

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
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

Unsubstantiated Equity Commitment

City is proposing additional \$17 million of additional TIF not requested in the JDS proposal

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.

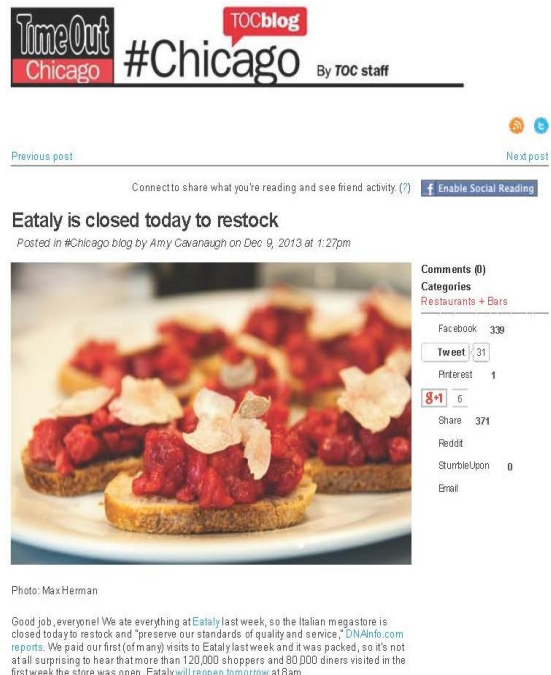
- Our project team owns and manages a real estate portfolio with nearly 90 million square feet of commercial property. This is one of the largest private commercial real estate holdings in the United States. The point is we have extraordinary talent and resources to manage all facets of the Judge Doyle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



The image is a screenshot of 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 are social media sharing icons for Facebook, Twitter, and LinkedIn. The main title of the post is 'Eataly is closed today to restock', with a sub-headline 'Posted in #Chicago blog by Amy Cavanaugh on Dec 9, 2013 at 1:27pm'. The central image shows several bruschettas topped with raspberries and white cheese. To the right of the image is a 'Comments (0)' section with a 'Categories' dropdown set to 'Restaurants + Bars'. Below the comments are social sharing buttons for Facebook (330), Tweet (31), Pinterest (1), Share (371), Reddit, StumbleUpon (0), and Email. At the bottom, there is a photo credit 'Photo: Max Herman' and a short paragraph of text: 'Good job, everyone! We ate everything at Eataly last week, so the Italian megastore is closed today to restock and "preserve our standards of quality and service," DUh!info.com reports. We paid our first (of many) visits to Eataly last week and it was packed, so it's not at all surprising to hear that more than 120,000 shoppers and 80,000 diners visited in the first week the store was open. Eataly will reopen tomorrow at 8am.'

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)
- 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