



DATE: April 8, 2016

TO: Board of Estimates

FROM: Judge Doyle Square Negotiating Team

RE: Informational Report in Preparation for Judge Doyle Square Development Team Selection

Introduction

On Monday, April 11, 2016, the Board of Estimates has scheduled a deliberation on the two responses received from Beitler Real Estate Services Joint Venture and Vermilion Enterprises on January 19, 2016. Background materials provided for the Board of Estimates' consideration at previous meetings and for the April 11, 2016 meeting include:

- RFP Responses from the Development Teams – January 19, 2016
http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/BeitlerRealEstate_JDSProposal_121815.pdf
http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/JDSProposalByVermilionDevelop_11916.pdf
- Negotiating Team Informational Report – February 12, 2016
[http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Report to BOE 021516.pdf](http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Report_to_BOE_021516.pdf)
- Development Team Interviews – March 9, 2016
<http://media.cityofmadison.com/Mediasite/Play/2edd769aca594dacbdef33ed4c25a2881d>
[http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Beitler BOE 2016_0309%20Final.pdf](http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Beitler_BOE_2016_0309%20Final.pdf)
[http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Vermilion BOE 2016_0309%20Final.pdf](http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Vermilion_BOE_2016_0309%20Final.pdf)
- Negotiating Team Informational Report – March 18, 2016
[http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Report to BOE A ddendum031816.pdf](http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Report_to_BOE_Addendum031816.pdf)
- Racial Equity Social Justice Initiative Lens - April 7, 2016 - (On Legistar)

- Alder Questions via Point of Contact through April 8, 2016 – (On Legistar)
- Negotiating Team Informational Report – April 8, 2016 – (On Legistar)

The history of the project, the goals for the development, the current RFP, as well as the proposal responses and the interviews can also be found in the Gallery section on the Judge Doyle Square website at: www.cityofmadison.com/planning/judgedoylesquare/.

Questions Posed By Alders Throughout the Process

There have been a number of individual questions posed by Alders through the RFP Point of Contact since January 19th when the RFP responses were received by the City. Those questions and the responses are included in a separate chart with attachments that has been placed on Legistar.

Racial Equity and Social Justice Initiative Lens

A team including staff from the Department of Civil Rights (“DCR”), City Attorney’s Office, and the Racial Equity Social Justice Initiative Team has prepared the Racial Equity & Social Justice Tool (Comprehensive Version) to assess both proposals. That analysis includes recommendations and has been posted on Legistar. That Team will provide a presentation of its report to the Board of Estimates on April 11.

Schedule

The Negotiating Team has included schedule information in each of its earlier reports. The City Negotiating Team believes a Term Sheet will have to be completed with the selected development team by the end of **June 2016** to meet the timing issues identified for TID #25. To achieve this schedule, action by the Board of Estimates will need to occur by its meeting of **April 11** to recommend a development team and project to the Common Council for its consideration on **April 19**. This would allow a maximum of 62 days to negotiate the Term Sheet with the selected developer and introduce the Term Sheet to Common Council on **June 21** for passage no later than **July 5**. The final development agreement will need to be considered by the Common Council no later than by **September 30**. The review and approval of the TIF Plan Amendment for TID #25 would then follow to allow the TIF Joint Review Board to act, and the City to certify the Plan with the State Department of Revenue by **October 31**, the statutory deadline.

Decision Making Flow-Chart

While neither the Beitler nor the Vermilion proposal met the RFP and Letter of Direction requirements in their entirety (Pages 3-5 of the February 12 Negotiating Team Report), both proposals provide the key elements that the City wants the Judge Doyle Square project to achieve:

- At least 250+ hotel rooms;
- Replacement of the Government East public parking ramp;
- Additional quality development and/or future development opportunities on Blocks 88 and 105, adding to the tax base of the City; and
- Attractive, pedestrian scale, mixed use development on South Pinckney Street.

If the Board of Estimates agrees with this foundation, the Beitler and Vermilion proposals present vastly different approaches and choices for achieving these foundational elements described above. A decision flowchart breaking out the following key elements can assist the Board in sorting through those approaches and tradeoffs to arrive at a decision.

	<u>Beitler</u>	<u>Vermilion</u>
Hotel		
Closest to Monona Terrace Service Level	No Urban	Yes Full
Parking		
Transitional Parking Impact	Low	Moderate
Belowground Cost / Stall	\$35,552	\$43,478
Aboveground Cost / Stall	\$28,571	\$41,007
Traffic / Design Implications	Low	Moderate/High
TIF Investment		
Belowground Parking	\$24 million	\$32 million
Aboveground Parking	\$11 million	\$29 million
Land Sale / Lease Proceeds 10 year amortization	\$5 million to \$7 million	\$2 million
Estimated Assessed Value		
Belowground Parking	\$87 million	\$76 million
Aboveground Parking	\$58 million	\$70 million

In assessing the proposals, the following questions focused on the hotel, parking, design, public investment, equity and labor, and project complexity may help the Board focus on the preferred development team to enter into negotiations with.

Hotel:

Is it important for the hotel to be on one block or the other?

If the answer is Block 88 – then Vermilion.

If the answer is Block 105 – then Beitler.

Must the hotel be a full service hotel?

If the answer is yes – then Vermillion with the Renaissance hotel product.

If the answer is no – then Beitler with the EVEN hotel product is also an option.

Parking:

Is below ground parking required for a good project and is the cost differential between underground versus above grade parking a cost the City is prepared to incur (\$10,000 per stall X 1,000 stalls = \$10 million)?

If below grade is required - Vermilion has a complete below grade option, but at an increased cost associated with below grade parking construction.

If above grade is acceptable - Beitler provides the more cost effective solution.

Is the loss of public parking stalls during construction an issue in making a decision?

If the answer is yes – the Beitler is the better option with a Block 88 replacement ramp since it will replace all of the public parking prior to removing the Government East ramp.

If the answer is that maintaining some (at least 250 stalls for instance) but not all is important – then Vermilion is also an option.

Design:

Is one design approach compared to the other important in the decision-making process?

Is it important to have maximum development on the two blocks? What additional challenges are posed by having maximum development, i.e. for parking requirements, TIF required, etc.

Level of Public Investment and Risk:

What level of TIF (and any other public subsidy) is acceptable in relation to the benefits of the project?

If low public investment is the answer – then Beitler.

If greater development density and below grade parking is required of the project - then Vermilion's Option 1 or Beitler's Option 2.

Is the City willing to receive less than fair market value for the property rights to be acquired (sale price now/less long-term risk), or take on potentially additional risk to receive a fair market rent via a ground lease over a longer term?

If a ground lease is acceptable – then Beitler.

If receiving as much as possible now – then Vermilion and Beitler provide at less than FMV.

Equity and Labor

Based on the development team's respective responses, which team is best positioned to achieve the construction phase contracting and workforce utilization goals, and the labor peace provisions for the operation of the hotel?

Project Complexity and Ability to Complete within Timeframes

Which project plan is more likely to be executed given with the schedule constraints from TID #25?

TID #25's expenditure period is ending in September of 2017, which means that a development agreement and a financing commitment in the form of a closing on the City investment into escrow must be complete before that time. In addition to the private financing that the developer will seek, closing on City funds will require land use approvals and any leases from the Parking Utility, if necessary. The more complex the plan is, the longer the process will take.

Key Features of the Beitler and Vermilion Proposals

The key features of the Beitler and Vermilion January 19 RFP responses and March 9 interview options are provided in the chart below.

Team Name	Original Block 88 Proposal	Option B Block 88 Offered at Interview	Original Block 105 Concept	Option B Block 105 Offered at Interview
Beitler	<ul style="list-style-type: none"> • 621-stall above grade garage to replace Government East • 31,000 sq ft of retail, bicycle center, office space on the first two floors 	<ul style="list-style-type: none"> • 608-stall below grade garage to replace Government East • 200-stall above grade garage to serve the apts • 33,400 sq ft of retail, bicycle center, office space on the first two floors • 144-unit apt building 	<ul style="list-style-type: none"> • 252-room hotel with 15,635 sq ft of hotel amenities (7,818 sq ft of which is meeting space) • 210-unit apartment building • 7,816 sq ft of street level retail • 289-stall primarily above grade garage to serve the hotel (152 stalls) and apts 	<ul style="list-style-type: none"> • 252-room hotel with 23,551 sq ft of hotel amenities (19,545 sq ft of which is meeting space) • 210-unit apartment building • 7,816 sq ft of street level retail • 289-stall primarily above grade garage to serve the hotel (152 stalls) and apts
Vermilion Group	<ul style="list-style-type: none"> • 279-room hotel with 17,629 of meeting space • 448-stall primarily below grade garage with 100 stalls for hotel and 348 stalls for municipal parking • Skywalk connection to Hilton 	<ul style="list-style-type: none"> • 279-room hotel with 17,629 of meeting space • 258-stall primarily below grade garage with 100 stalls for hotel and 158 stalls for municipal parking • Skywalk connection to Hilton 	<ul style="list-style-type: none"> • 125-unit apartment building • 94,000 sq ft office building • 13,000 sq ft of street level retail and bicycle center • 633-stall primarily below grade garage (369 to serve the apts and office, and 264 municipal parking) (Total public parking on both blocks is 612 stalls) 	<ul style="list-style-type: none"> • 86-unit apartment building • 102,000 sq ft office building • 10,000 sq ft of street level retail and bicycle center • 815-stall primarily above and below grade garage (346 to serve the apts and office, and 469 muni parking) (Total public parking on both blocks is 627 stalls)
Total Public Investment	\$27.5 million	\$43 million	\$56 million	\$53 million

Financial Elements of the Beitler and Vermilion Proposals

	BEITLER		VERMILION	
	Original Proposal	Option B	Original Proposal Underground (as modified on 3/9/16)	Option B Partial Aboveground
	Aboveground	Underground		
Hotel Square Feet	164,166	164,166	232,424	232,424
Residential Square Feet	192,215	320,435	142,018	100,186
Office Square Feet	in retail s.f.	in retail s.f.	94,445	101,829
Retail and Bike Center Square Feet	58,153	58,240	13,134	13,134
Parking Square Feet (est. for Beitler)	<u>347,855</u>	<u>371,102</u>	<u>379,189</u>	<u>390,141</u>
Gross Square Feet	762,389	913,943	861,210	837,714
Hotel Rooms	252	252	279	279
Hotel Location	Block 105	Block 105	Block 88	Block 88
Hotel Style	Select Service	Select Service	Full Service	Full Service
Function Space Square Feet	7,818 <small>could have up to 23,450 s.f. depending on allocation to retail</small>	19,545	17,629 <small>11,000 s.f. ballroom and 4 meeting rooms</small>	17,629 <small>11,000 s.f. ballroom and 4 meeting rooms</small>
Parking Stalls	910	1,097	1,081	1,073
Parking Structure Cost per Stall	\$28,571	\$35,552	\$43,478	\$41,007
Public Stalls (Govt East Replacement; not needed for development)	581	576	572	587
City Fleet Stalls	40	40	40	40
Total Cost	\$125 million	\$170 million	\$194 million	\$180 million
Cost per Square Foot	\$164	\$186	\$225	\$215
Debt	\$64 million	\$85 million	\$103 million	\$95 million
Equity	\$35 million	\$46 million	\$44 million	\$41 million
Total Private Contribution	\$99 million	\$131 million	\$147 million	\$136 million
Total Cost less Private Contribution ("Gap")	\$26 million	\$39 million	\$47 million	\$44 million
TIF	\$11 million	\$24 million	\$32 million	\$29 million
Parking Utility	\$13 million	\$13 million	\$13 million	\$13 million
City Fleet Parking	\$1 million	\$1 million	\$1 million	\$1 million
Bike Center	\$1 million	\$1 million	\$1 million	\$1 million
Direct Public Investment	\$26 million	\$39 million	\$47 million	\$44 million
City Land Value -- Indirect Public Investment	\$6.5 million*	\$11 million+	\$11 million+	\$11 million+
Public Investment before Land Sale Proceeds	\$32.5 million	\$50 million	\$58 million	\$55 million
Net Land Sale Proceeds	-\$5 million*	-\$7 million*	-\$2 million	-\$2 million
Total Public Investment	\$27.5 million	\$43 million	\$56 million	\$53 million
	<small>* Block 105 lease of \$575,000 / year for 10 years using 3% discount rate; City would continue to own Block 88</small>	<small>* Block 88 lease of \$180,000 / year for 10 years and Block 105 lease of \$575,000 / year for 10 years using 3% discount rate</small>	<small>+Appraised value of both blocks, less value of space allocated for replacement of Government East parking</small>	<small>+Appraised value of both blocks, less value of space allocated for replacement of Government East parking</small>
Estimated Assessed Value of Project	\$58 million	\$87 million	\$76 million	\$70 million
Assessed Value Added per TIF Invested	5.3 to 1	3.6 to 1	2.4 to 1	2.4 to 1
New TIF from Project Value	\$12 million	\$18 million	\$15 million	\$14 million
TIF from remaining time in TID 25 from Project Value	\$3 million	\$4 million	\$3 million	\$3 million
Estimated post-2014 TID 25 Balance with Project	\$39 million	\$40 million	\$39 million	\$39 million