023, the Parking Utility must have $20 million to $25 million in reserves.
Today’s Agenda

Overview of Proposals

Sources of Capital

Uses of Capital

Comparison of Financial Structures

Questions for Developers
Journeyman – Block 88 Financial Structure

- 352 rooms
- 275 stalls
- (40 city stalls)
- $62 M tax base
- $1.4 M room tax

$40 M public investment

TIF
- $38.1 M

City Parking
- $2.0 M

Equity and Tax Credits
- $7.8 M

Debt
- $50.3 M

$108,340 per key
$50,129 per stall

8% of costs
52% of costs

Higher marginal cost for public stalls
Limited equity
JDS – 1 Block 88 Financial Structure

- 308 rooms
- 315 stalls
- 38 public stalls
- $54 M tax base
- $1.1 M room tax

Equity unknown

$52.0 M

$17.3 M

$9.3 M

$16.8 M

$26 M public investment

All parking costs borne by Parking Utility

TIF

Parking

Equity and Tax Credits

Debt

$54,532 per key

Parking utility to fund all parking

18% of costs

54% of costs
Journeyman - Block 105 Financial Structure

- 63,870 SF commercial
- 134 units residential
- 3,000 SF Bike Center
- 1000 parking stalls
- 598 public stalls
- $44 M tax base

$37 M public investment

$38.8 M

$8.6 M

$28.8 M

$4.3 M

Underground city parking more expensive than above ground private parking at ~$29,000/stall

TIF

City Parking

Equity and Tax Credits

Debt

10% of costs

$48,211 per stall

8% of non-city costs

70% of non-city costs
JDS – 1 Block 105 Financial Structure

- 7,000 SF commercial
- 80 units residential
- 80,000 SF City office
- 3,000 SF Bike Center
- 596 parking stalls
- 516 public stalls
- $25 M tax base

No TIF

- $0

TIF

Parking

- $29,785 per public stall

Equity and Tax Credits

- 22% of non-city costs

Debt

- 67% of non-city costs

$19 M Public Investment

Equity unknown

$40.8 M

Parking Utility paying for residential parking stalls
Variations in Return Expectations

Rate of Return (IRR) on Tax Credits & Equity

JDS  0.5%

Journeyman  15.1%

While we lack the data to estimate the exact returns on equity, JDS appears to be willing to accept a lower rate-of-return which raises questions.
Today’s Agenda

- Overview of Proposals
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Questions for Developers

Both developers:

• More detail on equity contribution, including specific amounts. Are developer fees being contributed or is all equity cash or cash equivalent?

• Sources and uses of tax credits.

• Developer fees to be collected from the project.
  
  [Each of these elements (equity, tax credits, developer fees) needs to be allocated to each specific portion of the project.]

• A specific response on city proposal regarding the room block agreement.
JDS Questions

• Specific information on gross square feet in each element of the project (i.e., hotel, parking structures, retail, commercial and residential)

• Explain the need to rely on 100% support from the Madison Parking Utility for all parking costs, including those associated with hotel and residential development.

• Explain the rate-of-return assumptions for the project.
Journeyman Questions

• Explain the reason for the city lease of hotel meeting space.

• Explain the allocation of parking costs between the private uses and the Madison Parking Utility.