

Judge Doyle Square

City Staff Team Analysis

November 2013



Photo: Skot Weidemann

Judge Doyle Square City Staff Team

George Austin, Judge Doyle Square Project Director

Katherine Cornwell, Planning Division

Steven R. Cover, Department of Planning and Community and Economic Development

Norman Davis, Office of Civil Rights

David Dryer, Traffic Engineering Division

Bill Fruhling, Planning Division

Jeanne Hoffman, City Engineering Division

Dan Kennelly, Economic Development Division

Gregg McManners, Monona Terrace Community and Convention Center

Anne Monks, Office of the Mayor

Aaron Olver, Economic Development Division

Dave Schmiedicke, Finance Department

Tim Sobota, Madison Metro

Tom Woznick, Parking Utility

Anne Zellhoefer, City Attorney's Office

Today's Agenda

- Share staff team's analysis of the two RFP responses
 - *Introduction:* George Austin
 - *Project Plan:* Katherine Cornwell
 - *Project Delivery/Operations:* Dan Kennelly and Tom Woznick
 - *Financing:* Aaron Olver and Dave Schmiedicke
 - *Summary:* George Austin
- Questions and Answers

Judge Doyle Square Process

- 2010 – Council authorizes the project in the 2011 Capital Budget
 - City Staff Team formed
- 2011 – Council authorizes planning to commence
 - Block 88 – Marcus/ULI Study
 - Block 105 – Kimley Horn and Associates Study
- 2012 – Council receives study results and City Staff Report
 - Council authorizes RFQ/RFP Process for Judge Doyle Square
 - Council creates the Judge Doyle Square Committee
 - Council authorizes hotel market study update
- 2013 – Council approves the RFQ and authorizes its issuance
 - Four RFQ responses received on April 30, 2013
 - JDS Committee recommends two teams (JDS Development Inc and Journeyman Group) be invited to submit RFPs
 - Council approves the RFP and authorizes its issuance
 - Two RFP responses received on September 30, 2013

The Downtown is far healthier than it was in the 1980s



“You wouldn’t believe the change that takes place on the Square between 4 and 6 o’clock in the afternoon. The working people go home and the prostitutes and the pimps take over.”

– Downtown business owner

Source: City photo; “When sex ruled the Square, *Isthmus*, November 1, 2013

A Generation of Prudent Planning and Public Investment



TIF Investment helped make downtown a destination

Significant Downtown TIF Loans

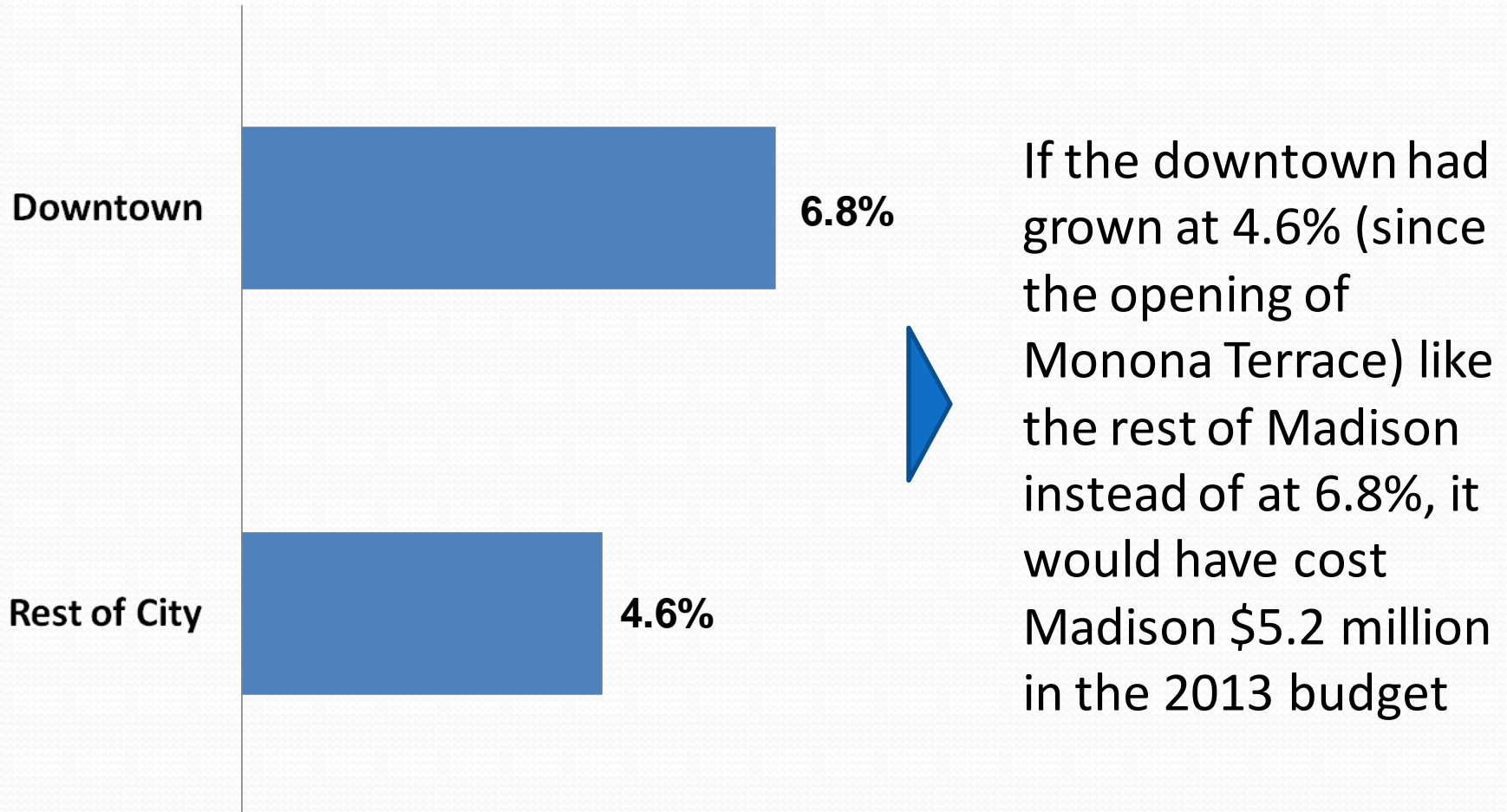


TIF Supported:

- Commercial Development
- Condo Development
- Apartment Development
- Civic Investments

As a result, Downtown has grown faster

Compound Annual Growth Rate of Tax Base (1997-2013)



Source: Madison Assessor, Madison Finance Department, Wisconsin Department of Revenue, analysis

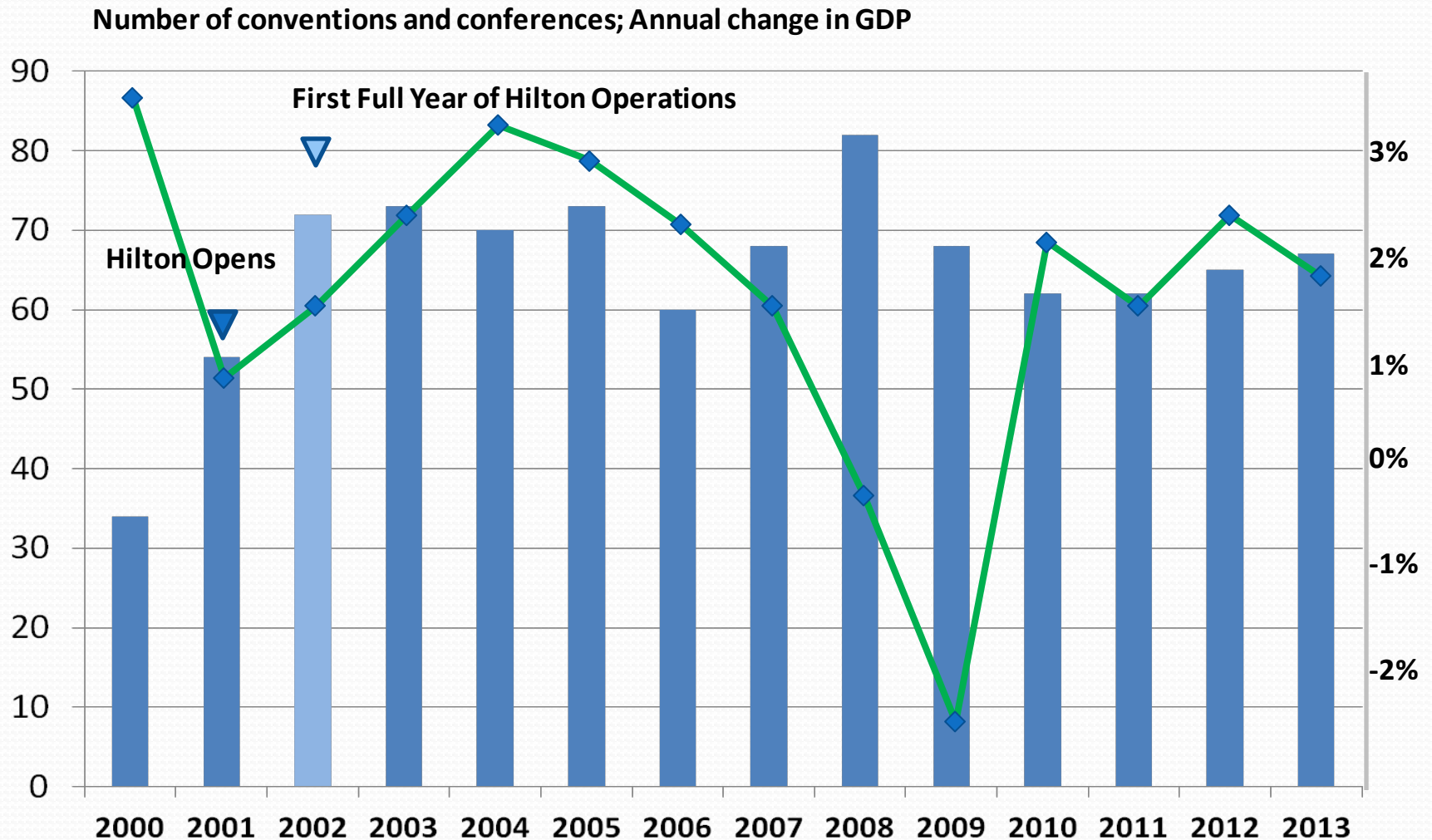
Monona Terrace enlivened downtown



- 600+ events each year
- Over 200,000 people attend events
- 250,000 Square Feet of convention space

Source: Monona Terrace, Johnson Consulting Madison Hotel Feasibility Study

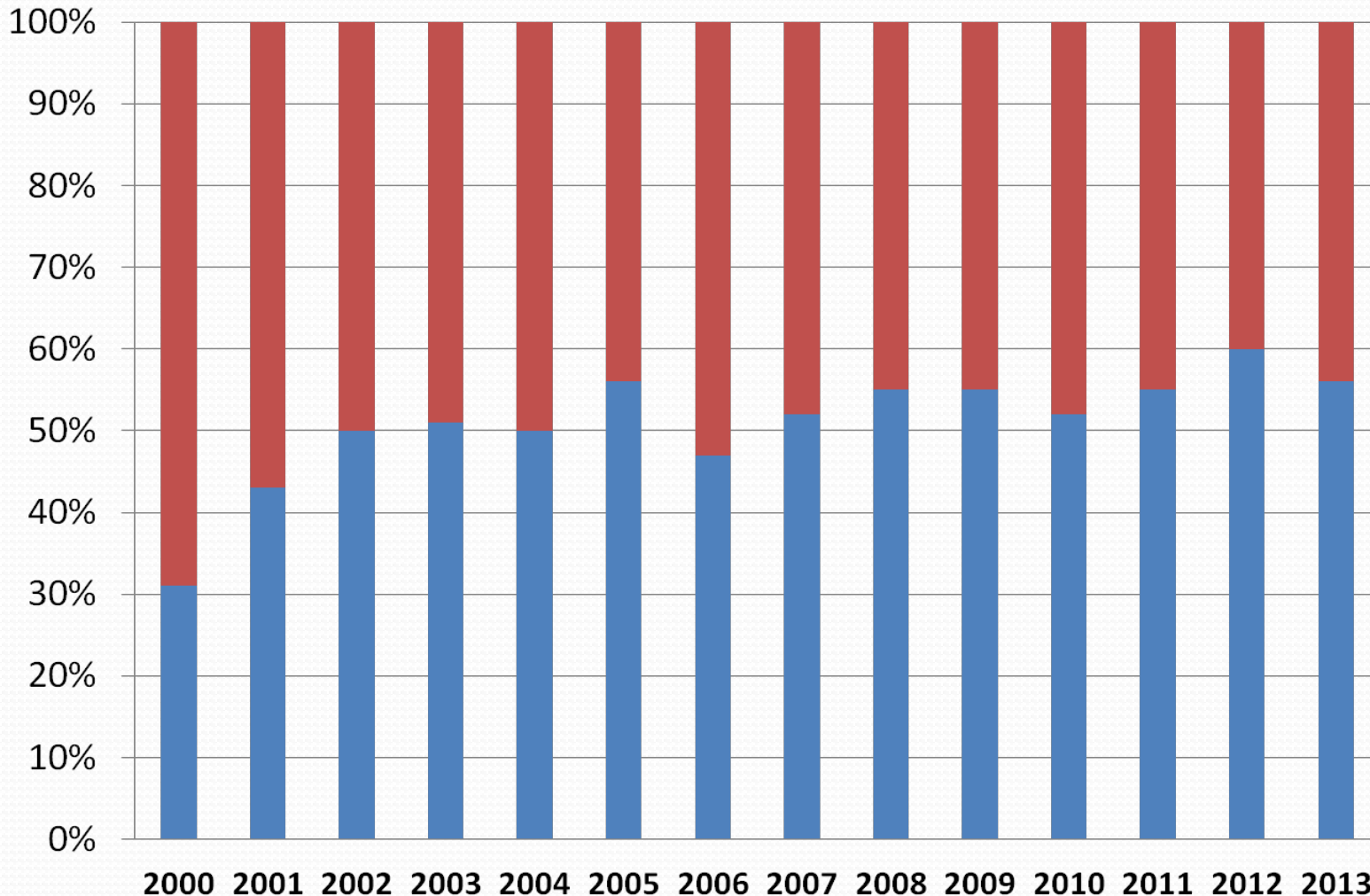
Conventions and conferences at Monona Terrace jumped after Hilton opened



Source: Monona Terrace

Conference/Convention revenue rose from ~30% to ~55%

Percentage of Revenue (Adjusted using 2012 figures)



Source: Monona Terrace

Note: Adjusted to hold revenues per attendee constant based on 2012 figures

Block 89 was transformative

1996



2006



Source: Courtesy of DMI

Block 89 helped activate and anchor the Square



Source: Courtesy of DMI, staff
City of Madison

Block 89 helped cement downtown's rejuvenation

Before

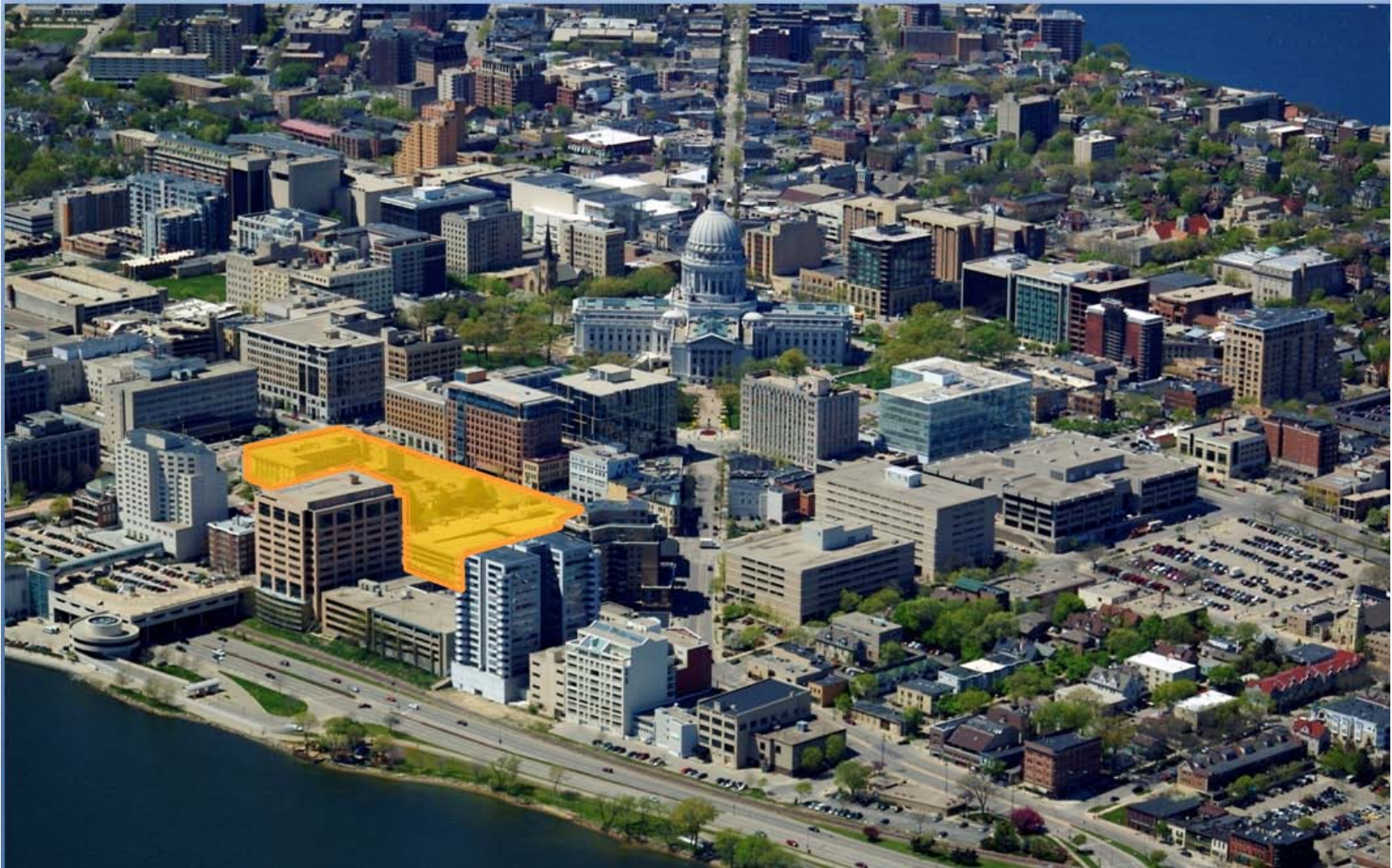


After



Source: Courtesy of ULI

The Judge Doyle Square Opportunity



Project Vision and Goals

Vision:

Unlock the development potential of two city-owned blocks to improve the south side of the Capitol Square as a destination for residents, employees and visitors by expanding and unifying the restaurant and entertainment district.

Create a pedestrian friendly, urban environment that improves the linkage of the Monona Terrace to an adjoining hotel, retail, restaurant and entertainment district.

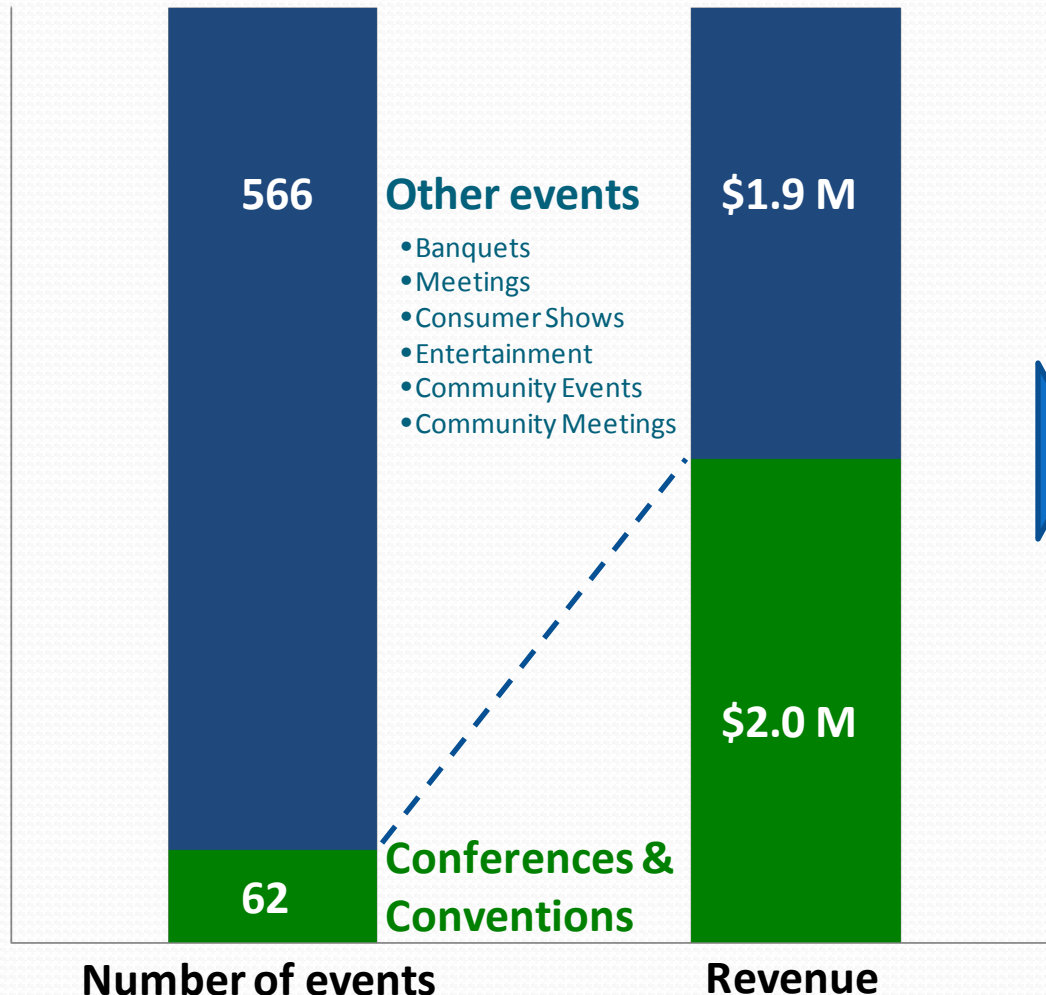
Goals:

- Economic Development
- Hotel
- Residential
- Office Retail, Restaurant and Entertainment
- Bicycles
- Parking
- Design and Density
- Intermodal Connectivity



Monona Terrace has an opportunity to increase revenues

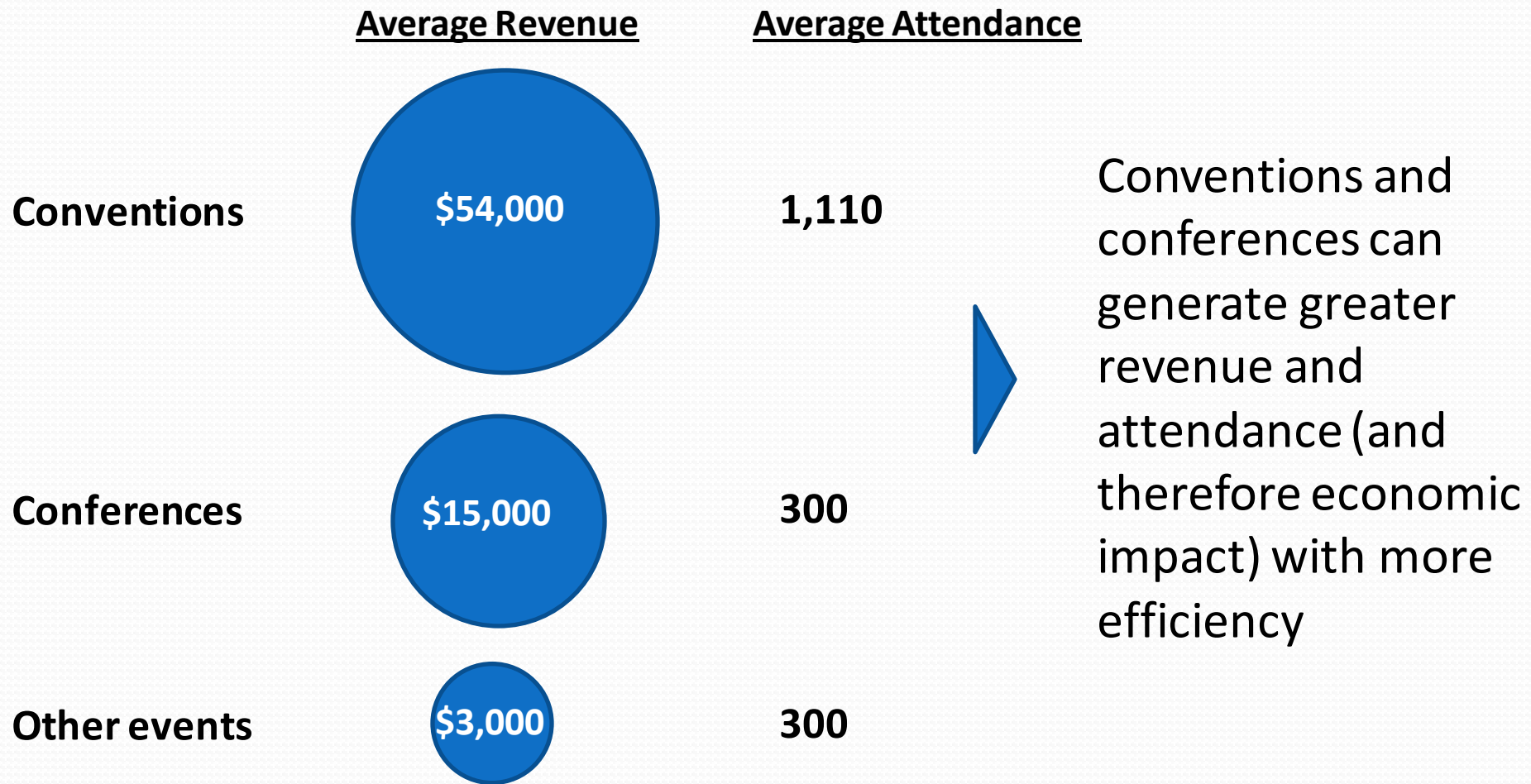
Average of 2010 & 2011 Event Count and Monona Terrace Revenue



Source: Monona Terrace, Johnson Consulting Madison Hotel Feasibility Study

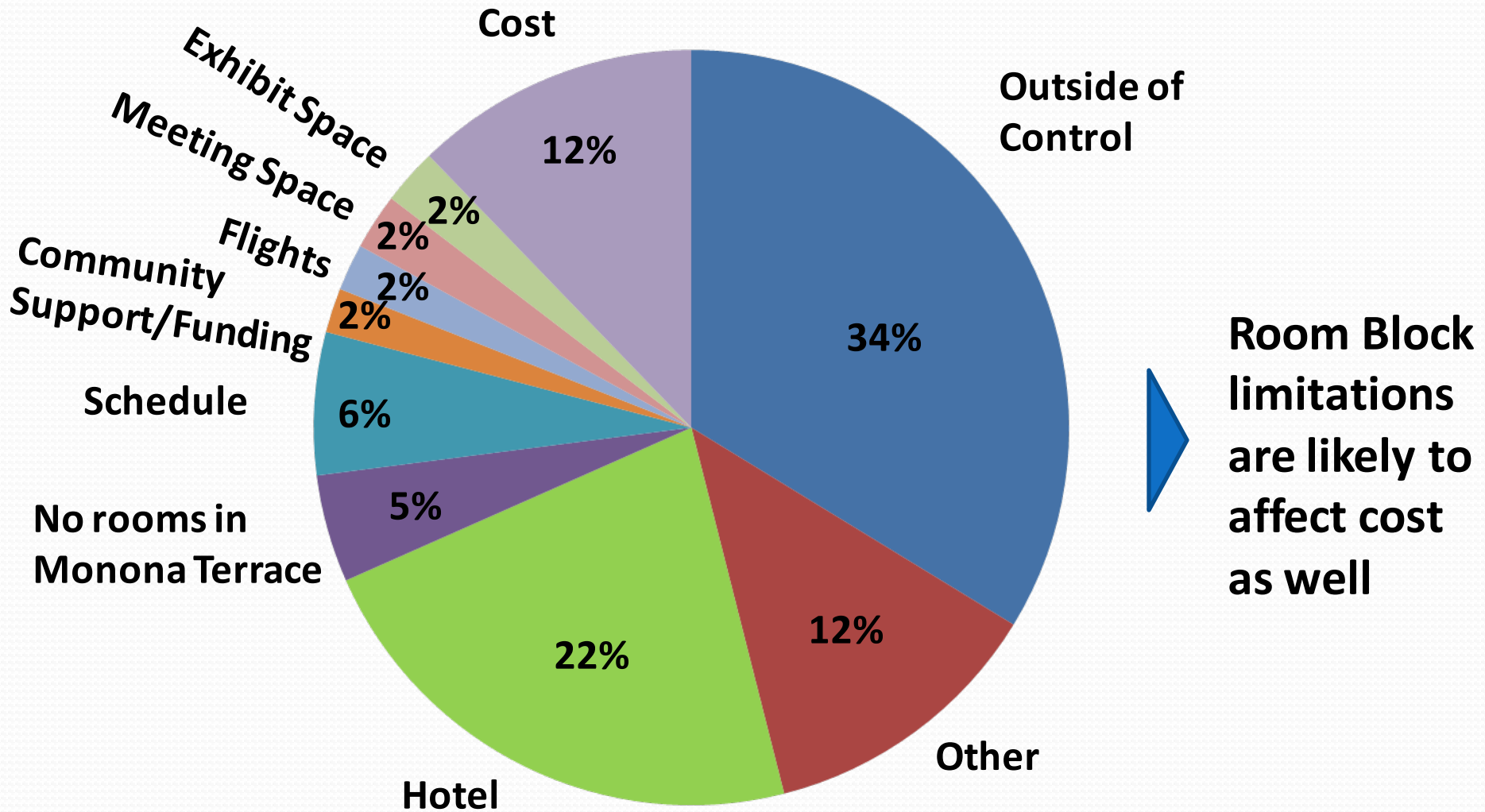
A handful of conventions/conferences can make an impact

Average of 2010 & 2011 Event Count and Monona Terrace Revenue



Source: Monona Terrace, Johnson Consulting Madison Hotel Feasibility Study

Hotel factors are leading addressable reason for lost events



Source: Madison Convention and Visitors Bureau, Johnson Consulting Madison Hotel Feasibility Study

Potential to capture additional business exists

Lost Business Report

| Year | Lost Events | Attendees | Room Nights |
|------|-------------|-----------|-------------|
| 2008 | 13 | 12,010 | 4,760 |
| 2009 | 71 | 61,480 | 37,904 |
| 2010 | 97 | 66,050 | 83,683 |
| 2011 | 94 | 78,375 | 91,773 |
| 2012 | 94 | 116,531 | 111,988 |

About ~95
events are
currently lost
each year



A larger room
block would
allow Madison
to chase ~750
new leads



Source: Greater Madison Convention and Visitors Bureau, Johnson Consulting Madison Hotel Feasibility Study

Increasing Conventions/Conferences benefits community

Economic Activity

- Increased visitor spending
- Increased local business revenue

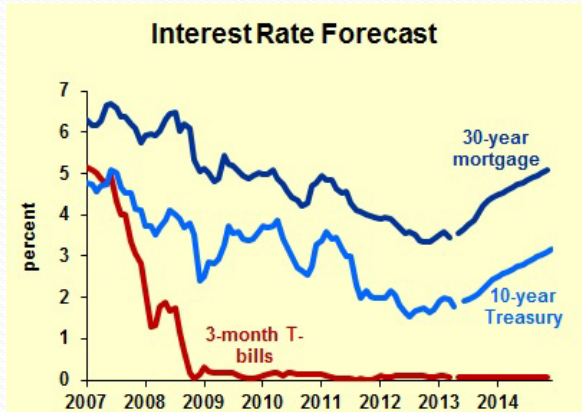
Tax Revenue

- Increased sales tax from visitors/attendees
- Increased Room Tax (TOT)
- Potential to reduce Monona Terrace subsidy

Economic Development Impacts

- Increased demand for air/bus travel
- Increased visibility for Madison

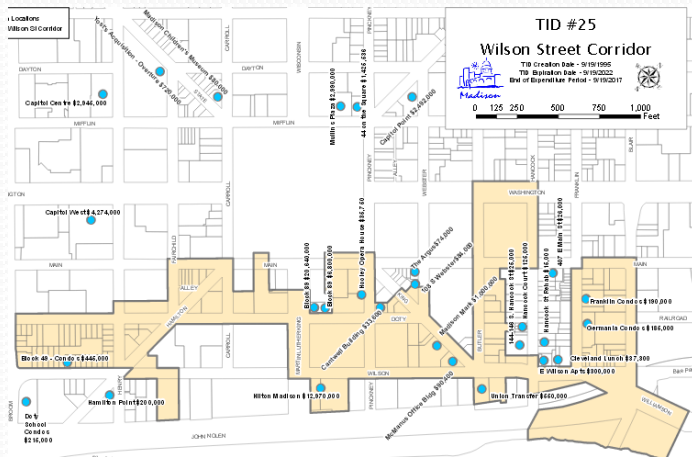
The timing is good to consider Judge Doyle Square Project



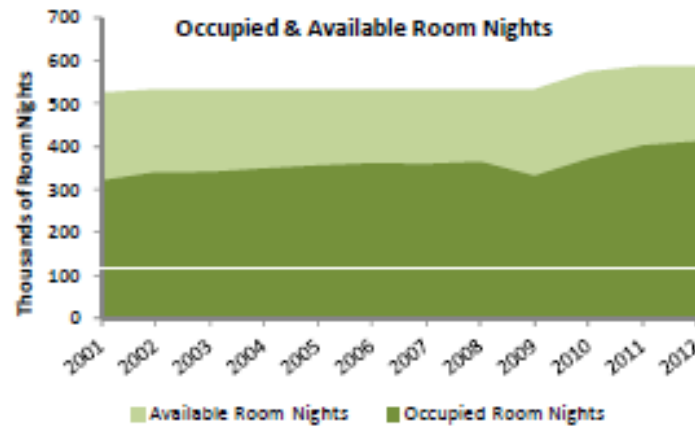
Interest rates are low, but likely to rise



Government East is at the end of its useful life



TID #25 has unusual financial strength



Hotel market is strong and able to absorb new rooms

City Staff Team Analysis

The staff report is one of the important elements in the Judge Doyle Square Committee's analysis of the RFP responses. The report is organized around the fourteen requirements of the RFP organized in three key subject areas:

PROJECT PLAN

- (1) the Project Goals found in Section 2 and Project Requirements found in Section 3 of the RFQ; and
- (2) RFP Requirements 1, 2, 3, 10.

PROJECT DELIVERY and OPERATIONS

- (1) Development phase plan (RFP Requirements 8, 9, 11, 12, 13); and
- (2) Operating phase (RFP Requirements 4, 5, 6, 7).

FINANCING

- (RFP Requirement 14)

Judge Doyle Square

City Staff Team Analysis

Project Plan



Photo: Skot Weidemann

Goals

TRANSFORMATIVE:
catalytic in the
project's ability to
increase activity and
unlock the district's
economic development
potential

DYNAMIC:
quality design, synergy of
uses, axial links, activated
streets, a uniquely Madison
destination for residents,
employees, and visitors.

URBAN:
a distinctly urban
environment friendly to
pedestrians and cyclists
with a strategic reservoir
of parking

Requirements

Land Uses

Design/Density

**Connectivity &
Multimodal
Choices**

**Madison
Municipal
Building**

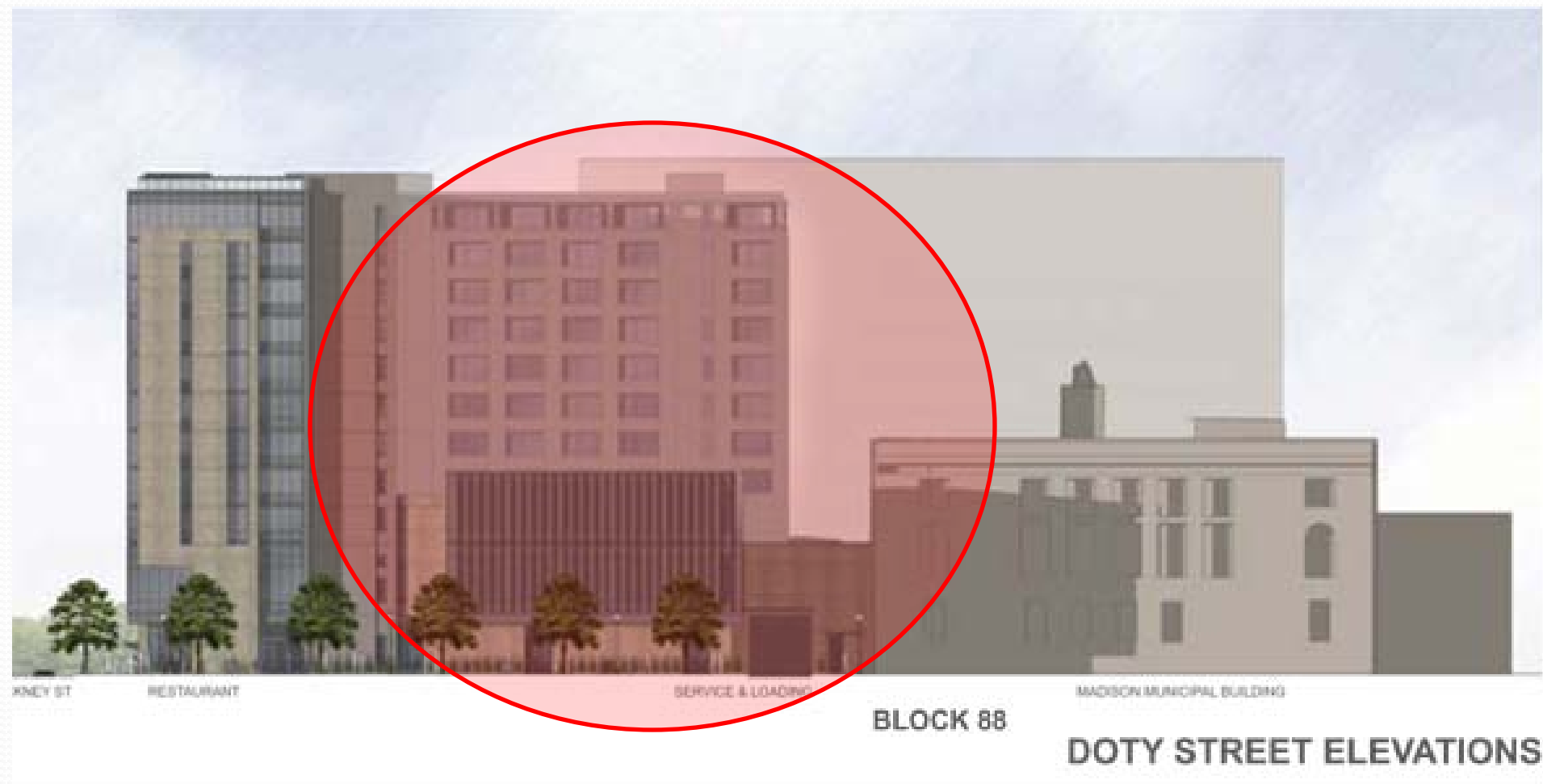
Essential Differences

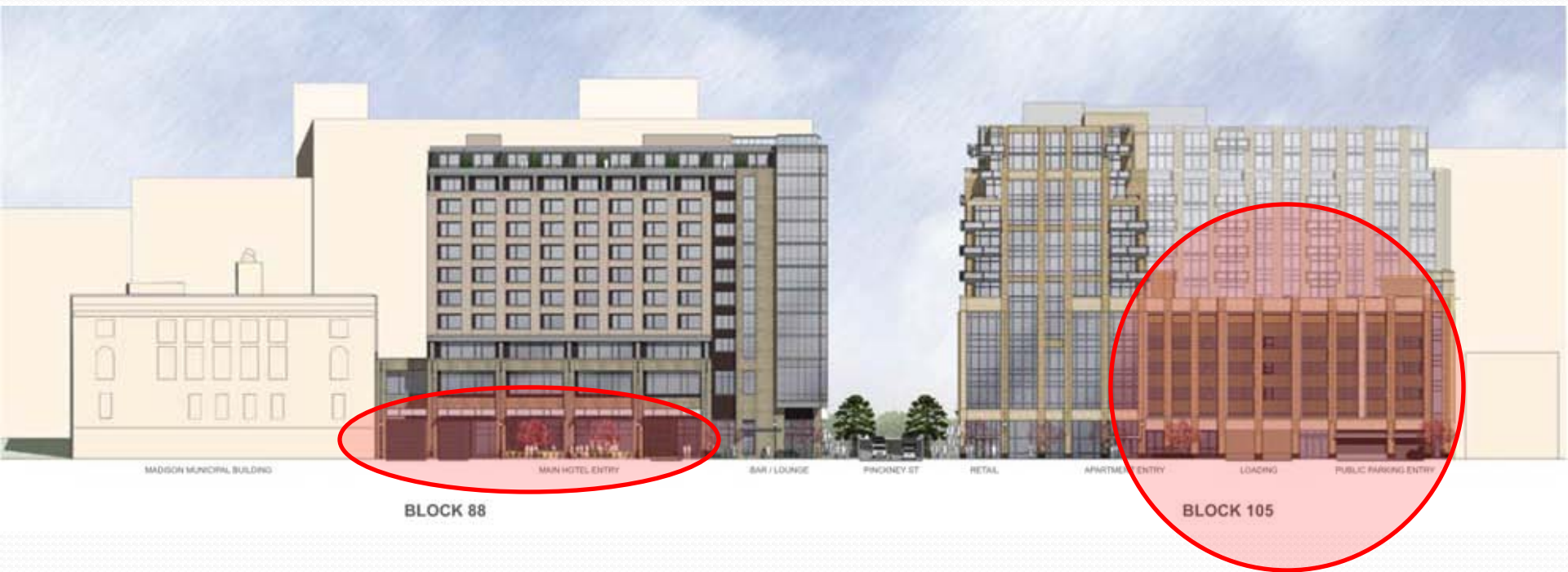
1. Design
2. District linkages and axes
3. Synergy of activity
4. Support for alternative modes of transportation
5. Madison Municipal Building
 - Continued use of MMB as city offices
 - Exceptional proposal for alternative use

Journeyman











PINCKNEY STREET ELEVATIONS



WILSON ST

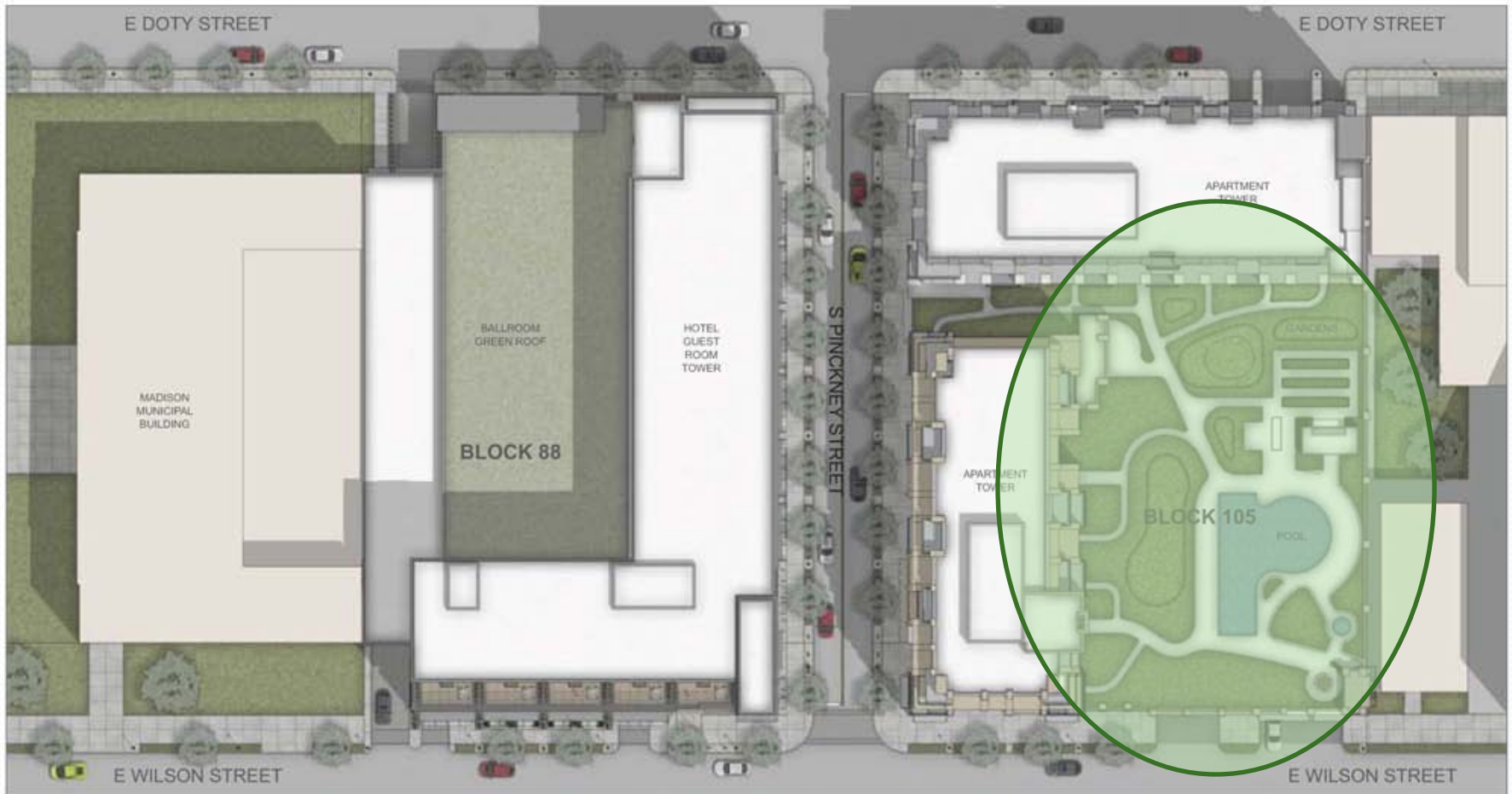
BAR / LOUNGE

RESTAURANT(S)

DOTY ST

PINCKNEY STREET ELEVATIONS







JDS Scheme 1

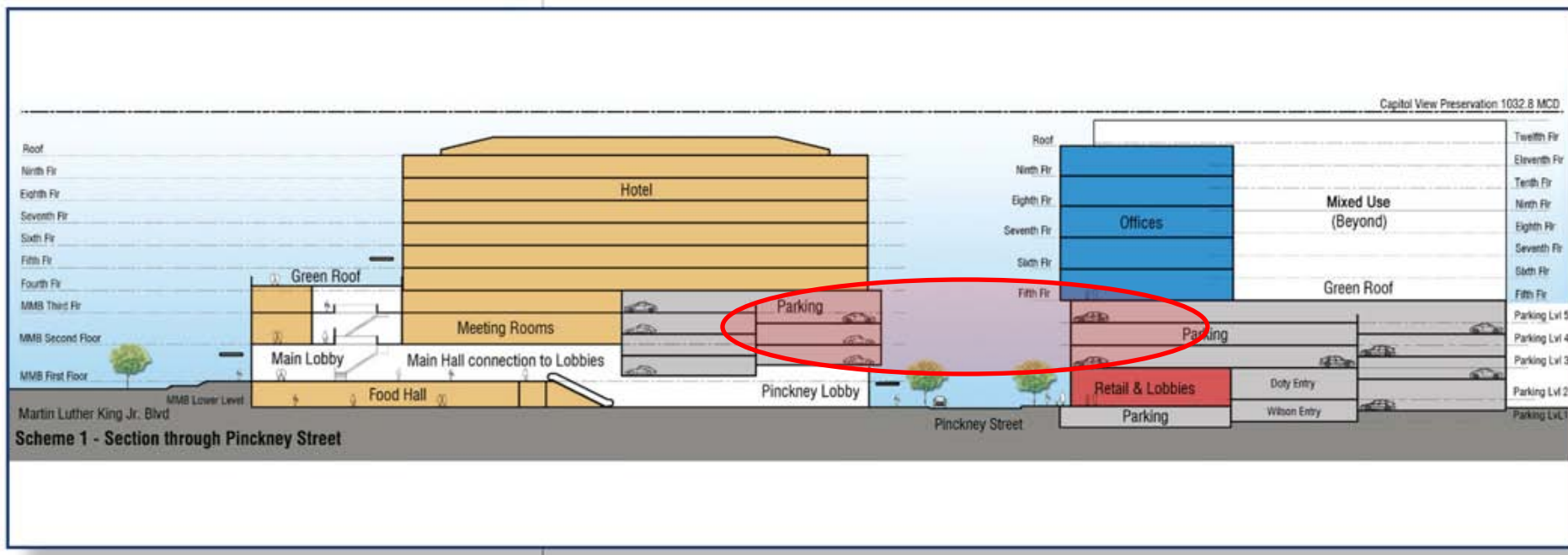


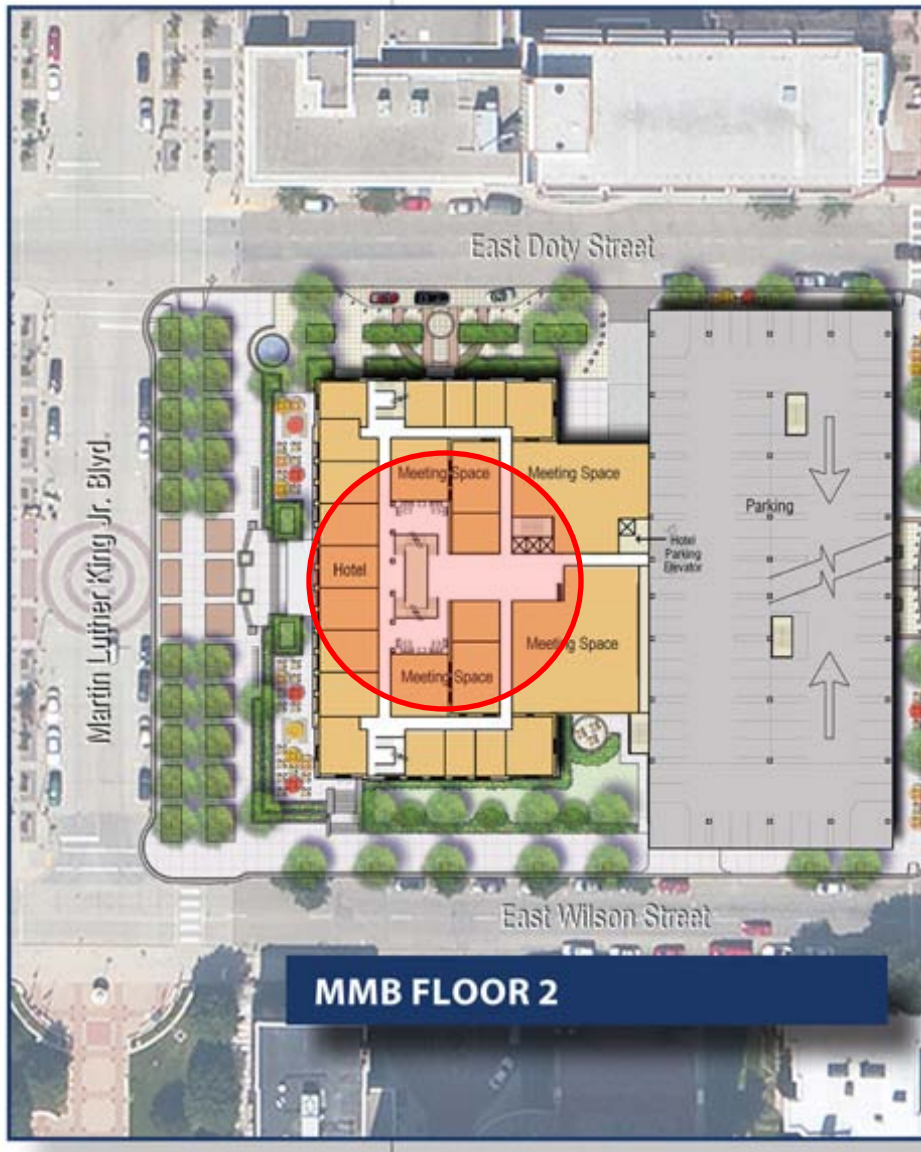
JDS Scheme 1
6 stories

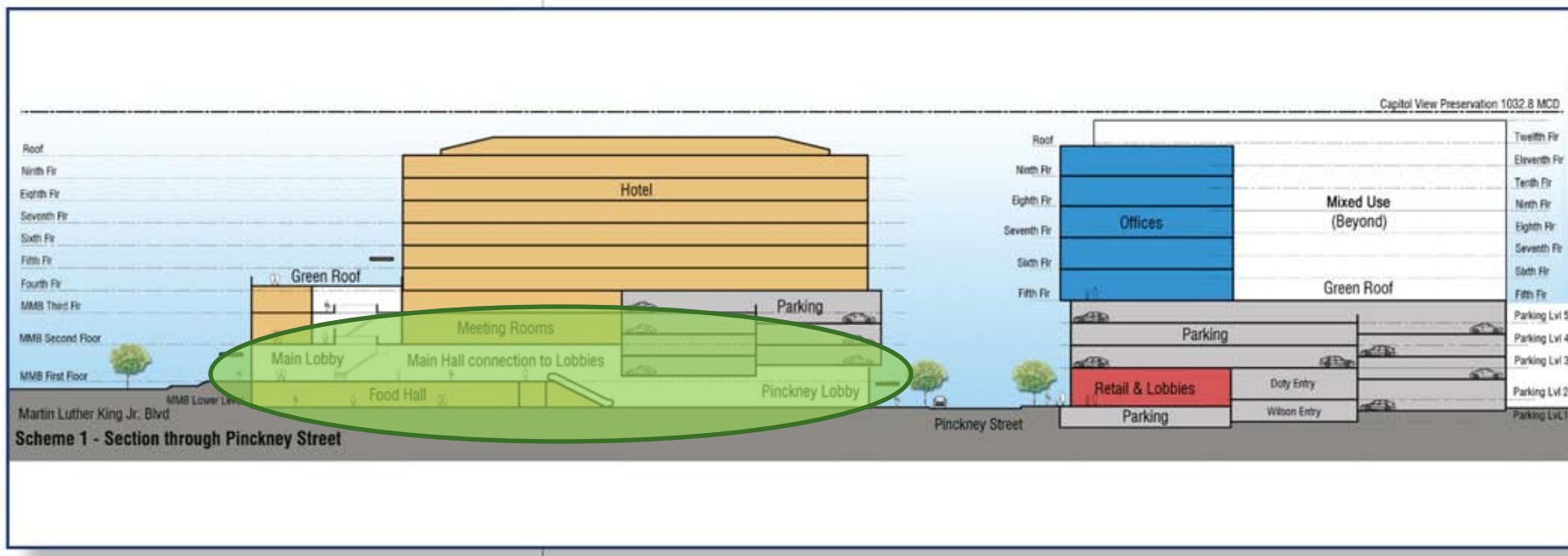


JDS
Scheme 1
7 stories

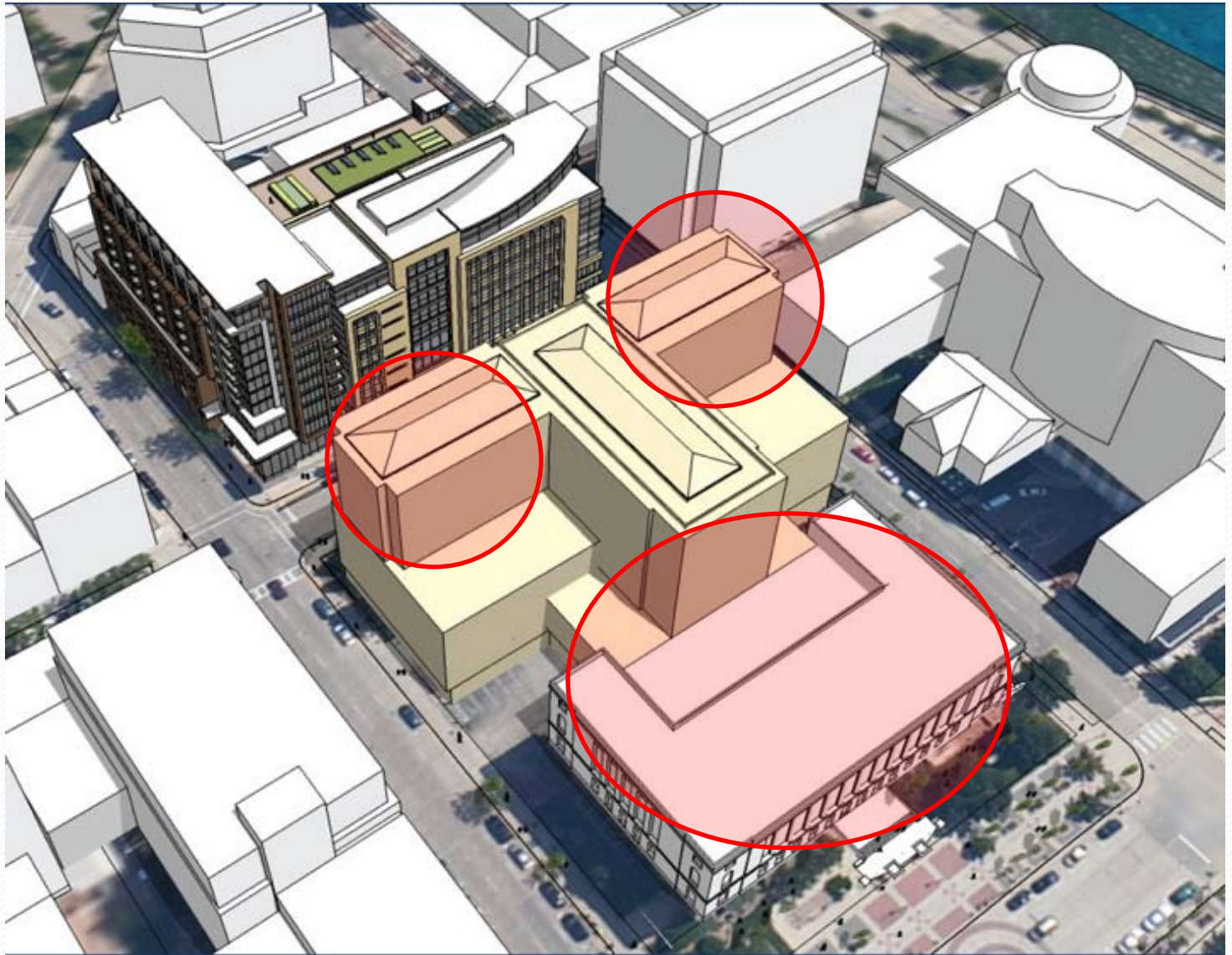


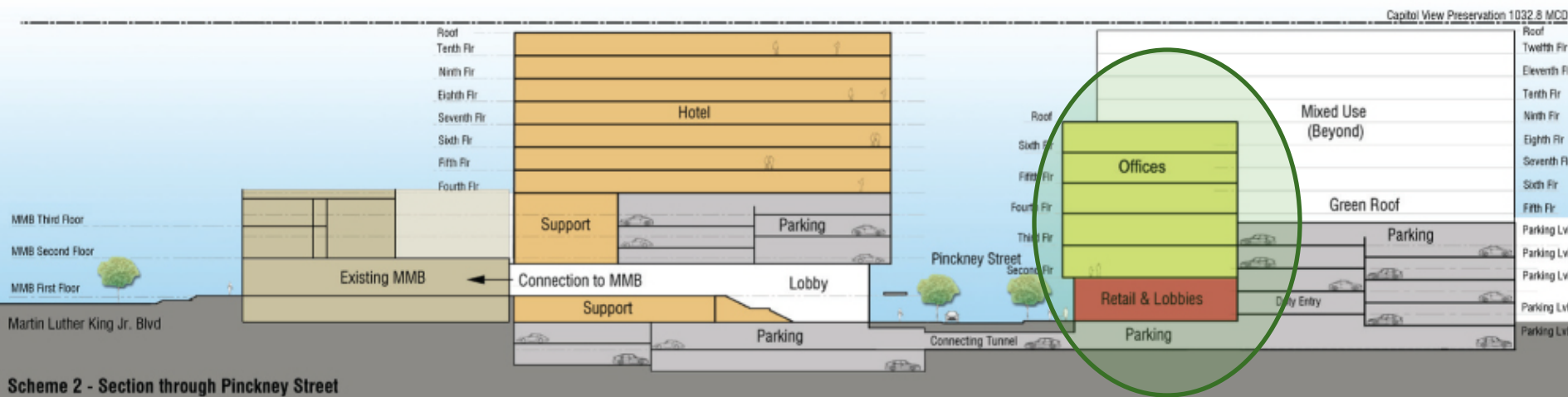






JDS
Scheme 2





link (lɪŋk/)

- a relationship between two things or situations, esp. where one thing affects the other.
- make, form, or suggest a connection with or between.

axis ('aksɪs/) *noun*

- an imaginary line about which a body rotates.

synergy ('sɪnərjē/) *noun*

- the interaction or cooperation of two or more organizations, substances, or other agents to produce a combined effect greater than the sum of their separate effects.



Trinity of Synergy (PEOPLE + TIME = \$\$\$)

Activity
Generators

Activity
Extenders

Activity
Inducers

Activity Generators

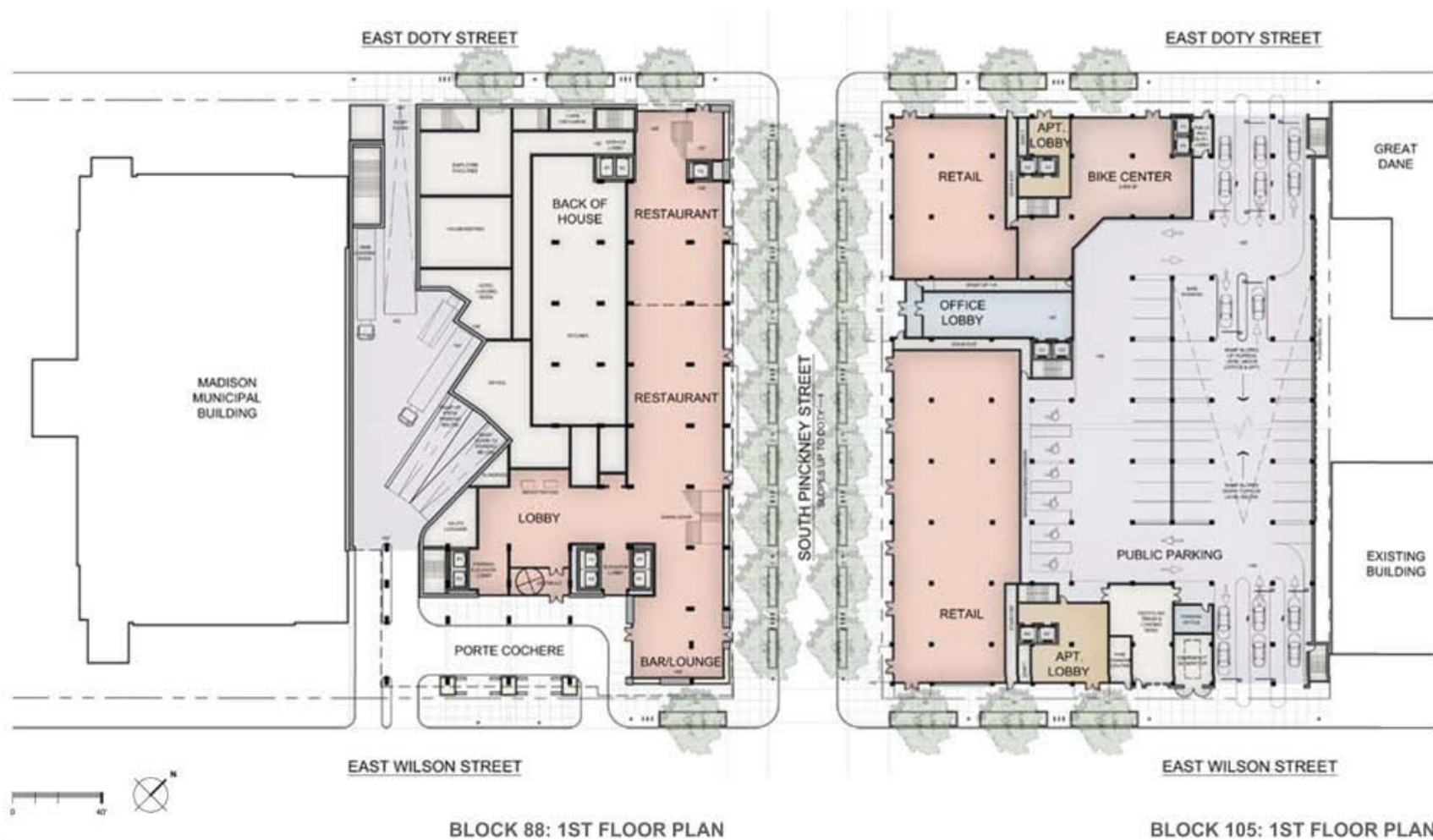


Activity Extenders

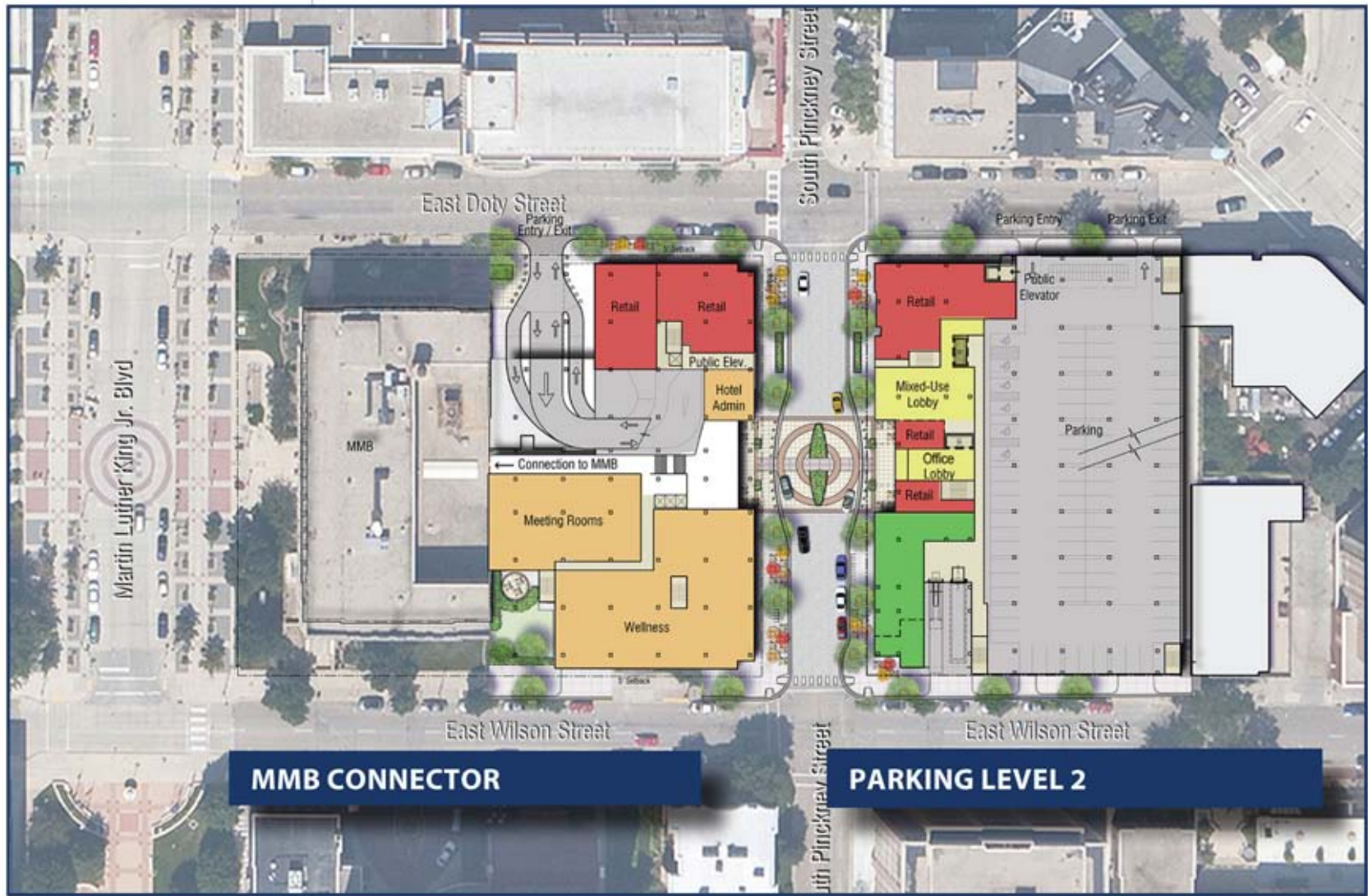


Activity Inducers

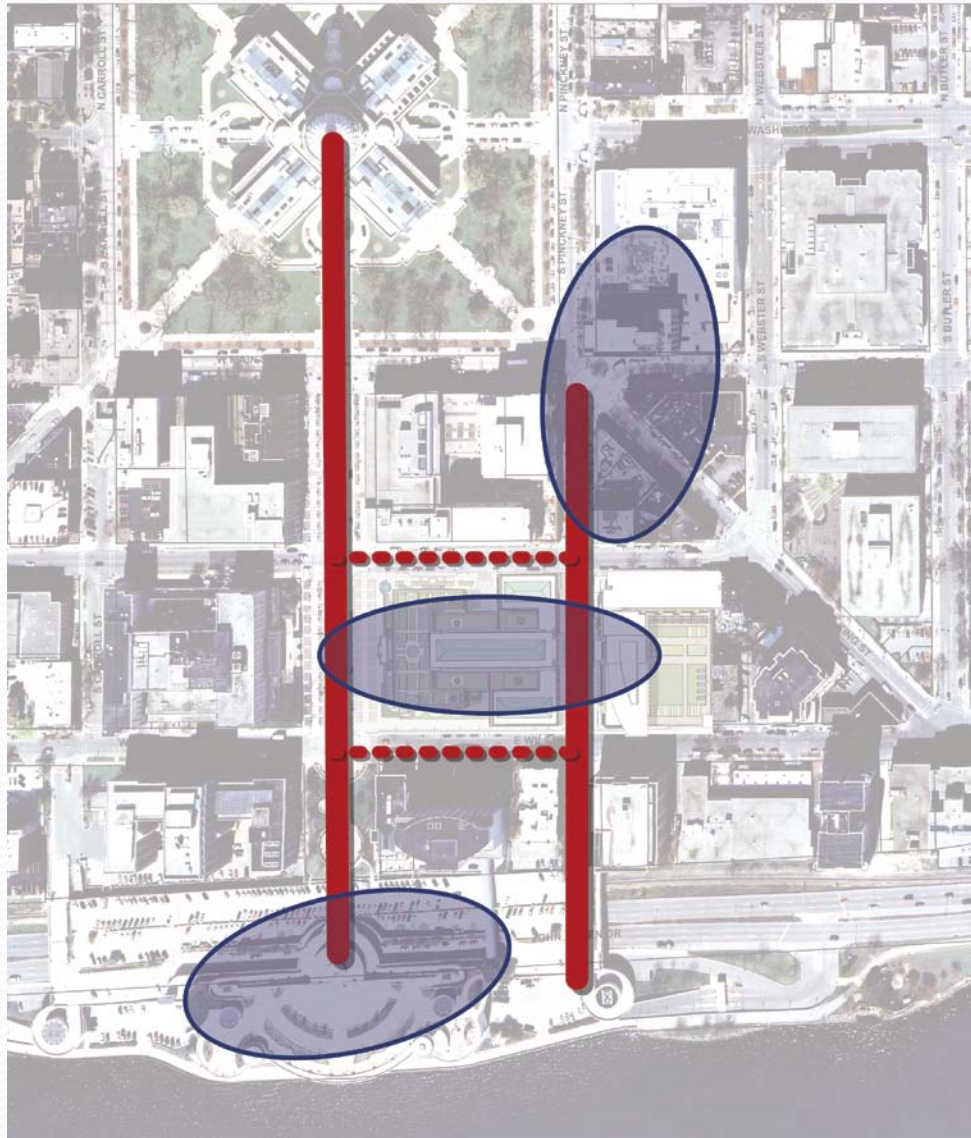




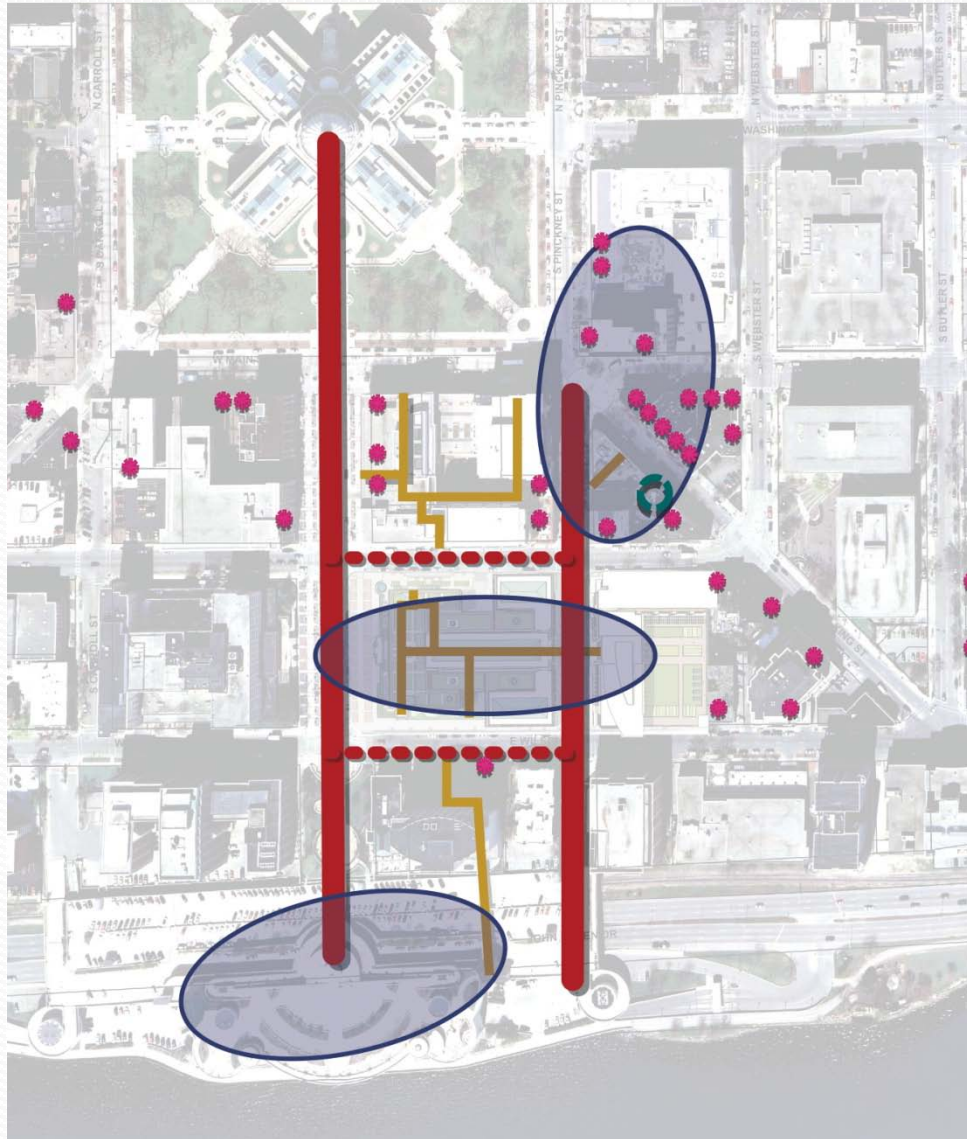




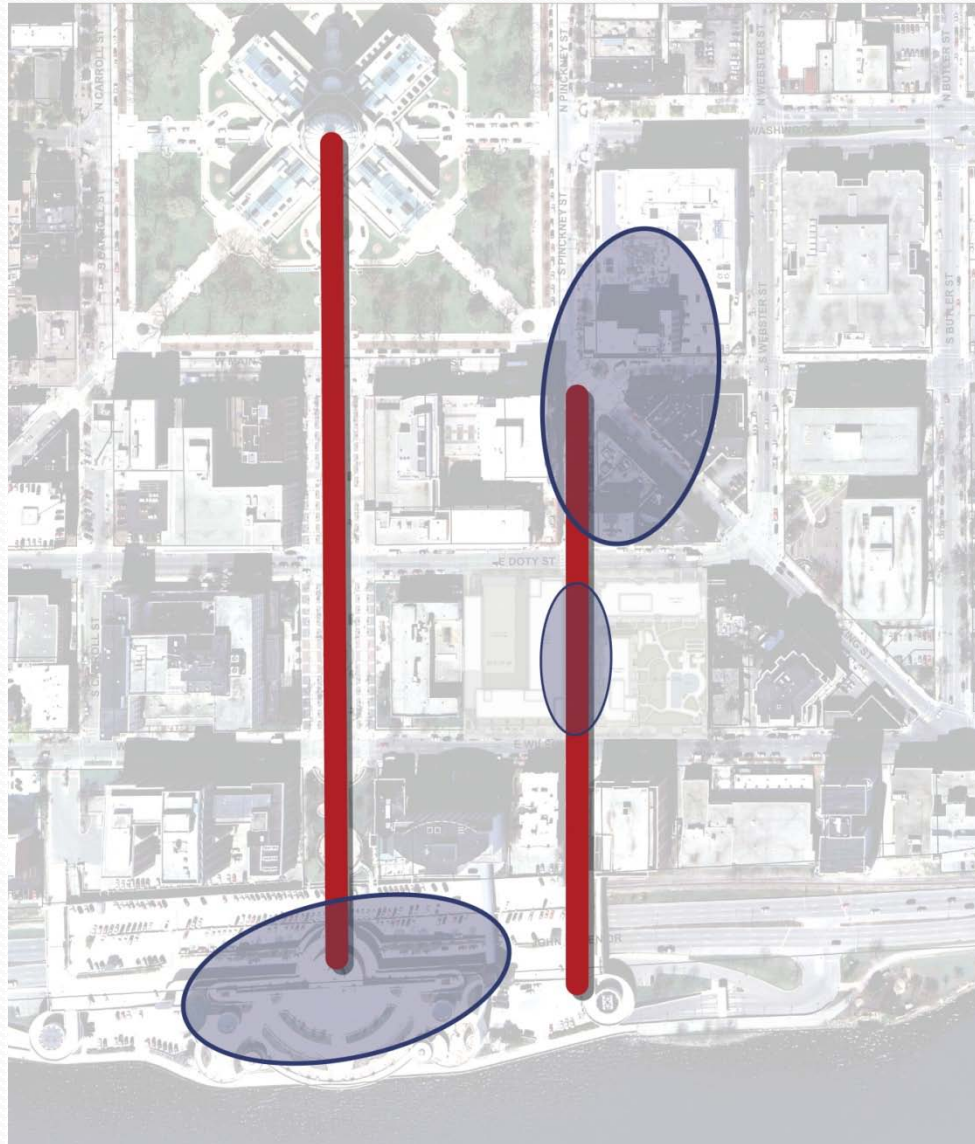
JDS DIAGRAM



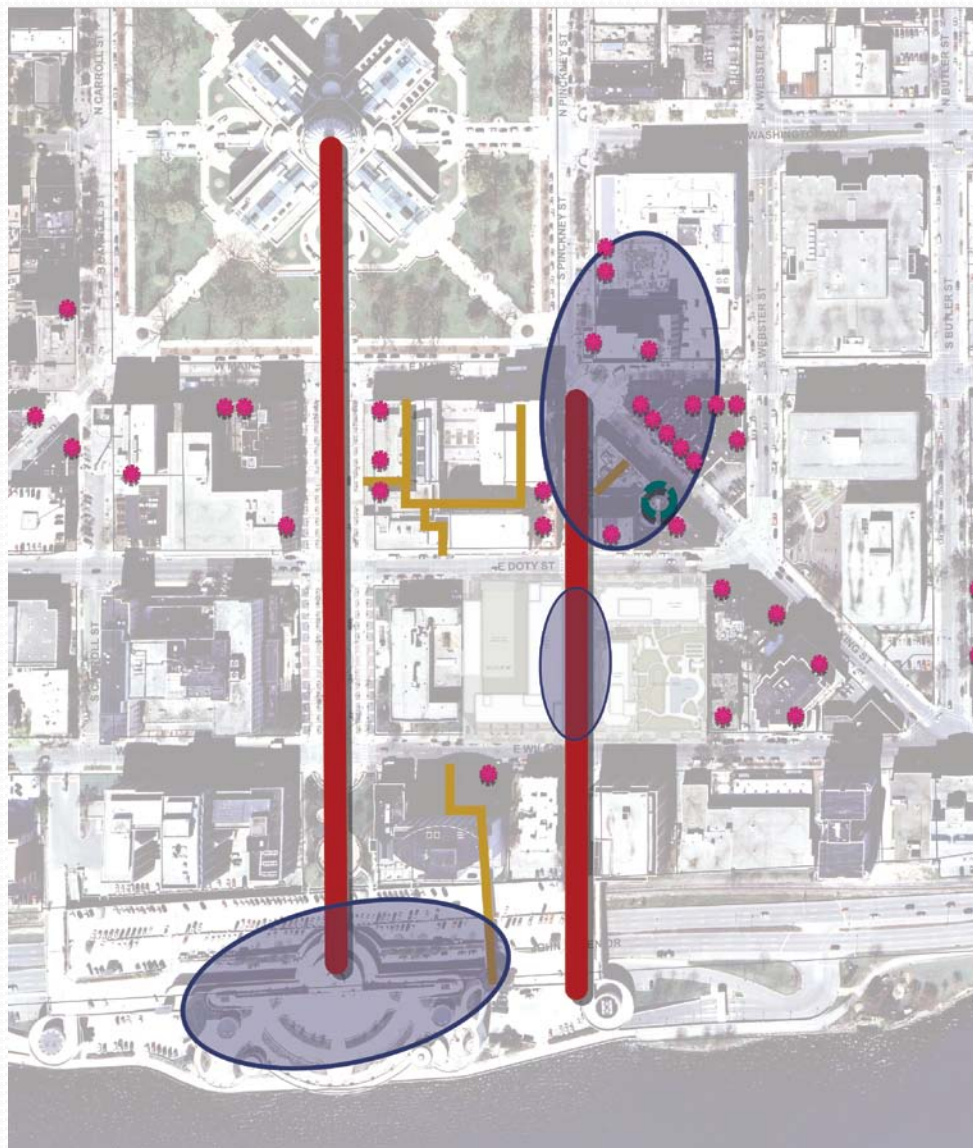
JDS DIAGRAM



JOURNEYMAN DIAGRAM



JOURNEYMAN DIAGRAM



Support for Alternative Modes

Journeyman

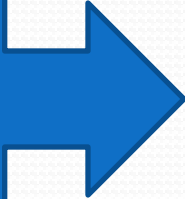
- Madison-based, local business with national brand recognition as potential Bike Center operator (Trek)
- More parking spaces

JDS 1 & 2

- Conservative approach to Bike Center operation – could provide flexibility to create grassroots operation that reinforces entertainment center vibe
- Better integration of Bike Center into overall site plan
- Better site design/layout to encourage walking

MMB Preservation Path

MMB
preserved
with city
offices



City preserves and repairs features of historical and architectural significance per the Isthmus Architecture report. Journeyman significantly redesigns project to respect MMB or JDS 2 works out unclear details of their proposal. City or nonprofit programs MMB as civic/cultural core. Reuse building as city office space.

MMB
preserved
without city
offices



Restrictive covenants prescribe extent of historical or architecturally significant features to be retained/repared after sale to preserve MMB integrity per the Isthmus Architecture report. JDS implements restrictive covenants. Reuse building as a hotel.

Hotel Room Block

- Both proposers provide the 250 room block agreement per the RFP
- Both developers were thorough in their outline of how the process to secure and release room blocks would occur
- Both developers expressed concern, yet a willingness to work with the City, in coming up with a room block agreement that encompassed both rooms and rate
- Both developers clearly expressed a concern that the room block agreement should not materially interfere with the Developer optimizing the hotel performance
- Journeyman stated that they would be willing to increase the size of the room block to 80% of their inventory or 280 rooms

| Comparison of Responses | Journeyman | JDS 1 | JDS 2 |
|---|------------|-------|-------|
| Land uses | ⦿ | ⦿ | ⦿ |
| Hotel rooms (quantity) | ● | ⦿ | ⦿ |
| Hotel room block | ⦿ | ⦿ | ⦿ |
| Mix of uses, at-grade retail or restaurant (on Wislon, Doty and Pinckney) | ⦿ | ● | ⦿ |
| Overall design | ○ | ● | ⦿ |
| Architectural expression and materials | ○ | ● | ● |
| Project massing and shadow | ○ | ● | ⦿ |
| Internal program as expressed to exterior | ⦿ | ⦿ | ⦿ |
| Project relationship to landmarks | ○ | ● | ● |
| Relationship to surrounding character | ○ | ● | ⦿ |
| Madison Municipal Building | ⦿ | ⦿ | ● |
| Retain MMB as City offices (City preference) | ● | ○ | ● |
| Integration/treatment of MMB in overall proposal | ○ | ● | ⦿ |
| Support for alternative modes | ○ | ● | ⦿ |
| Parking (quantity of spaces and configuration of ingress/egress) | ⦿ | ⦿ | ⦿ |
| Bike Center | ⦿ | ⦿ | ⦿ |
| Engaging Pedestrian environment and site landscaping/streetscape | ○ | ● | ⦿ |
| Synergy of uses | ○ | ● | ⦿ |
| District linkages and axes | ○ | ● | ⦿ |

Degree that proposal achieves criteria relative to other proposals:

● High ⦿ Moderate ○ Low

Judge Doyle Square

Chapter 2: Project Delivery & Operations

December 2013



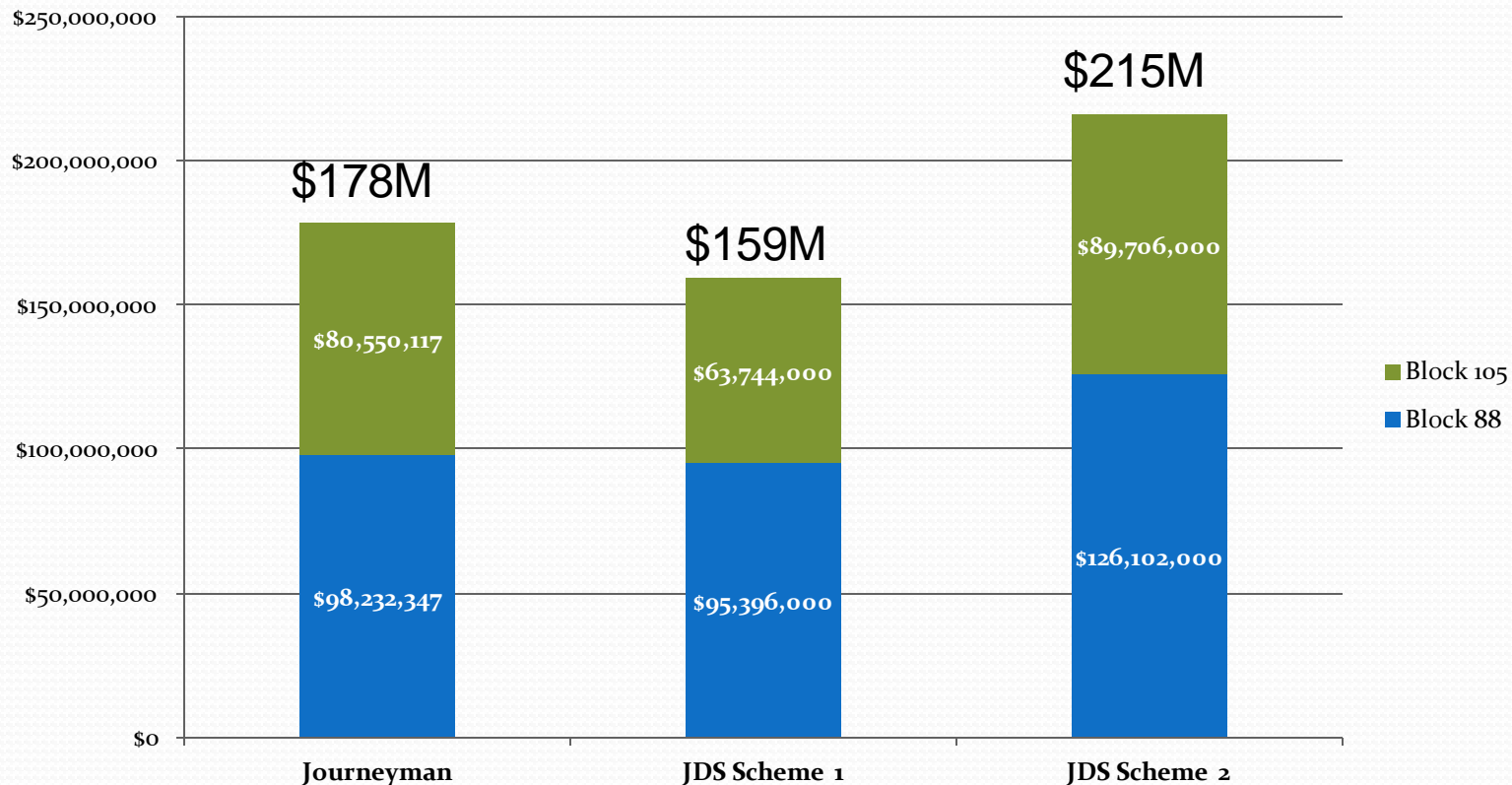
Photo: Skot Weidemann

Chapter 2: Delivery & Operations

1. Construction Budget
2. Real Estate Terms
3. Workforce Utilization/Targeted Business Goals
4. Community Engagement
5. Property Management
6. Phasing Plan
7. Parking Management Plan
8. Bicycle Center Management

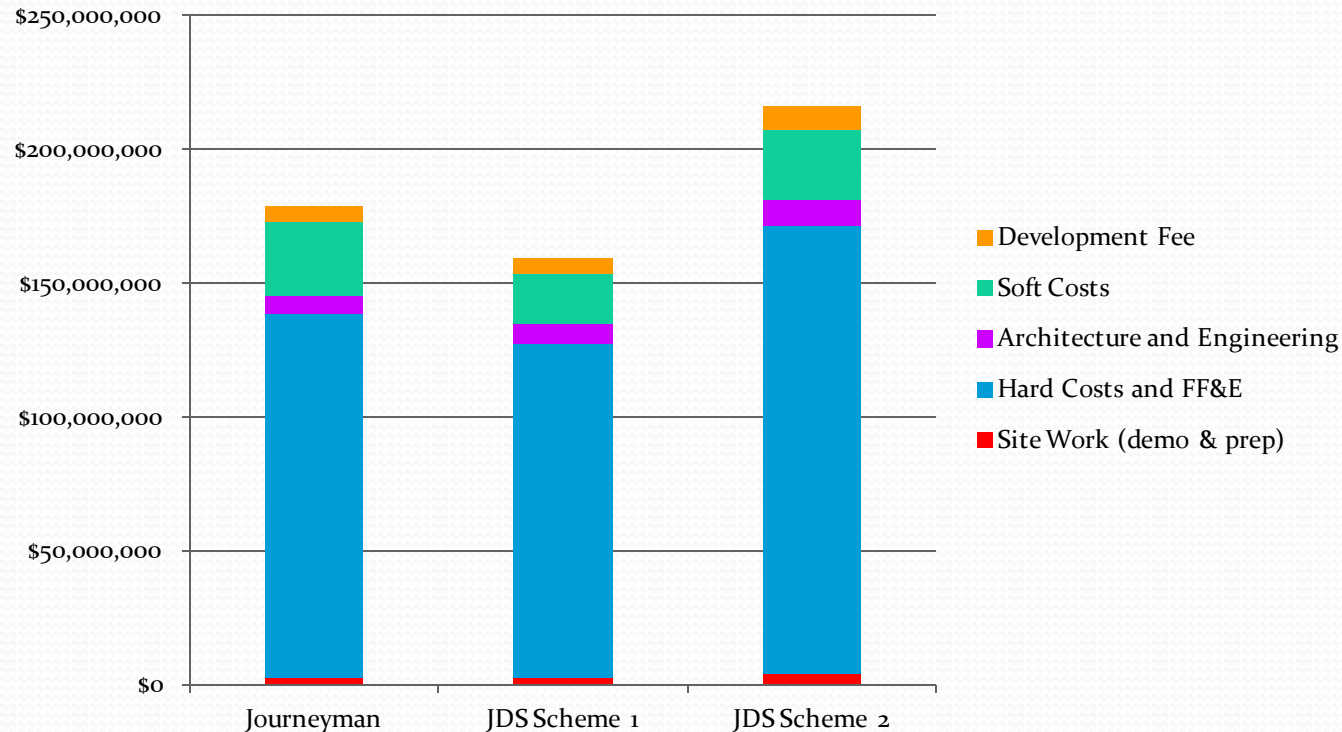
Construction Budget

Total Budget By Block

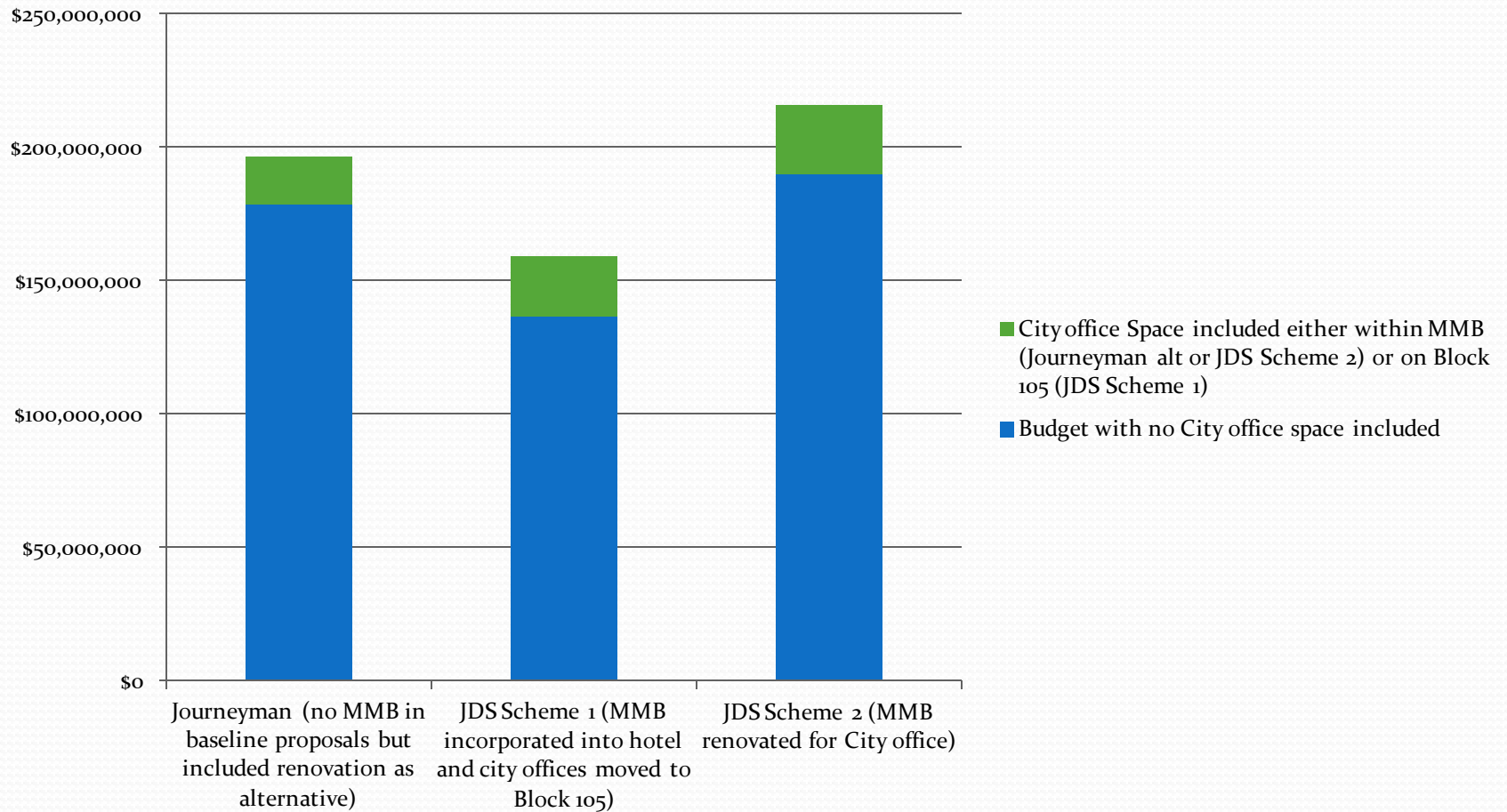


Construction Budget

Distribution of Construction Budget by Use



Construction Budget



Construction Budget

- Journeyman provided a more detailed budget
- The teams have a similar distribution of project budget across uses
- Journeyman's projected \$17.7m to renovate the MMB is significantly lower than estimates completed by JDS and the City

Real Estate Terms

- Journeyman's proposed "turnkey" solution to MMB may be contrary to the State's public bidding laws, is not optimal under the state levy limit and needs to be modified
- JDS did not provide sufficient information on Block 105 City Office Buildout to assess whether it is consistent with State Law

Workforce Utilization

- Journeyman provided a more thorough and complete plan including specific targeted business utilization commitments
- JDS expressed a commitment to meet the City's goals but did not provide a detailed plan

Community Engagement

- The plans in both proposals are good starting points for a joint City/developer Community Engagement Plan when a specific project is supported by the Common Council.

Property Management Plan

- Journeyman's property management plan provided detailed narrative describing how the team proposes to address a range of specific aspects of managing each component of the project.
- JDS's property management plan is a brief statement.

Phasing

- Journeyman's proposed phasing plan would result in the loss of all current public parking supply in the Government East garage for a 12.5 month period. This has significant shortcomings for area businesses, the Parking Utility and Monona Terrace and must be modified
- JDS's proposed phasing plan would maintain at least 50% of the current public parking supply in the Government East garage. This is not ideal but a more workable solution.

Parking Management Plan

- Neither team presents an approach that would provide parking at an affordable cost and which maintains an adequate level of reserves in order to finance future capital projects
- Journeyman proposes building 1,275 total spaces, segregated by uses. JDS proposes a shared parking strategy to build between 911-1,013 total spaces
- Journeyman's cost/space is \$30K for private spaces, \$47K for public spaces, and \$50K for City fleet spaces. The cost/space for JDS-1 is \$30K and for JDS-2 is \$40K

Bicycle Center Management

- Both teams address the City's requested bicycle center amenities and features.
- JDS's proposal recognizes that the City's stated involvement in the bike center will be limited to front-end capital costs not ongoing operations while Journeyman's proposal included several operational costs for the city
- Journeyman's partnership with Trek as an operator of the bicycle center brings an experienced local partner to the project

Judge Doyle Square City Staff Team Analysis

Financial Analysis



Photo: Skot Weidemann

Purpose of financial analysis

Risks & Issues addressed

1. How to compare projects with differing elements?
2. What drives cost differences?
3. How do hotels conform with industry norms?
4. What tax benefits will be generated?
5. What is risk developer might drop project or pursue additional public investment?
6. How much additional public investment does a Judge Doyle project require relative to status quo?

Risks & Issues not addressed

1. What are the market risks for:
 - Hotels
 - Office
 - Residential
 - Retail
2. What are the construction cost risks?
3. What are the risks in the financing environment?

City of Madison

Judge Doyle Square — Staff Team Analysis

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| JUDGE DOYLE SQUARE DEVELOPMENT OFFICIAL SPACE 16 YEAR SCHEDULE OPERATING PROGRAM | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Space Program Ratios/Finns | | | | | | | | | | | |
| | | 61.00% | | | | | | | | | |
| | | Ratio | 12.30 | | | | | | | | |
| Income | | | | | | | | | | | |
| Total Income | \$1,899,535 | \$2,277,489 | \$3,767,732 | \$3,586,194 | \$3,584,006 | \$4,147,720 | \$3,488,857 | \$3,832,262 | \$3,181,941 | \$3,180,717 | \$3,886,711 |
| Net Income | \$1,899,535 | \$2,277,489 | \$3,767,732 | \$3,586,194 | \$3,584,006 | \$4,147,720 | \$3,488,857 | \$3,832,262 | \$3,181,941 | \$3,180,717 | \$3,886,711 |
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| EXPENSES: | | | | | | | | | | | |
| Operating | 6.8% | 11.7% | 10.4% | 10.2% | 10.2% | 9.8% | 10.4% | 10.2% | 10.2% | 10.2% | 10.2% |
| Maintenance | 0.5% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% |
| Insurance | 0.5% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% |
| Utilities | 0.5% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% |
| Depreciation | 0.5% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% |
| Property Tax | 0.5% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% |
| Management Fee | 0.5% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% |
| Total Expenses | 10.8% | 16.5% | 14.2% | 13.0% | 13.0% | 12.6% | 13.2% | 13.0% | 13.0% | 13.0% | 13.0% |
| Net Income before Debt Service | \$1,899,535 | \$2,277,489 | \$3,767,732 | \$3,586,194 | \$3,584,006 | \$4,147,720 | \$3,488,857 | \$3,832,262 | \$3,181,941 | \$3,180,717 | \$3,886,711 |
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VS.

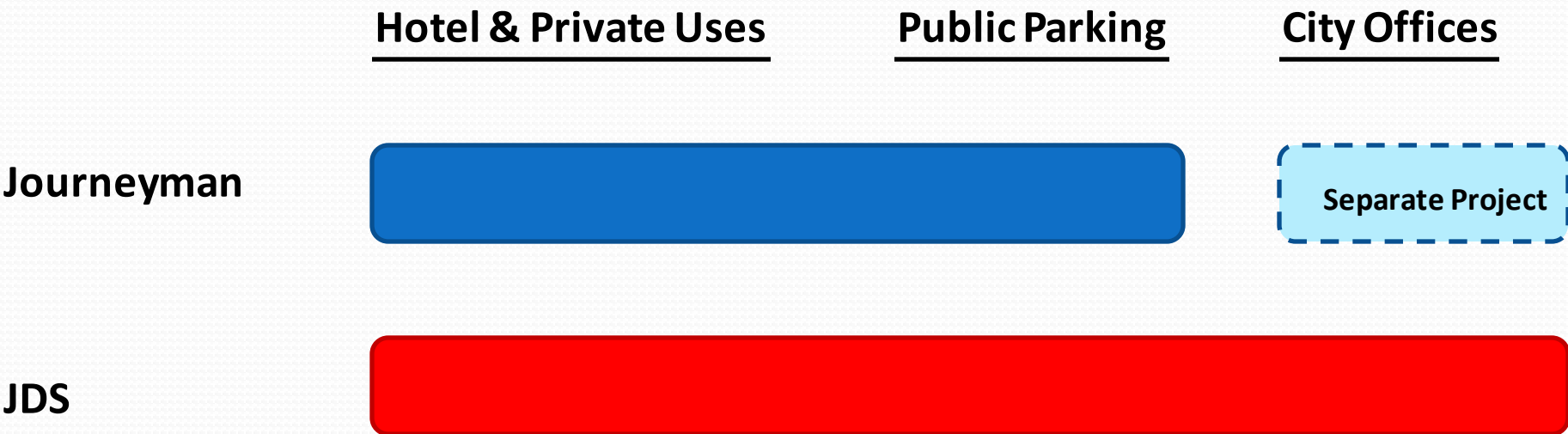
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Reprints To Request For Proposal
Jesse Davis & Sonnet - Marquette, Wisconsin

Section 14.0 ■ Page 4

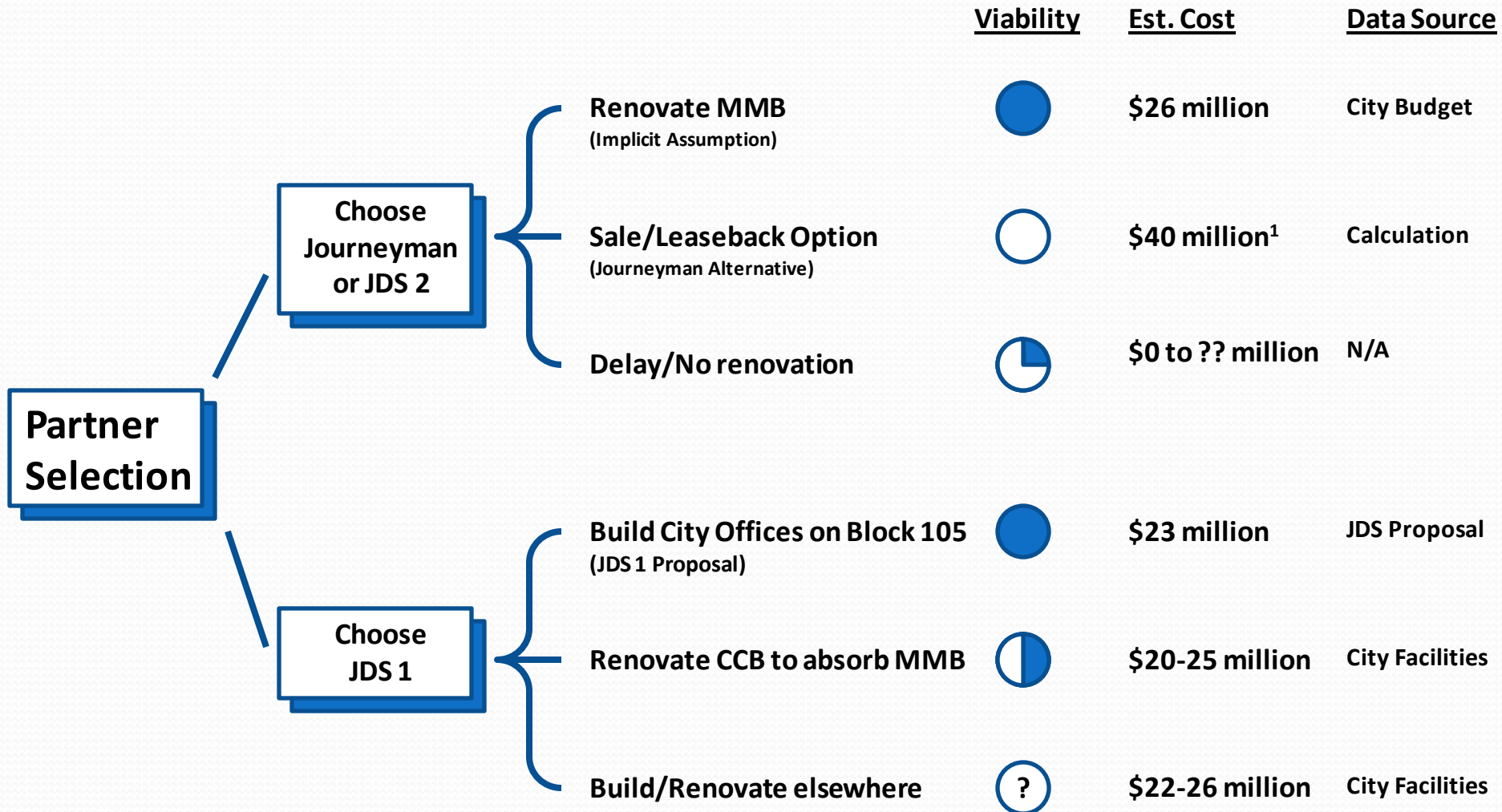
Proposals are hard to compare due to treatment of MMB

Treatment of project components



How to most accurately compare the projects depends on your point-of-view

City office options from a policy maker's point-of-view



1. PV calculation assumes \$17.77/SF rent plus \$8 CAM; 76,410 leasable SF; no rent escalator, 30 year leaseback, 3.5% discount rate

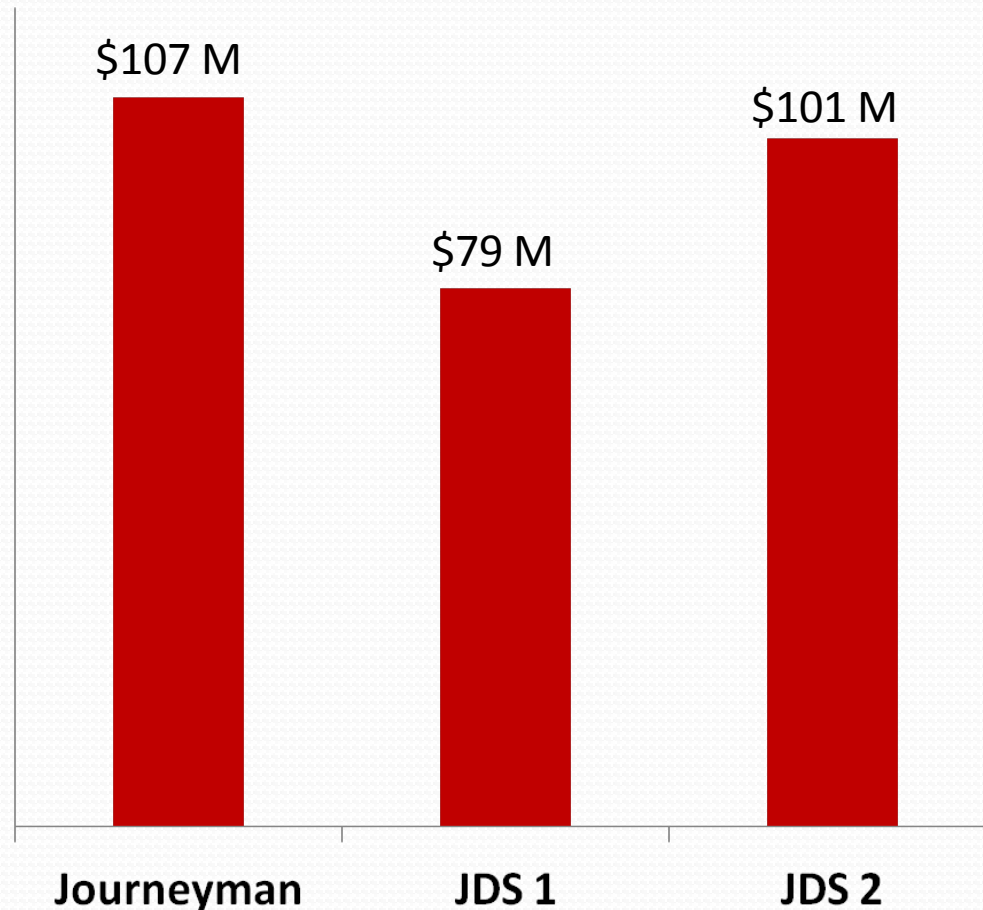
Public investment in projects with/without MMB

| Public Investment | Journeyman | JDS – 1 | JDS – 2 |
|--|---|---------------------|----------------------|
| TIF | \$47 million | \$17 million | \$21 million+ |
| Parking Utility/Fleet | \$30 million | \$27 million | \$40 million |
| In-kind Land/Bldg (net)* | \$7 million | \$15 million | \$10 million |
| Bike Center & other investment | \$7 million (inc city lease payment) | \$1 million | \$1 million |
| PUBLIC INVESTMENT ex. offices | \$91 million | \$60 million | \$72 million+ |
| Proposed Investment in City offices | \$0 | \$23 million | \$26 million |
| TOTAL PUBLIC INVESTMENT (As Proposed by Developers) | \$91 million | \$83 million | \$98million+ |
| Likely additional investment for MMB | \$26 million | Included | included |
| TOTAL INVESTMENT (Judge Doyle + City Offices) | \$117 million | \$83 million | \$98million+ |

* Estimate based on 2008 appraisal; updated appraisal will have to be conducted to determine actual value; attributes 40% of land cost to city

Total projected value

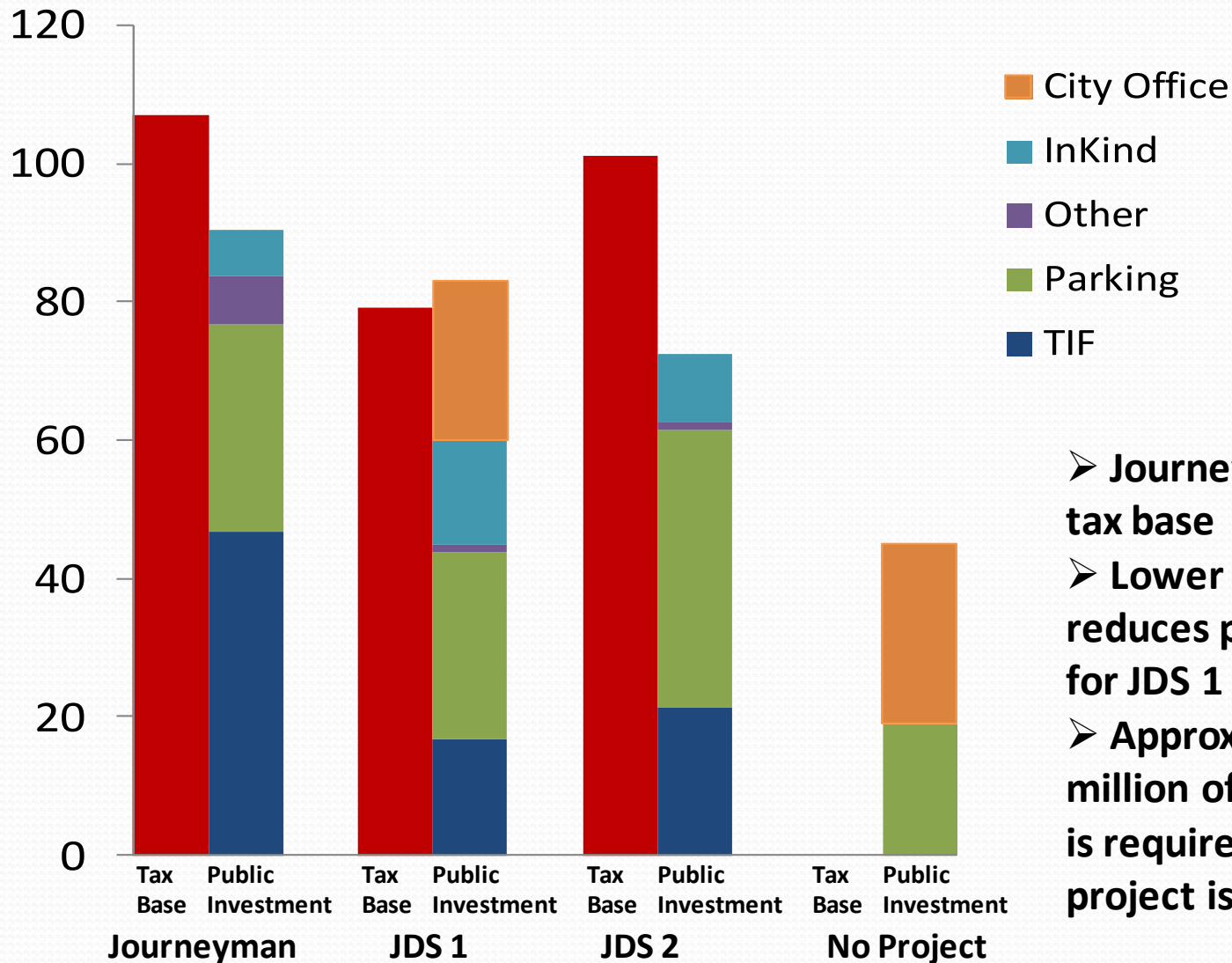
Stabilized Value Block 88 and Block 105* (2019)



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

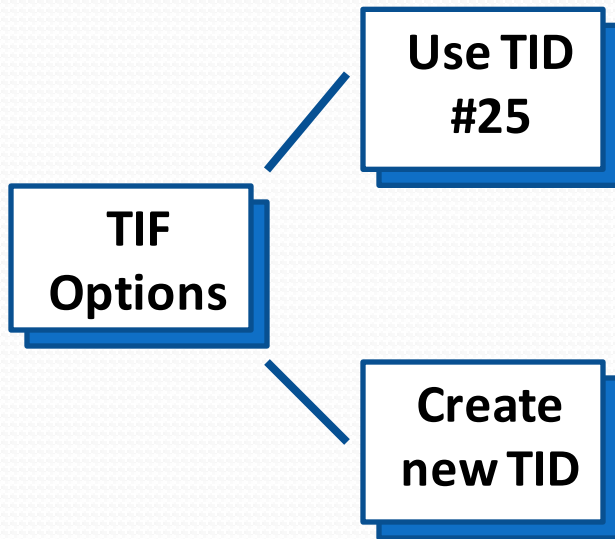
Tax base created relative to public investment



- Journeyman creates more tax base
- Lower parking costs reduces public investment for JDS 1
- Approximately \$45 million of public investment is required even if no project is chosen

Community has capacity to fund TIF requests

Rationale for Approach



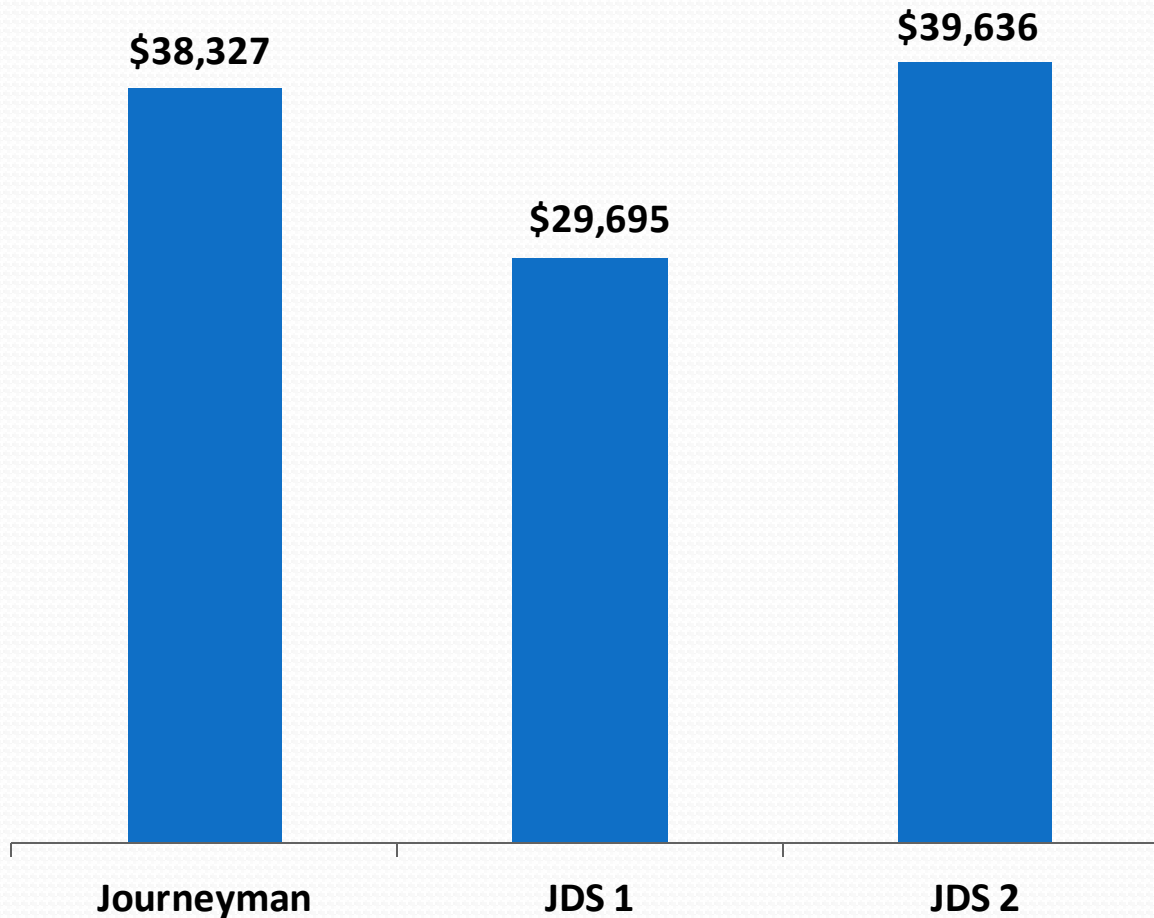
- Sufficient projected cash to fund ~\$60 million
 - Puts project on tax rolls by 2022 (vs. 2042 for new TID)
 - Reduces risk (less sensitivity to property valuation)
-
- Able to access TID #25 value sooner and return cash
 - Increment guaranty more straight-forward

Other permutations or variations are also possible and can be explored during financing analysis and planning

Probable exceptions to current TIF Policy

1. Increment projected to exceed 100% (50% rule)
2. Projects unlikely to be self-sustaining (self-sustaining rule)
3. Project unlikely to support equity participation payment (equity participation rule)
4. Equity unlikely to equal exceed TIF on all components, especially hotel
5. Twelve-year expenditure period policy (if TID #25 is used)

The amount of below grade parking is key cost driver



Parking is a major cost driver. JDS appears to be able to lower parking costs by largely avoiding underground parking

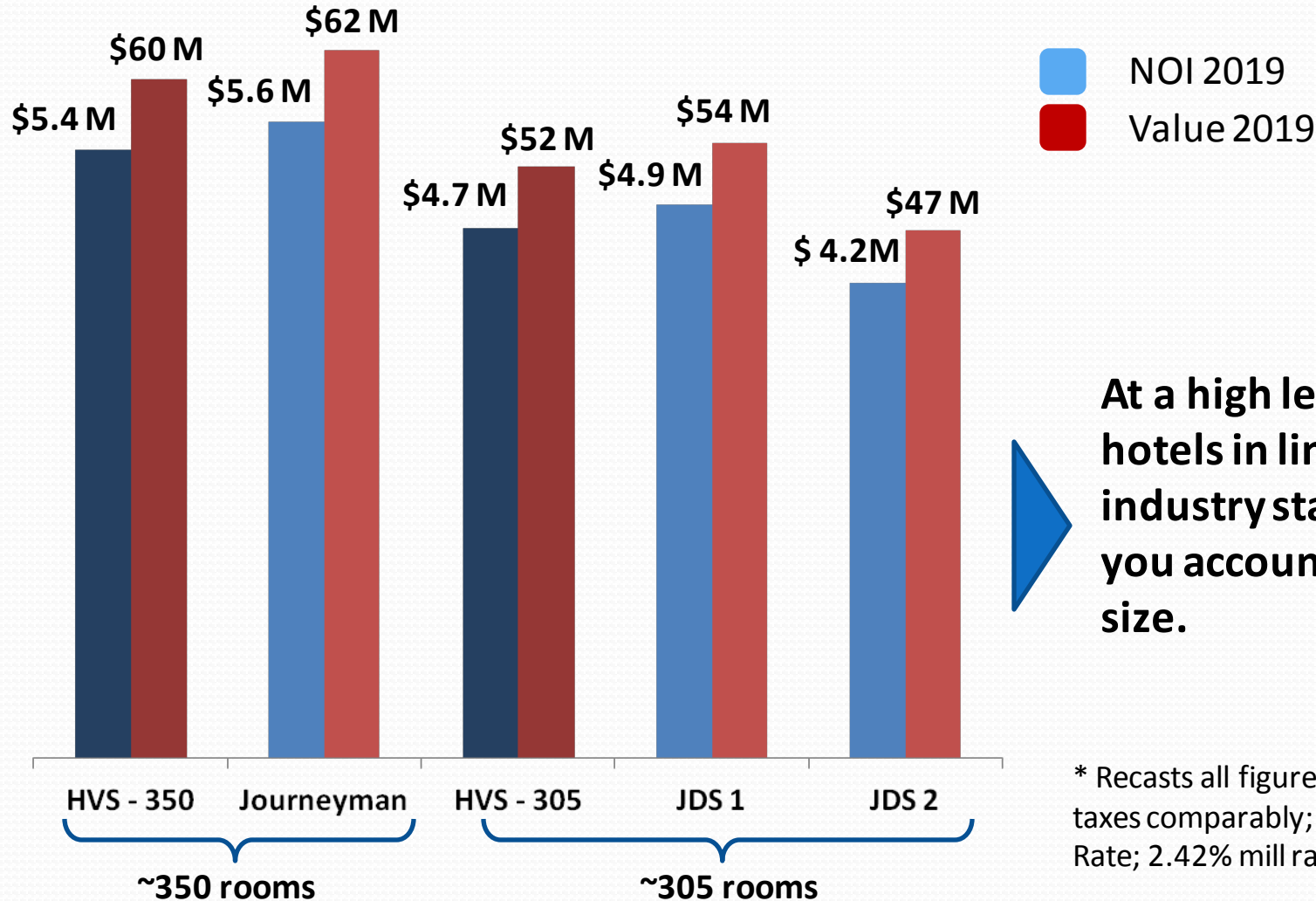
Parking Utility reserves scarce relative to TIF

| | Journeyman | JDS – 1 | JDS – 2 |
|--|---------------------|---------------------|---------------------|
| Proposed TIF | \$47 million | \$17 million | \$21 million+ |
| Parking Utility/Fleet | \$30 million | \$27 million | \$40 million |
| Parking Shortfall | -\$9 million | -\$14 million | -\$28 million |
| Public Investment Plus Parking Utility Reserves | \$117 million | \$83 million | \$98 million |
| Revised TIF | \$56 million | \$31 million | \$49 million |
| TIF Share of Incremental Revenues (w/ Reserves) | 226% | 170% | 210% |
| | | | |
| Est. Room Taxes (NPV) | \$12 million | \$9 million | \$8 million |
| Est. State and County Sales Tax (NPV) | \$10 million | \$7 million | \$5 million |

The Parking Utility is unlikely to be able to make proposed investments without help replacing reserves

Hotel income and *apples-to-apples* projected value

Net Operating Income and Hotel Stabilized Value* (2019)

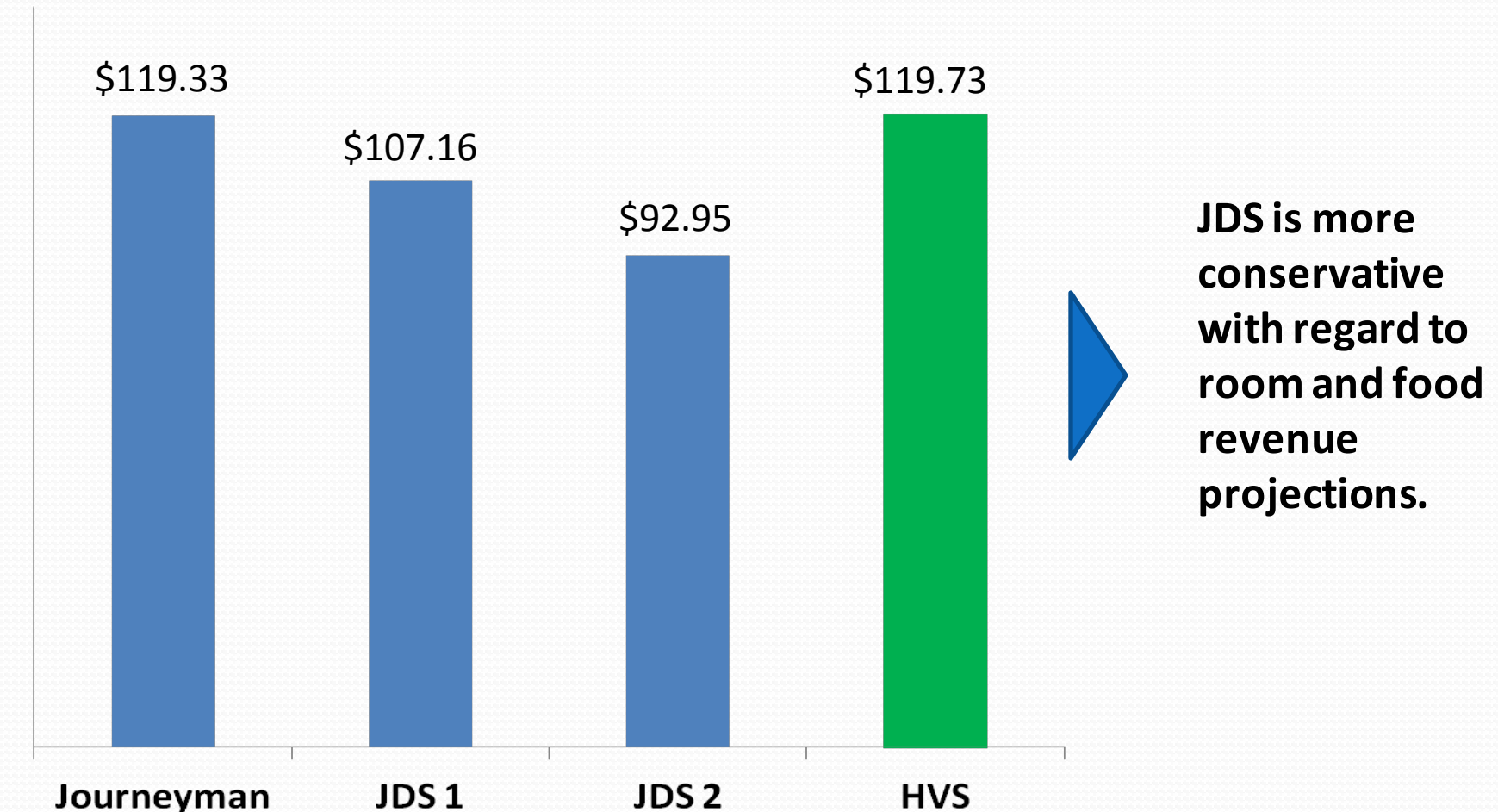


At a high level, both hotels in line with industry standards when you account for differing size.

* Recasts all figures to treat property taxes comparably; assumes 9% Cap Rate; 2.42% mill rate

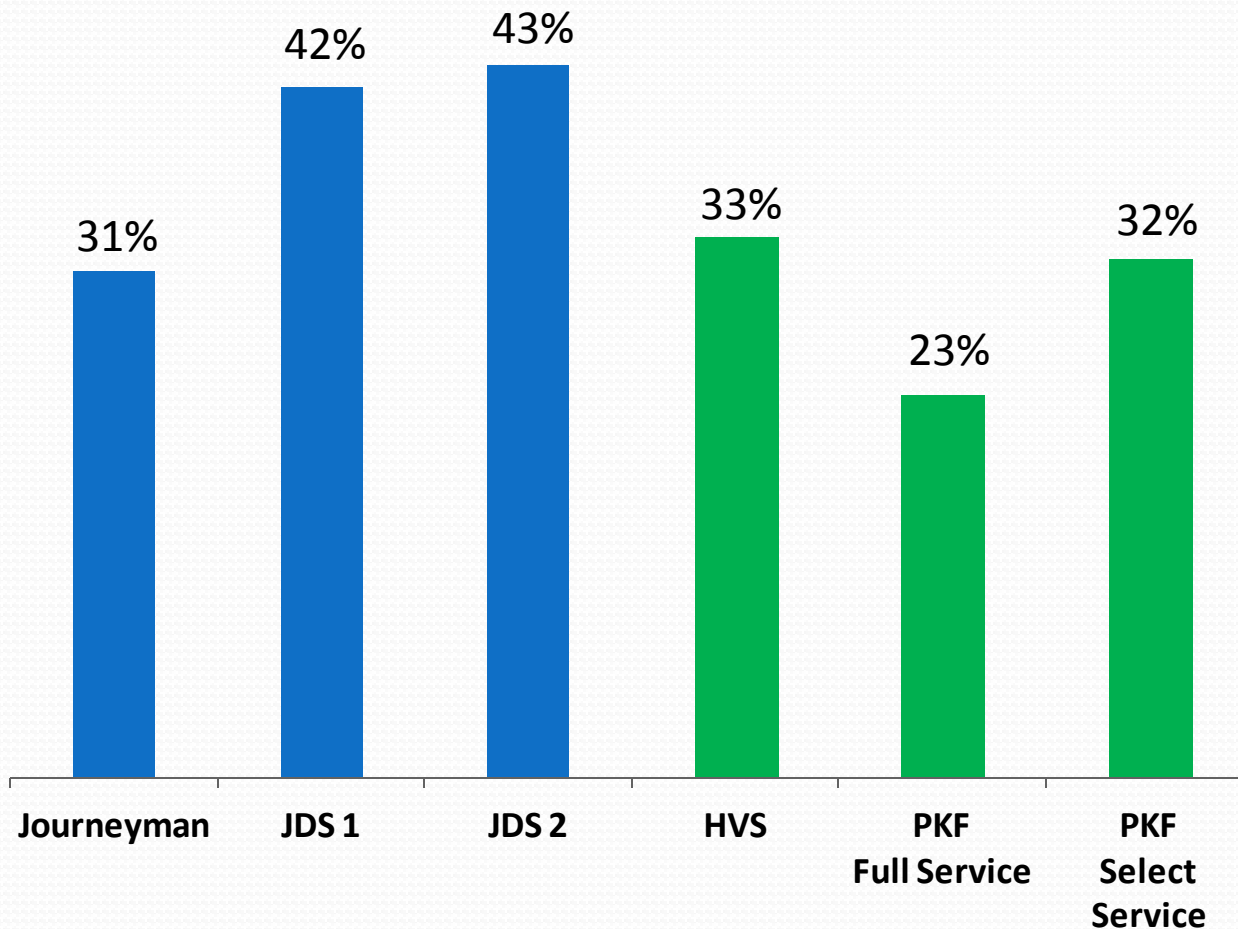
Projected daily revenue per available room

RevPAR at Stabilization - 2019



Operating margin assumptions vary

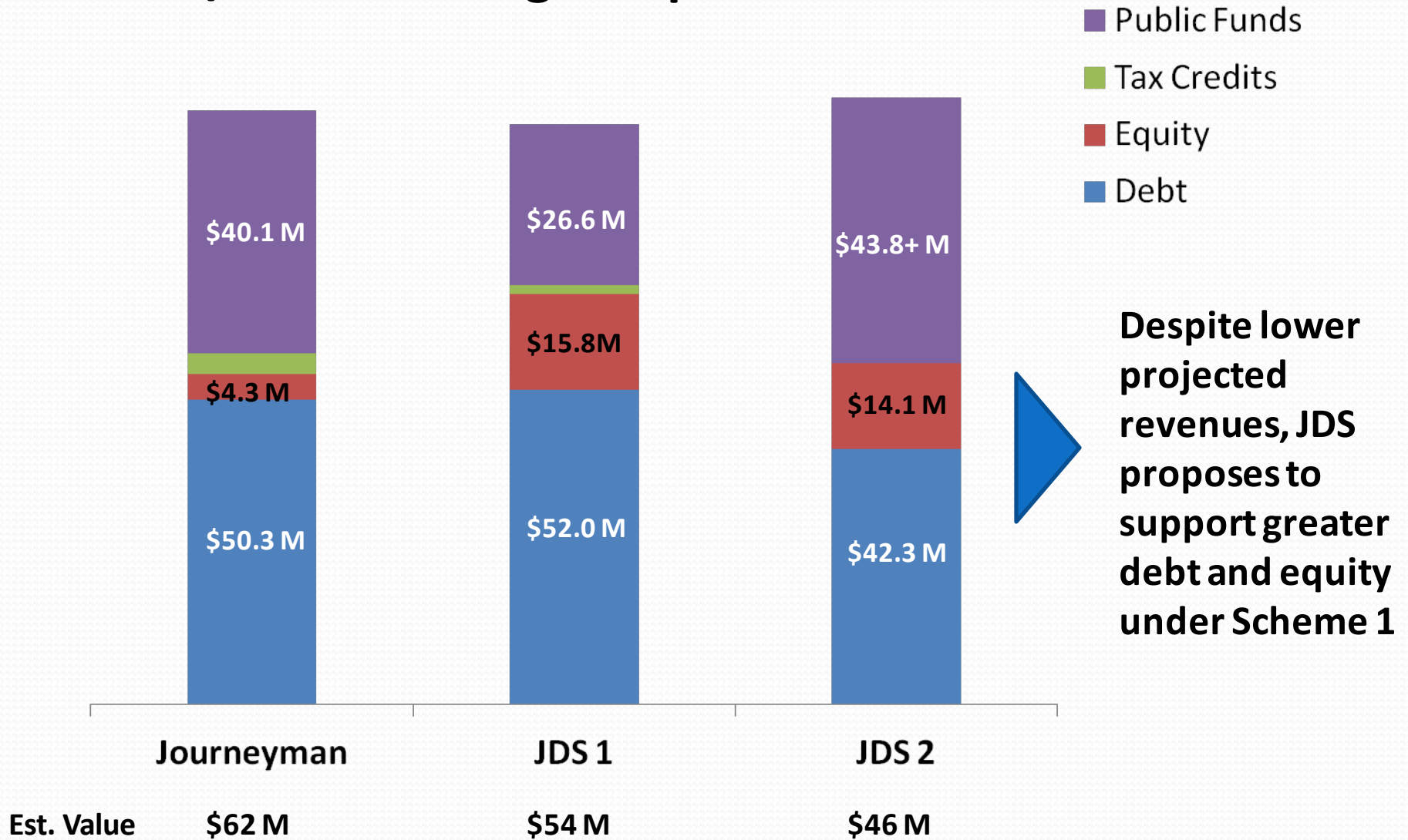
Net Operating Income as Percentage of Revenue at Stabilization



JDS is optimistic about their ability to operate a hotel at much lower cost. This could signal a move away from a full service hotel.

Source: Proposals, HVS, PKF Consulting Data for 2011

Block 88/hotel funding comparisons



Rate of return comparisons (Block 88) as proposed

Internal Rate of Return (standardized)

Debt

Equity

\$50.3 M

\$4.3 M

Journeyman



28.4%

\$52.0 M

\$15.8 M

JDS 1

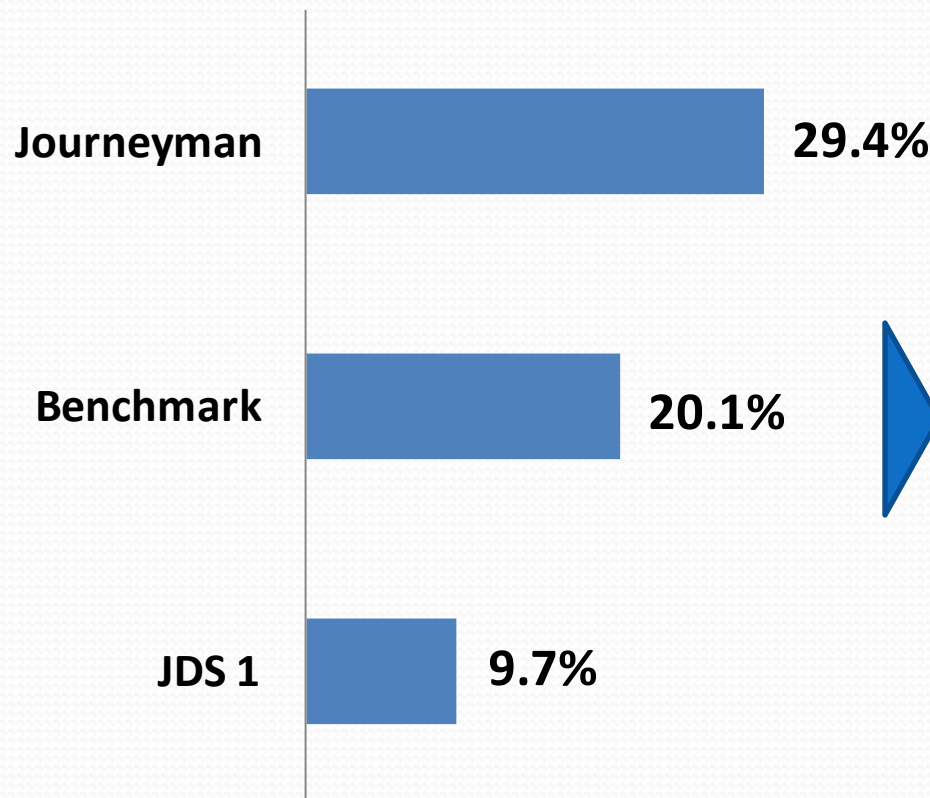


5.5%

With a smaller hotel, lower revenue assumptions, greater debt, and greater equity, the JDS 1 proposal does not appear to achieve a market rate-of-return

Rate of return (Block 88) from benchmark model

Internal Rate of Return (standardized)



Application of a common model suggests:

- 1. Journeyman could increase equity by ~\$4 million and achieve benchmark return**
- 2. To achieve the industry benchmark, JDS 1 would need to reduce private investment and increase public investment by ~\$15-20 million**

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

Effective marginal cost to undertake Judge Doyle project

| | <u>Journeyman Proposal</u> | <u>Journeyman Benchmark</u> | <u>JDS 1 Proposal</u> | <u>JDS 1 Benchmark</u> |
|---------------------------------------|--------------------------------|---------------------------------|---------------------------|----------------------------|
| Total Public Investment | \$117 million | \$113 million | \$83 million | \$100 million |
| Less Status Quo Parking Costs: | (\$19 million) | (\$19 million) | (\$19 million) | (\$19 million) |
| Less Status Quo Office Costs: | (\$26 million) | (\$26 million) | (\$26 million) | (\$26 million) |
| Less In-kind contributions: | (\$10 million) | (\$10 million) | (\$15 million) | (\$15 million) |
| Marginal Public Investment | \$62 million | \$58 million | \$23 million | \$40 million |

This calculation more accurately reflects the actual cost to Madison taxpayers to capture the benefits of a Judge Doyle project

Conclusions – Both Teams

- **Both teams have strong development track records.**
- **Both proposals have cost, public investment, and financing structures that are relatively consistent with those identified in the 2012 staff team report.**
- **The Parking Utility cannot sustain the requested investments which will likely lead to increased TIF support for either developer.**
- **The amount of TIF required is consistent with projections made in the 2012 staff team report and, as such, will require exceptions to TIF policy to facilitate extraordinary levels of public investment.**
- **Approximately \$45 million of public investment will have to be made for public parking and city offices even if no hotel or private development is undertaken.**

Conclusions - Journeyman

- **Journeyman's proposal is consistent with industry standards for public/private convention hotel developments.**
- **Journeyman's proposal is likely to attract the proposed debt and equity levels.**
- **Journeyman may be able to support a modest amount of additional equity.**
- **Journeyman's design leads to greater reliance on underground parking and results in greater request for public investment.**

Conclusions – JDS

- **JDS – 1 has cost advantages based on building less underground parking.**
- **JDS – 1 relies on substantially lower operating costs than Journeyman. This could signal a move away from a full service hotel.**
- **JDS – 1 has aggressive assumptions about the ability to support greater debt and equity with a smaller hotel. If the developer finds the project cannot fulfill those assumptions, JDS might have to request more public investment as the project proceeds.**
- **JDS – 1 has a public investment advantage relative to Journeyman reflecting its lower parking costs, smaller development footprint, and greater reliance on private sources of capital.**

Rate of return assumptions

| | |
|------------------------------|------------|
| 2014 Property Tax Rate: | 2.5% |
| Tax Rate Change: | -1.9% |
| Cap Rate (Private) | 7.5% |
| Cap Rate (Assessor) | 9.0% |
| Amortization | 25 years |
| Interest Rate | 5.5% |
| Loan-to-Value | 65% |
| All Equity Invested in 2014 | |
| Hotels open in 2017 | |
| Hotels sold at end of 2026 | |
| 6% Cost of Sales | |
| Reserves (2017,2018, beyond) | 2%, 3%, 4% |



These assumptions are not intended to reflect developer’s actual assumptions. Rather they create a method for comparing the projects based on similar assumptions

Judge Doyle Square

City Staff Team Analysis

Summary



Photo: Skot Weidemann

Next Steps

- Committee adopted a developer selection process and timeline in September 2013.
 - Committee intends to make a recommendation to Common Council based on a combination of features and attributes which offer the best overall value to the City.
 - Committee will determine the potential best overall value by comparing differences to strike the most advantageous balance for achieving the City's goals in:
 - project features,
 - feasibility, and
 - development team attributes.

Development Team Selection

The Staff Report will assist decision makers to determine the degree to which:

- Each team's project plan excels in achieving the City's goals,
- Each team has demonstrated a superior delivery and operating plan, and
- Each team has demonstrated the feasibility of its financing approach including a cost effective and efficient use of City resources.

Remember...a development team is selected at this stage with the details of project to be negotiated in the next phase

RFQ/RFP General Conditions

- Committee Charge from the Common Council to oversee RFQ/RFP process (7/2012) and recommend a development team for the Council's consideration by the end of November 2013 (7/2013)
- In the event that a proposer does not meet one or more of the requirements, the City of Madison reserves the right to continue the evaluation of the proposal that most closely meets the requirements of the RFP.
- During the evaluation of proposals, the City reserves the right to contact any or all proposers to request additional information for purposes of clarification of RFP responses, reject proposals which contain errors, or at its sole discretion, waive disqualifying errors or gain clarification of error or information.
- At any phase, the City reserves the right to terminate, suspend or modify this selection process; reject any or all submittals; and waive any informalities, irregularities or omissions in submittals, all as deemed in the best interests of the City.

JDS Development and Journeyman Group

- A choice will need to be made by the Committee and the Common Council as to which development group should proceed into the final negotiation stage.
 - The Staff Team believes that each development group has assembled a quality team capable of executing the Judge Doyle Square project.
 - The Staff Team believes each project concept is buildable.

The question is...Which development group is in the best position to deliver an exceptional project at the best overall value to the City?
- *Or said another way...Which proposal provides the City with the best risk/reward proposition?*

Journeyman Group Path Forward

The Journeyman Group's proposal:

- A more thorough response to the RFP and more complete plan related to the project plan, delivery and operations and financing
- Closely tracks the May 2012 staff report and the RFQ/RFP stated goals

Project Plan

- The urban design aspects of the project plan need to be substantially improved
- Maintains the MMB as a city office facility

Journeyman Group Path Forward

- Provides the City's required 250 room block and will work to deliver the commitment in a form required by the City
- Removes the Marcus Hotels and Resorts development right from the earlier development agreement as an issue and provides the opportunity to extend the duration of the 150 room block from the Monona Terrace Hilton

Project Delivery/Operations

- Removing the Government East public parking supply for approximately a year, has significant shortcomings and must be substantially modified

Journeyman Group Path Forward

- The workforce utilization plan includes specific targeted business commitments, greater detail, dedicated staffing and sample forms
- Leaves the Parking Utility with insufficient reserves to rebuild another parking garage in ten years

Financing

- Provides a greater building program which can drive more tax base but at a greater public investment
- Has a higher cost per stall for the public Parking Utility spaces than the private parking spaces
- The lease of hotel meeting space by the City needs further consideration

JDS Development Path Forward

JDS Development proposal:

- More conceptual in nature and with less detail provided on many aspects.

Project Plan

- The design concept and urban design elements of the JDS-1 to reuse the MMB as a hotel is superior
- A context sensitive, efficient and creative use of the property
- Utilization of the MMB will need further study in the negotiation stage to ensure that the renovation of the building fulfills the landmark status expectations, such as Judge Doyle's former courtroom known as Room 260
- Proposed food emporium use will need further study to determine whether it's feasible

JDS Development Path Forward

- Provides the City's required 250 room block and will work to deliver the commitment in a form required by the City
- A smaller hotel may bring less competition to other properties in the competitive set; but it just meets the threshold to provide the room block
- Must negotiate with Marcus Hotels and Resorts to manage the hotel property

Project Delivery/Operations

- Project phasing maintains 1/2 of the total parking supply during construction
- More detail is needed on the bicycle center plan, workforce utilization and construction budget in the negotiation stage

JDS Development Path Forward

- Relocating the MMB offices on Block 105 potentially reduces the needed parking. Parking cost is reduced unless the City chooses a different MMB relocation option and a private development must replace the land use
- Leaves the Parking Utility with insufficient reserves to rebuild another parking garage in ten years

Financing

- Creates less tax base, lower project costs- particularly in parking by largely avoiding underground parking- which translate to a more favorable ratio of public investment to tax base
- More conservative with regards to food and room revenue projections and more optimistic about the hotel's operating margin which may be unrealistic
- Lower return on equity may indicate an additional financing gap

Summary of Staff Analysis

| | Journeyman | JDS 1 | JDS 2 |
|---|------------|-------|-------|
| Land-use | ● | ● | ● |
| Design | ● | ● | ● |
| Development Team | ● | ● | ● |
| Thoroughness of Response | ● | ● | ● |
| Financial Feasibility | ● | ● | ● |
| Required Public Investment | ● | ● | ● |
| Parking Phasing Feasibility | ● | ● | ● |
| Marcus Right-of-First-Refusal | ● | ● | ● |
| Economic Impact | ● | ● | ● |
| Targeted Business & Workforce Utilization | ● | ● | ● |

● Meets or Exceeds
● Meets some but not all
● Does not meet

Madison Municipal Building

- Development team choice may come down to the Common Council's views about whether it's in the City's best interests to maintain MMB as a city office building
- Remember...no matter how the Committee and Common Council proceeds, city office space needs to be addressed
- What's the best future for the MMB?

Judge Doyle Square

City Staff Team Analysis

Questions and Answers



Photo: Skot Weidemann