

Judge Doyle Square

Preliminary Financial Analysis of Proposals

October 28, 2013

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

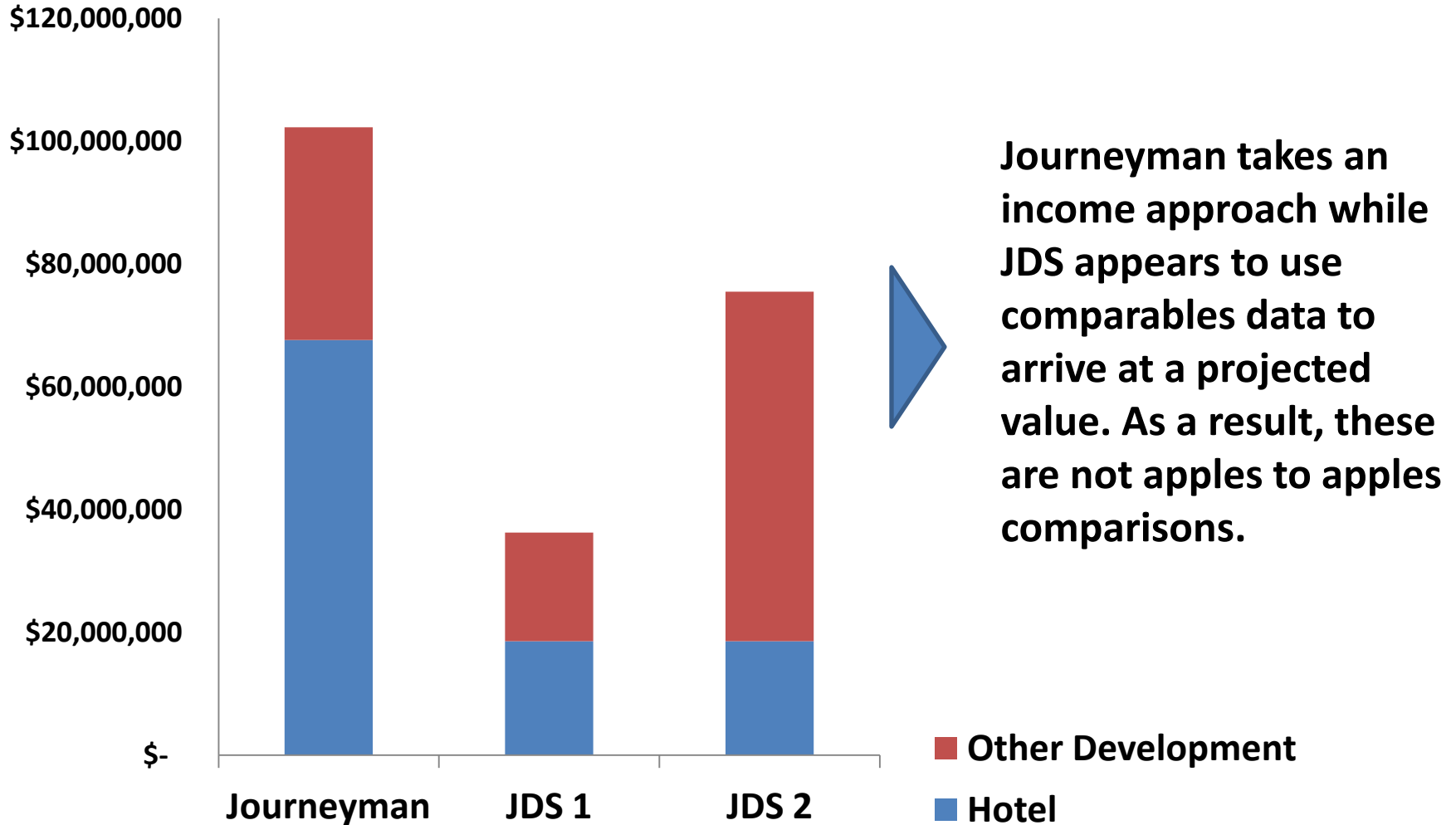
Overview of Proposals

Category	Journeyman	JDS – 1	JDS – 2
Hotel Rooms	352	308	308
Parking Stalls	1,275	911	911
Public Stalls (inc city fleet)	638	554	??
Total Private Cost	\$179 million	\$136 million	\$190 million
Est. Value	\$107 million	\$79 million	\$101 million
Public Investment			
TOTAL	\$80 million	\$45 million	\$62 million
TIF	\$47 million	\$17 million	\$21 million+
Parking Utility	\$30 million	\$27 million	\$40 million
Other net investment	\$3 million (inc city lease payment)	\$1 million	\$1 million

Journeyman is delivering more rooms, parking, and tax base with greater public investment

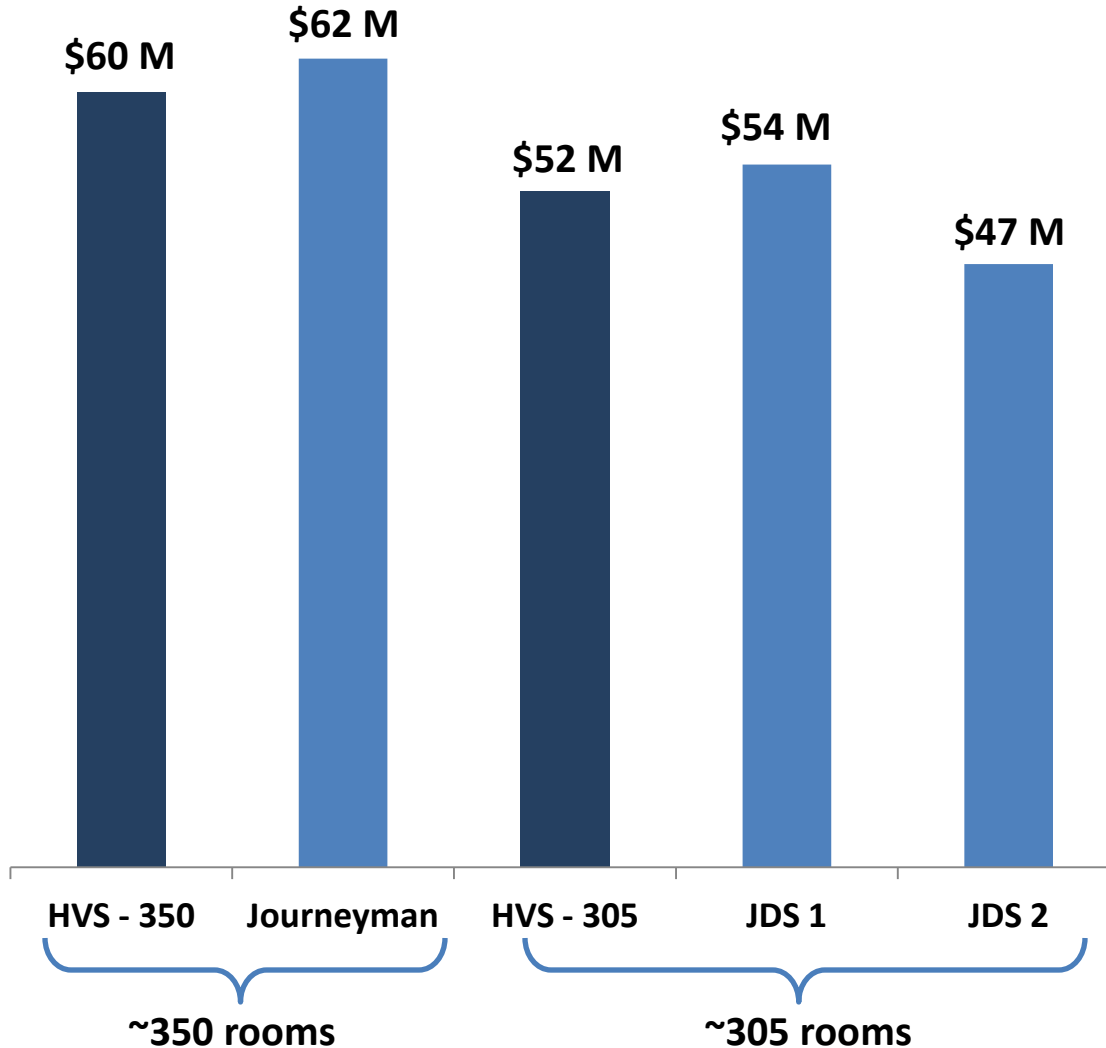
Differing Valuation Methods Create an Issue

Projected Valuations by Developers - Dollars



Hotel Income and *Apples-to-Apples* Projected Value

Hotel Stabilized Value* (2019)



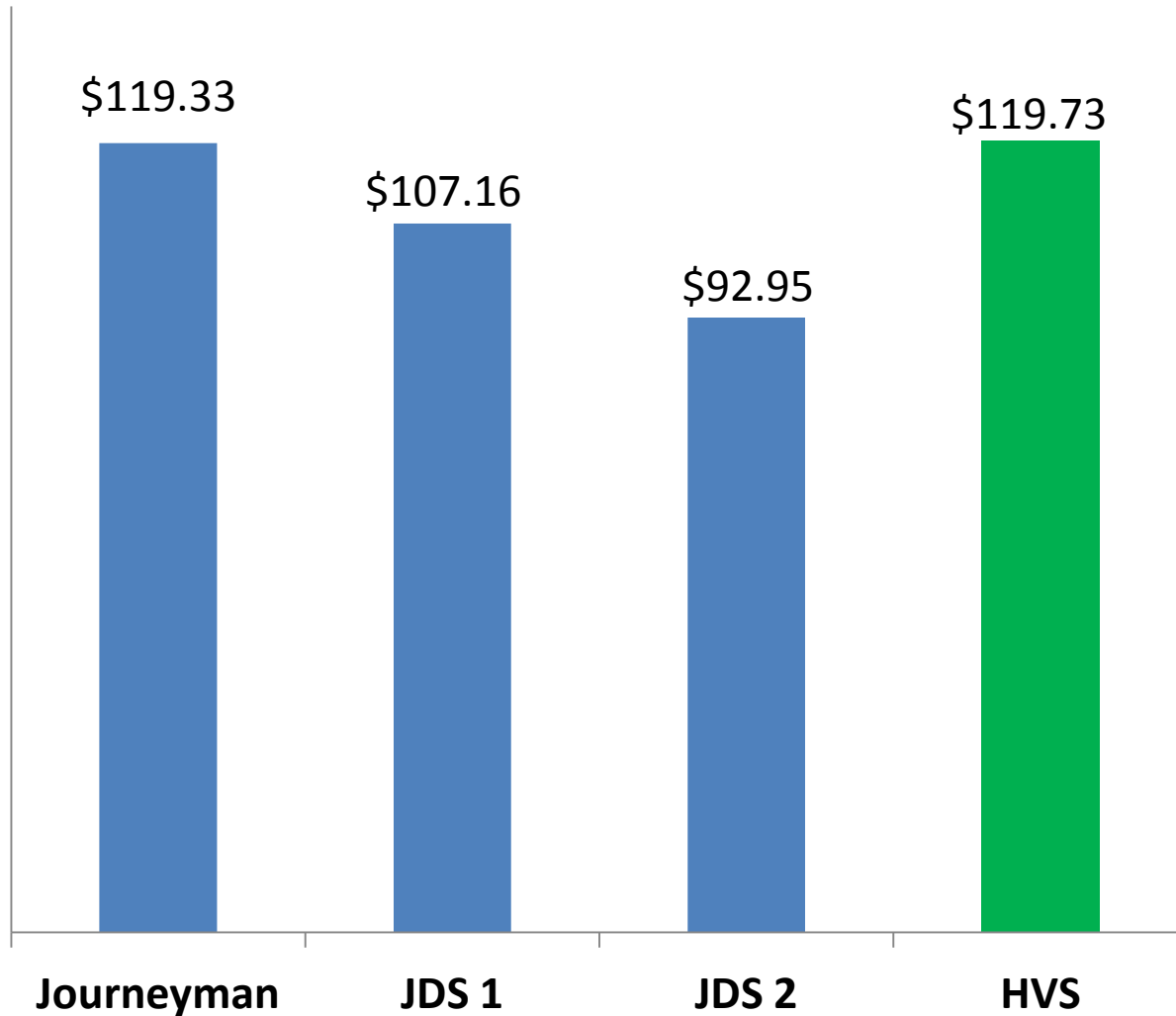
Taking an income approach produces comparable hotel values. Value remains sensitive, however, to assumptions about the cap rate.

Journeyman projects more income and therefore more tax base.

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

Projected Daily Revenue Per Available Room

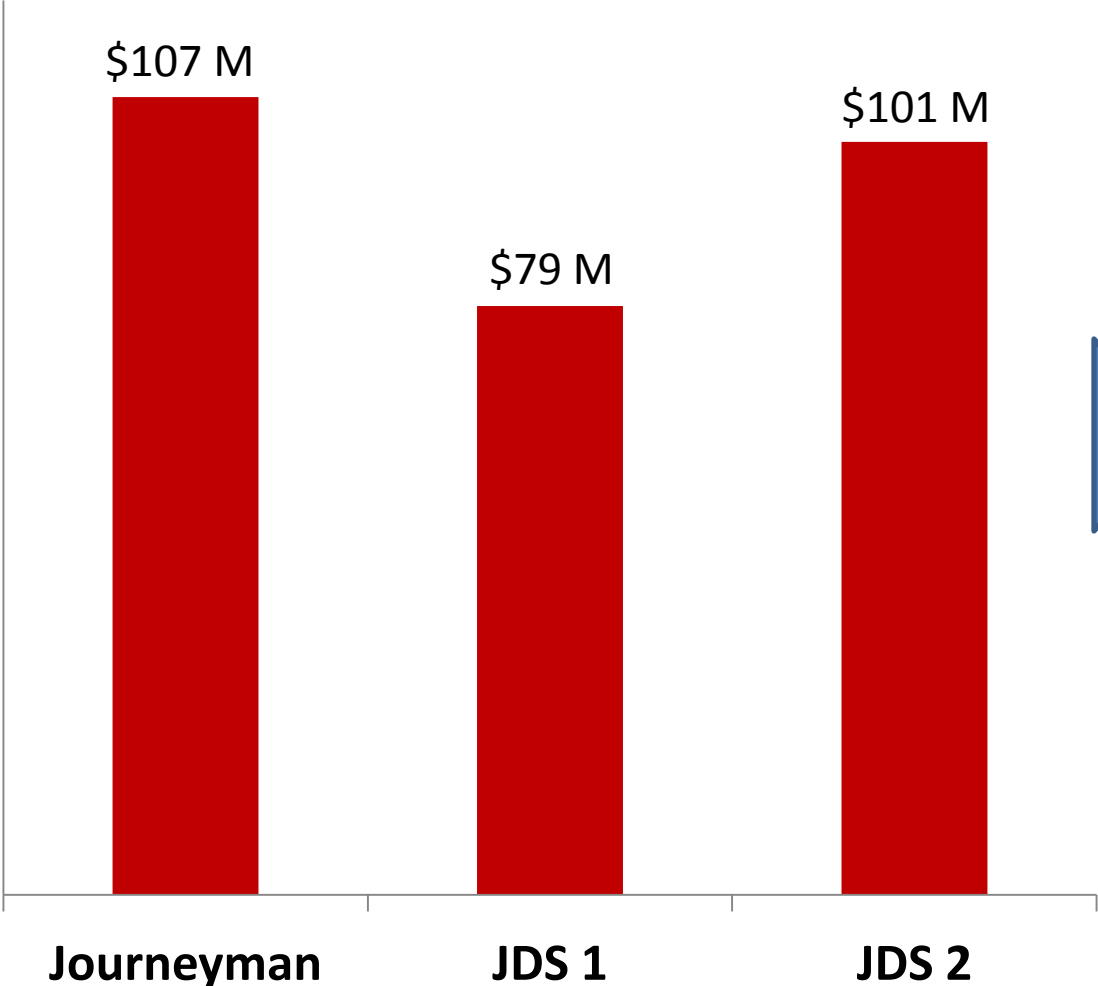
RevPAR at Stabilization - 2019



JDS is more conservative with regard to room and food revenue projections, but relatively optimistic about margin.

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

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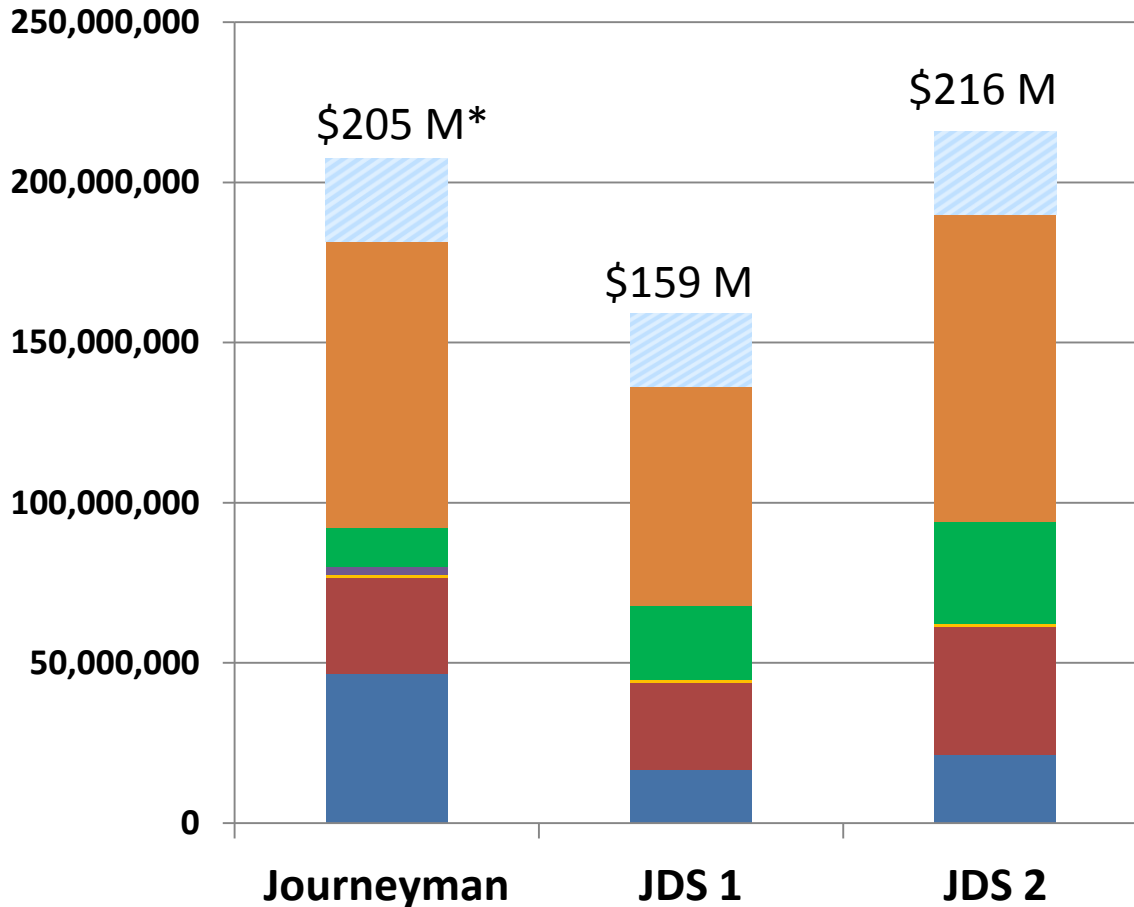
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Journeyman utilizes more TIF and debt while JDS relies more heavily on a combination of tax credits and equity (though the split remains unknown)

- TIF
- Bike Center
- Equity/Tax Credits
- City Office Expenditure
- City Parking Utility
- Other City Investment
- Debt

* Assumes \$26 million cost of renovation cost for MMB

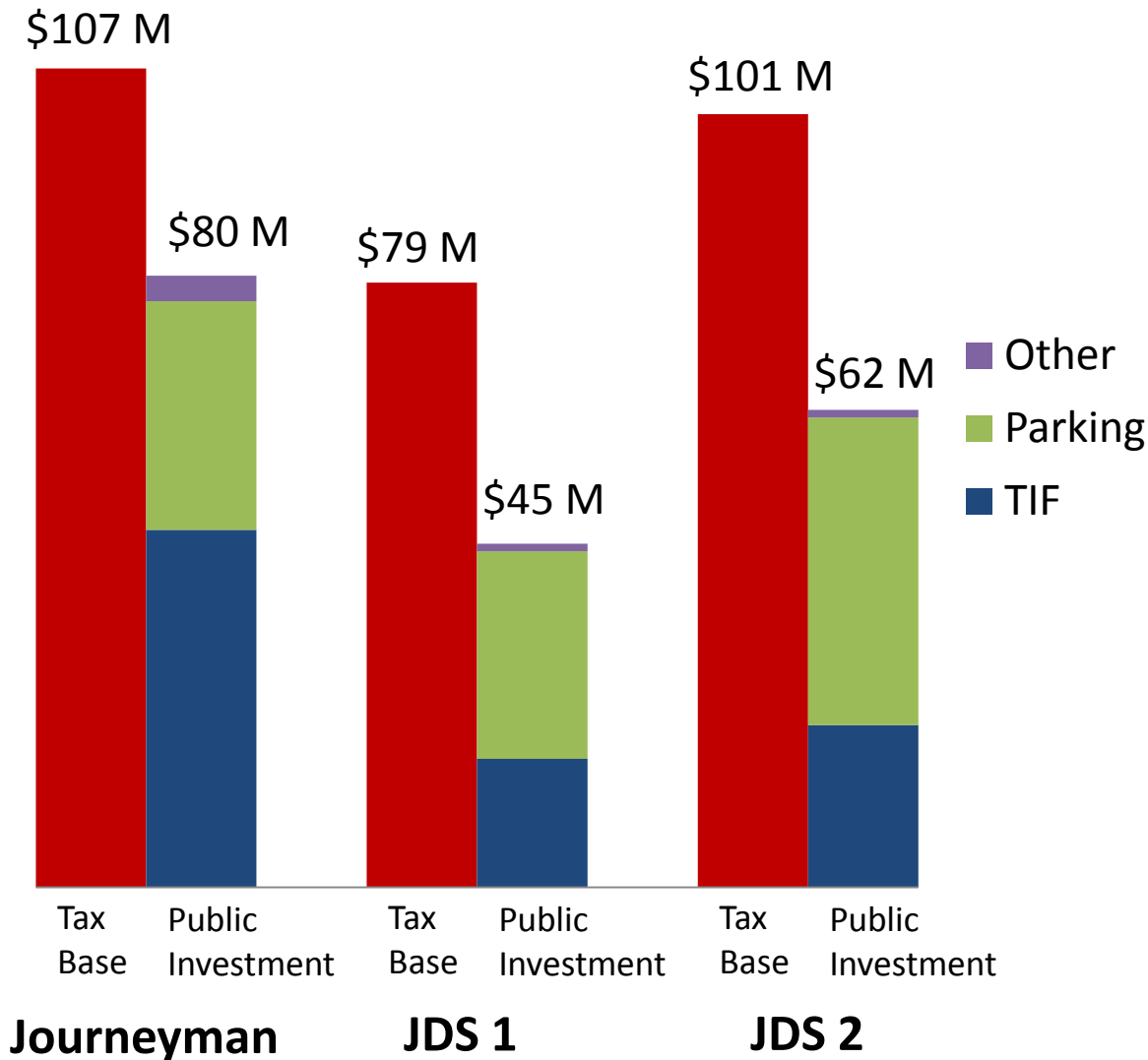
Equity Arrangements Need Clarification

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

Initial analysis has identified issues regarding amount of equity being invested -- more information is needed from both developers.

* Present Value at 4% over 10 years

Tax Base Created Relative to Public Investment



While JDS creates less tax base, lower projected costs – particularly in parking – translate to a more favorable ratio of public investment to tax base

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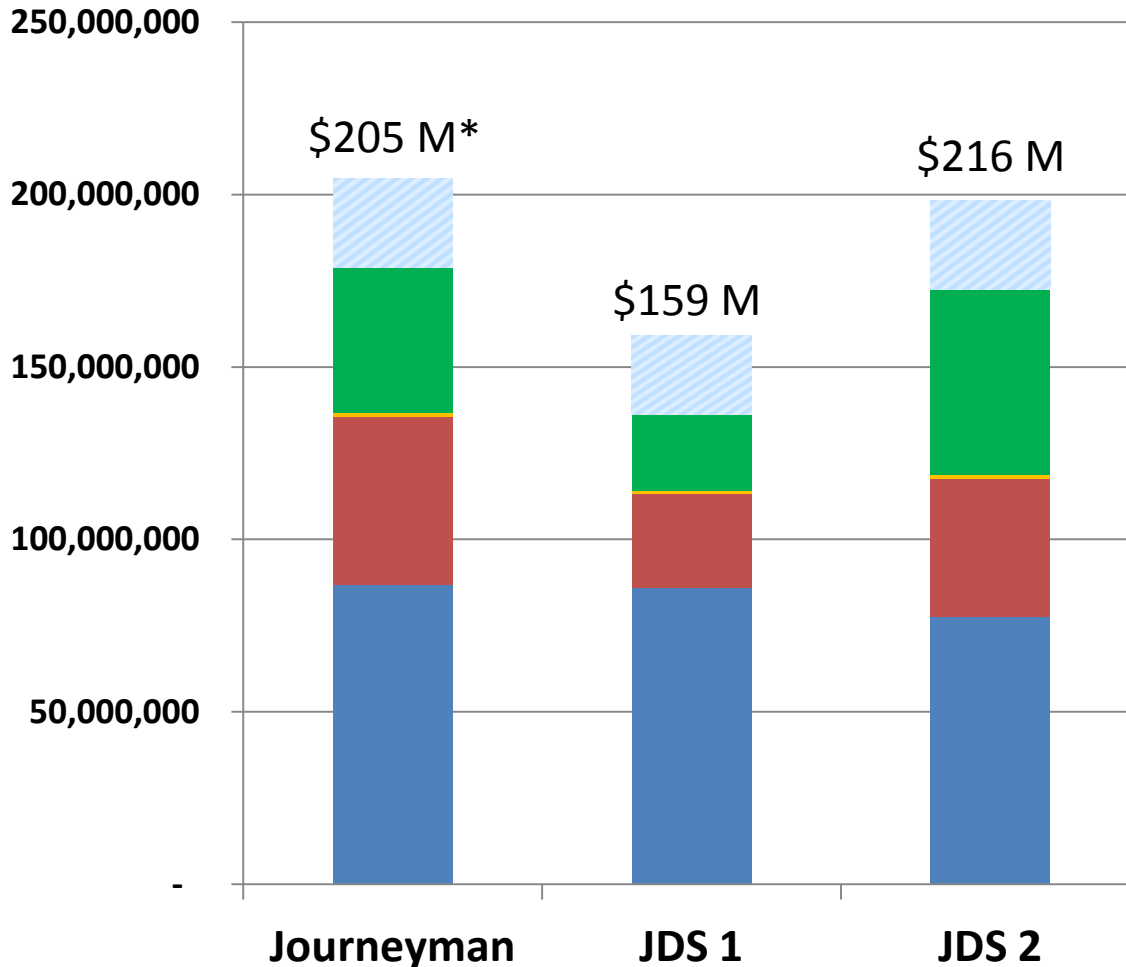


Uses of Capital

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Uses of Capital

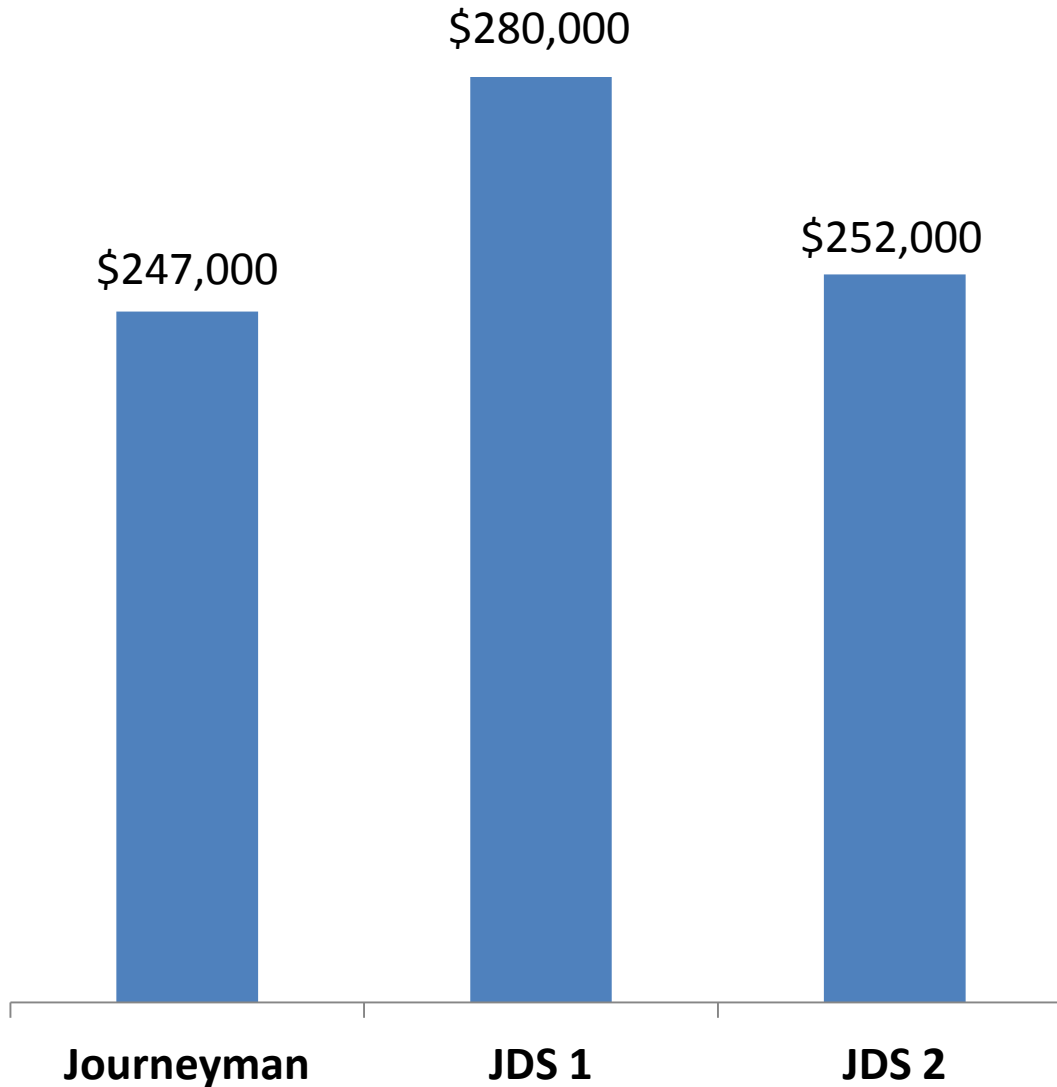


JDS and Journeyman have similar hotel costs. The primary differences are the cost of parking and the amount of private development on Block 105

- Hotel
- Parking
- Bike Center
- Office/Retail/Residential
- City Offices

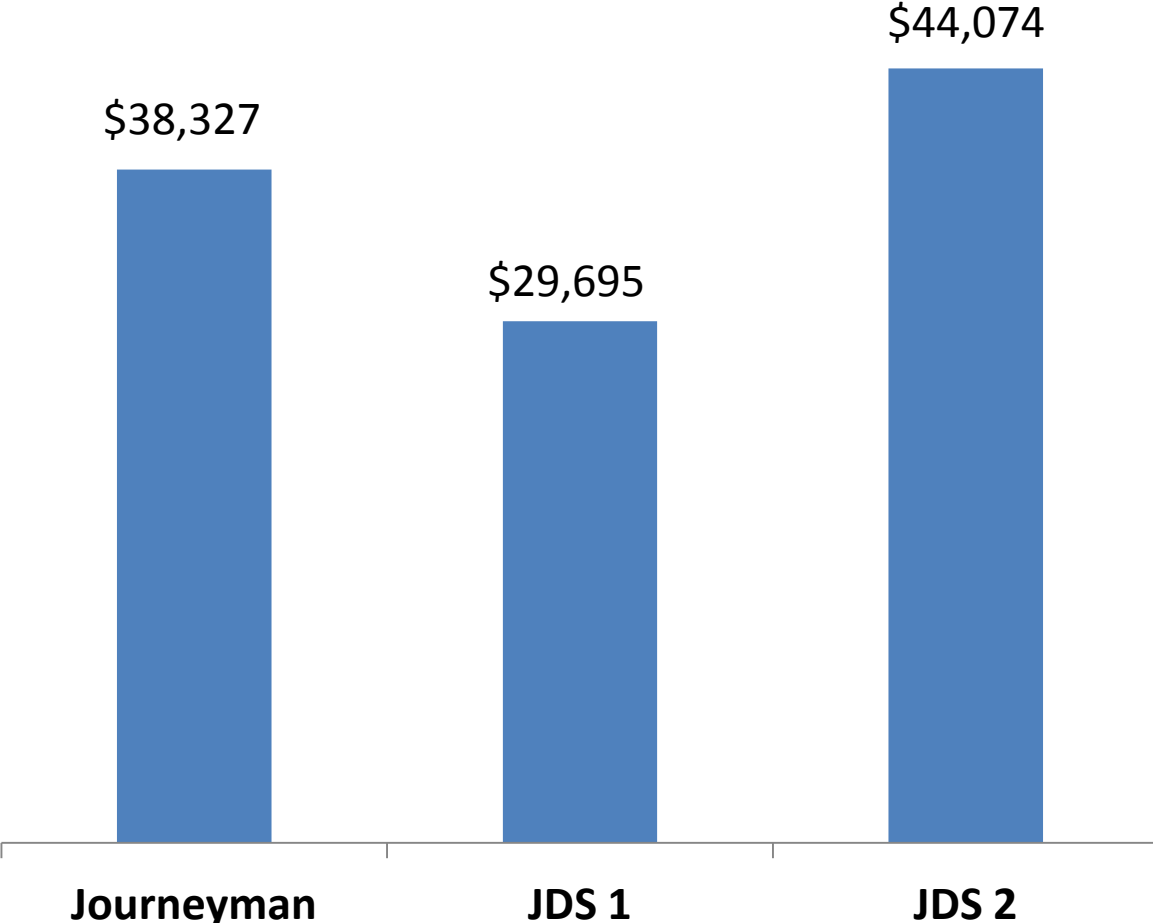
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Hotel Development Costs Per Key



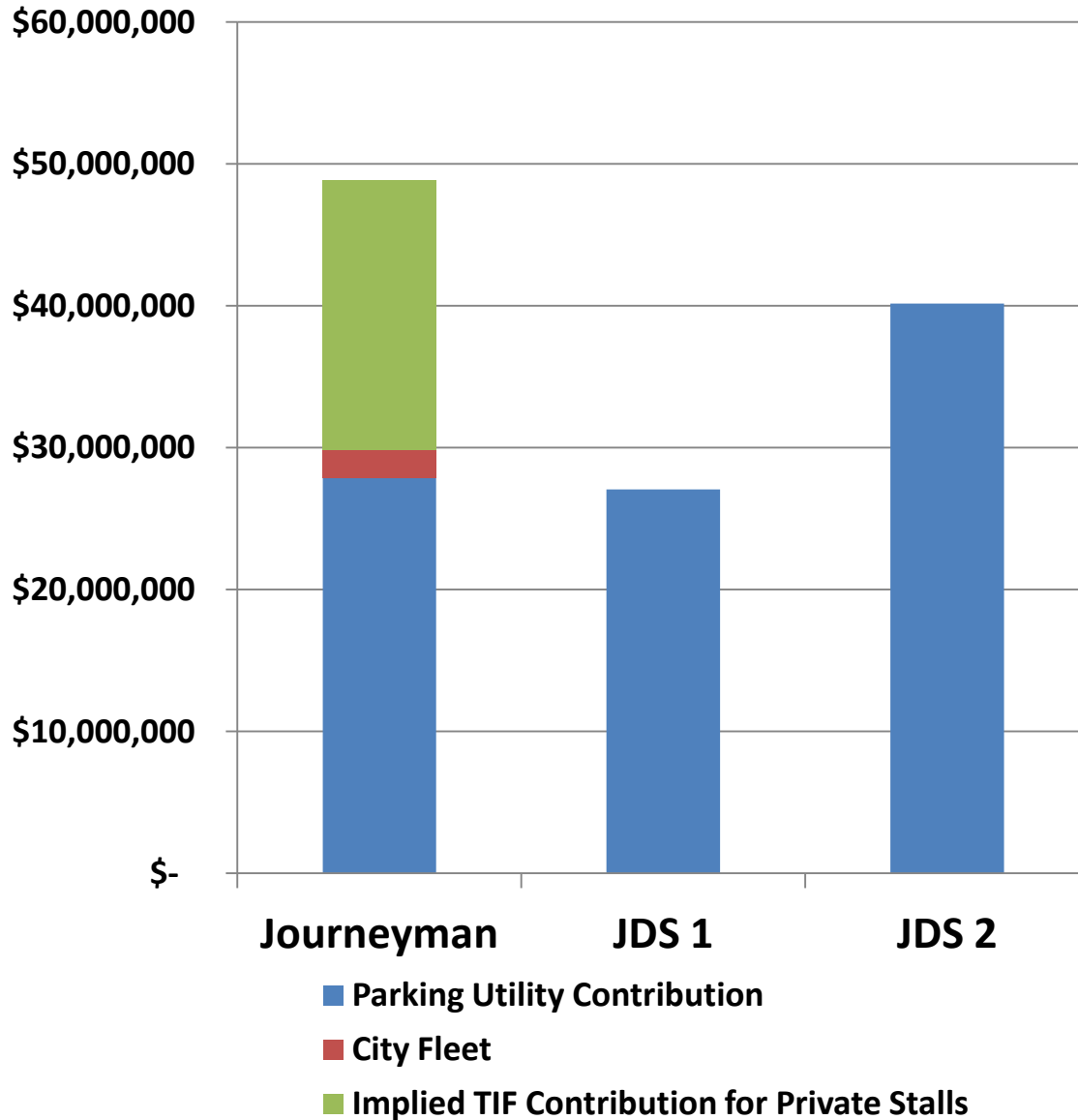
JDS has fewer rooms but a higher cost per key resulting in similar overall expenditures on the hotel component of the project.

JDS Appears to Deliver Lower Per Stall Parking Costs



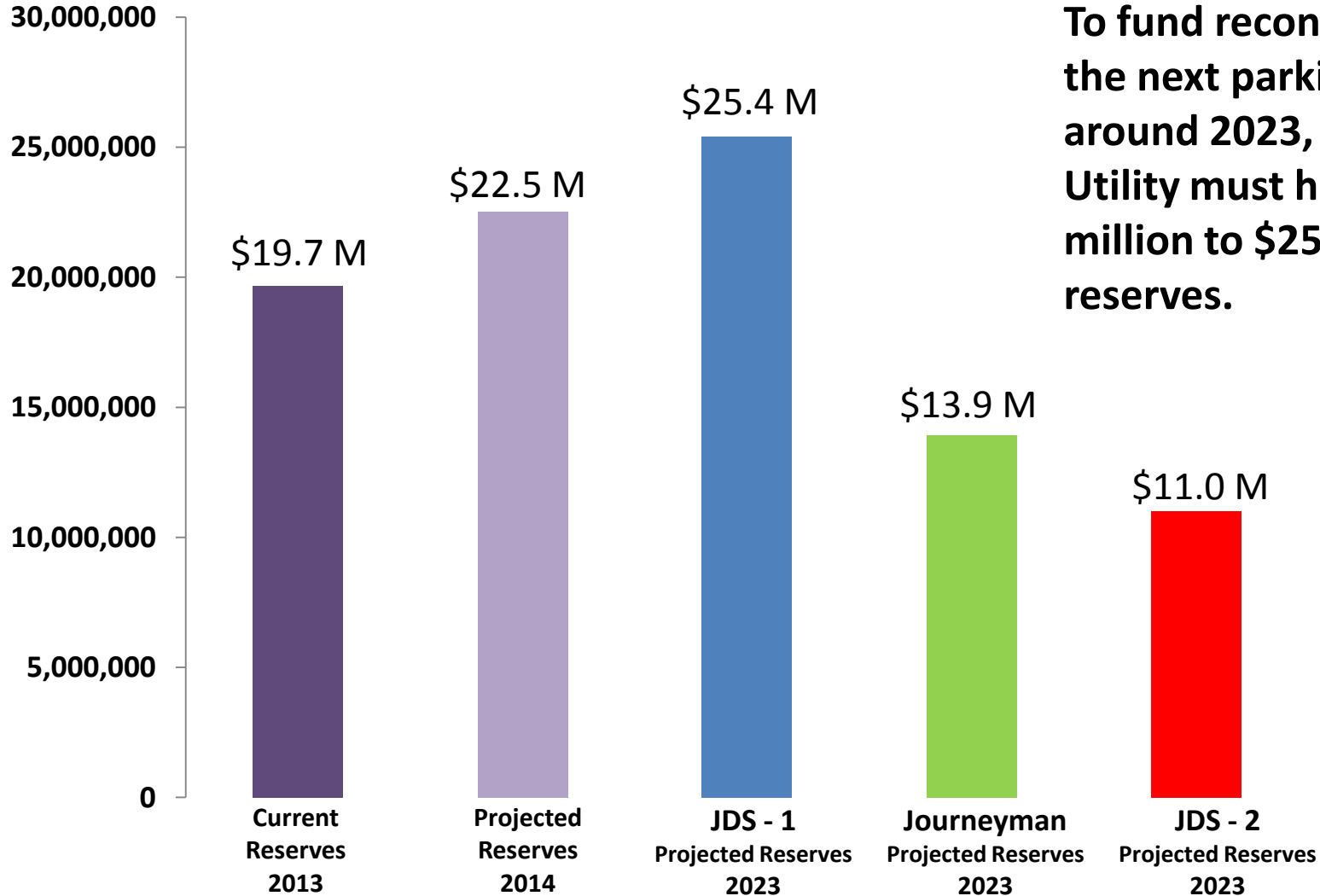
Parking is a major cost driver. JDS appears to be able to lower parking costs by largely avoiding underground parking

Despite Lower Costs, Parking Contributions Similar



The Parking Utility is paying for almost all of the parking in the JDS proposals

Proposal Affect Capacity for Future Parking Projects



To fund reconstruction of the next parking ramp around 2023, the Parking Utility must have \$20 million to \$25 million in reserves.

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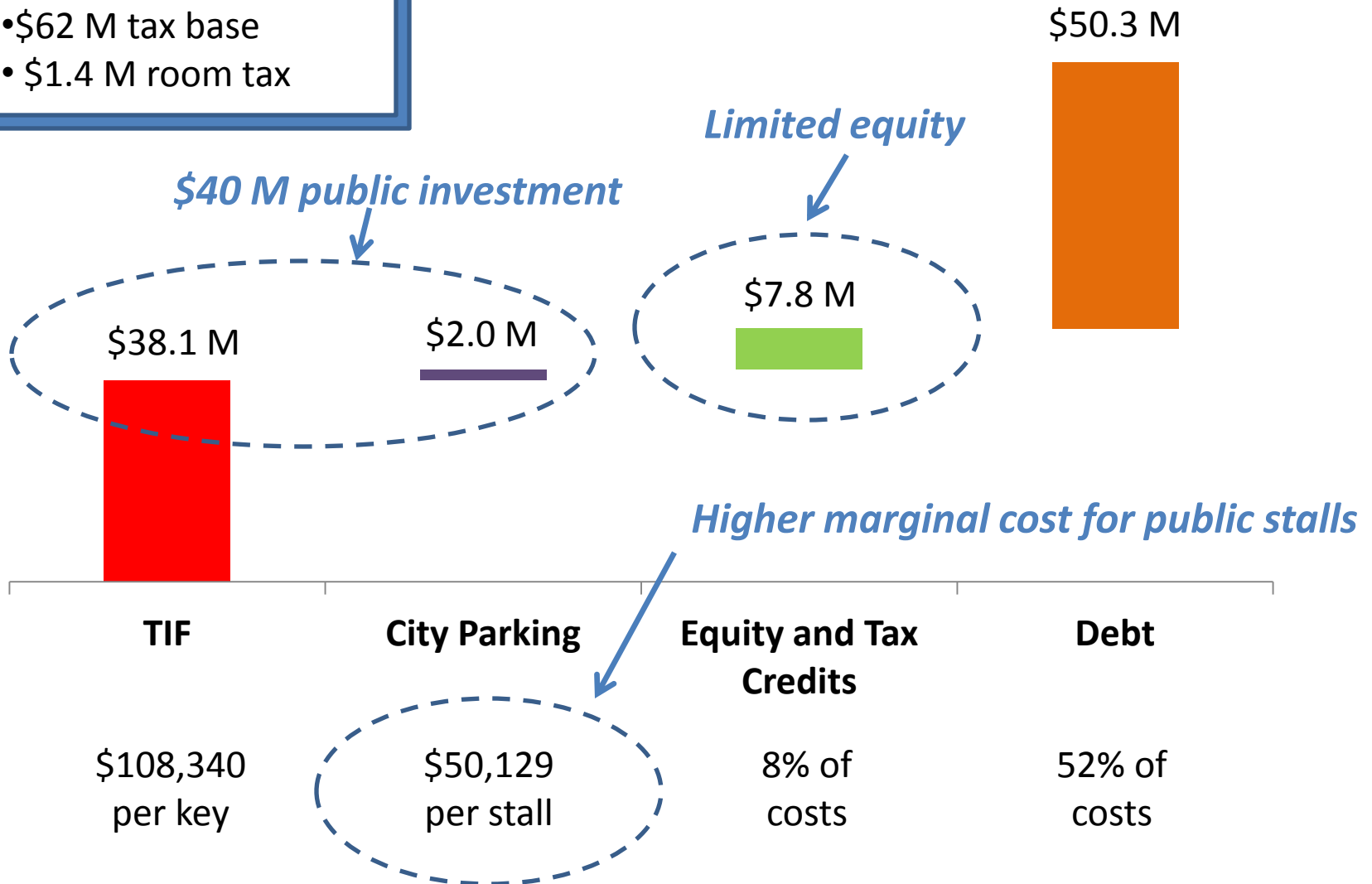


Comparison of Financial Structures

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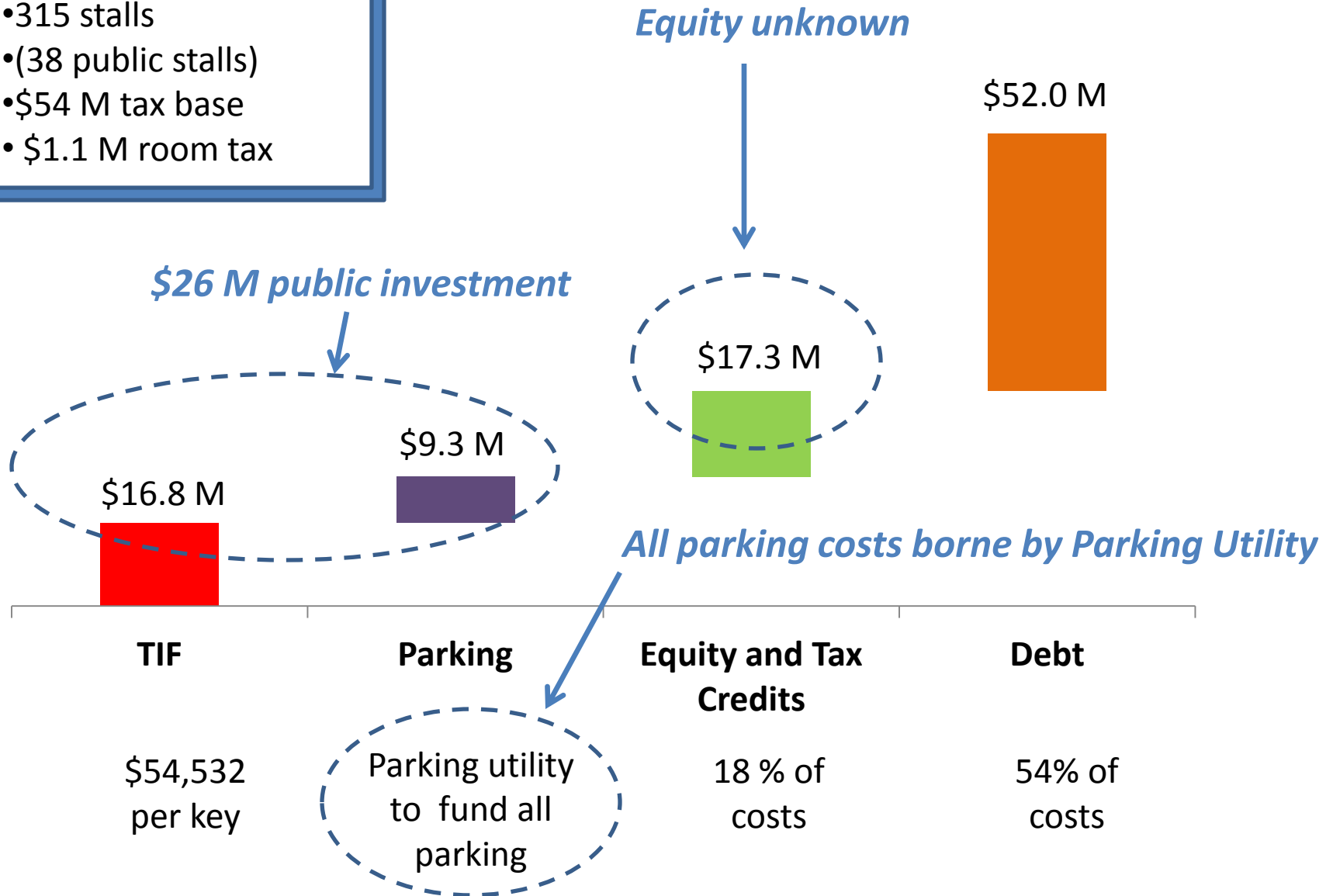
Journeyman – Block 88 Financial Structure

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



JDS – 1 Block 88 Financial Structure

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



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

\$8.6 M

\$28.8 M

\$4.3 M

\$38.8 M

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

TIF

City Parking

Equity and Tax Credits

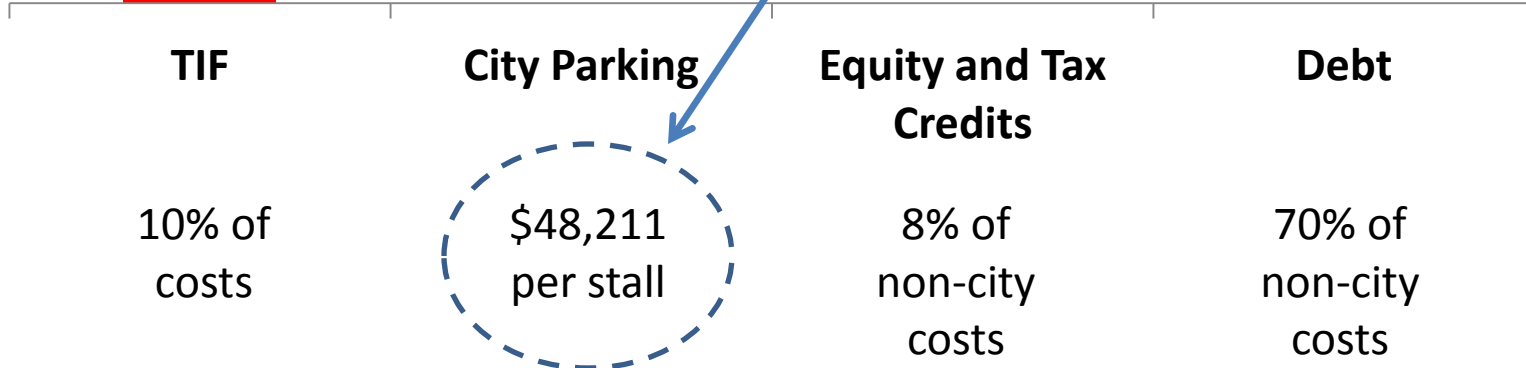
Debt

10% of costs

\$48,211 per stall

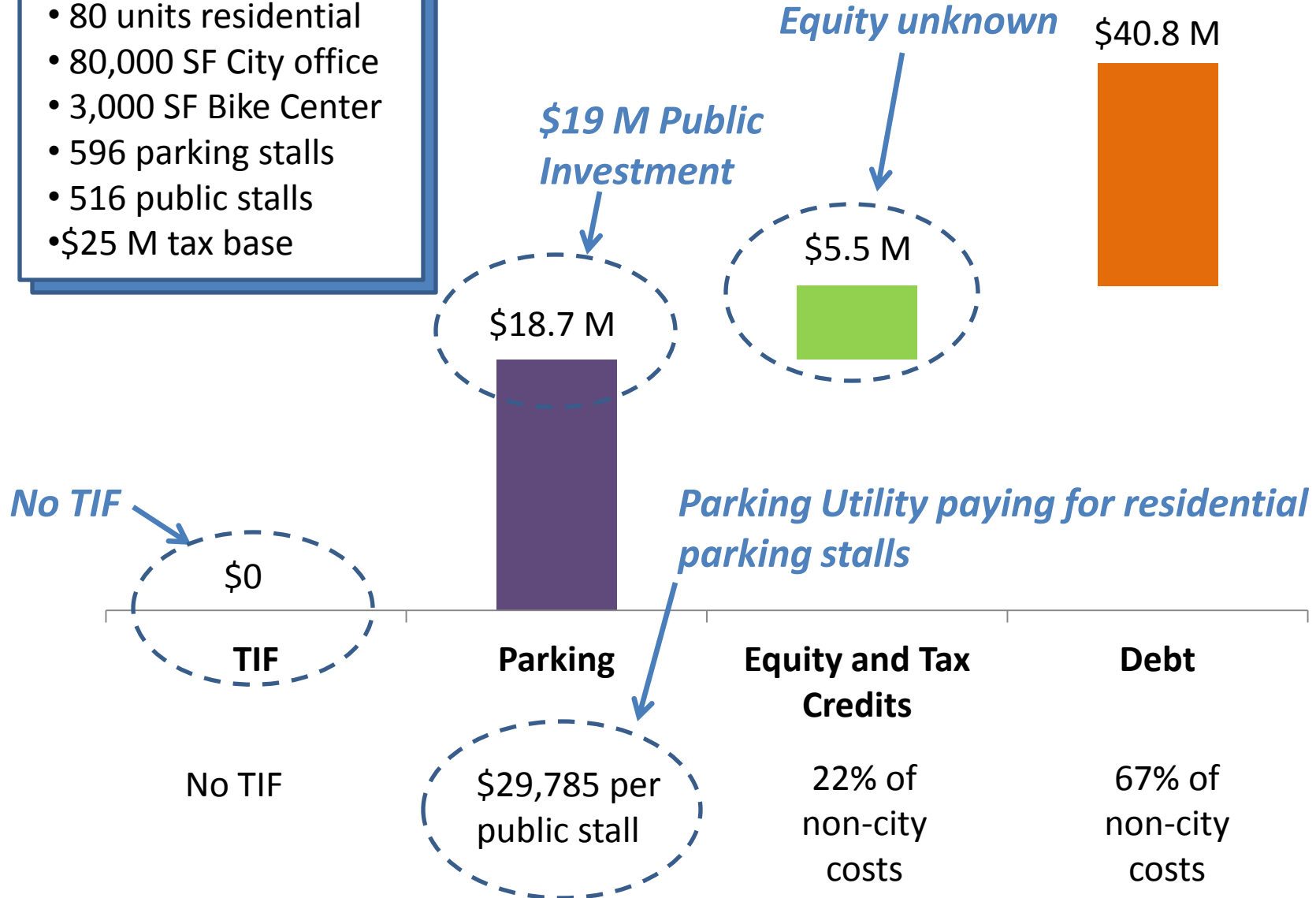
8% of non-city costs

70% of non-city costs



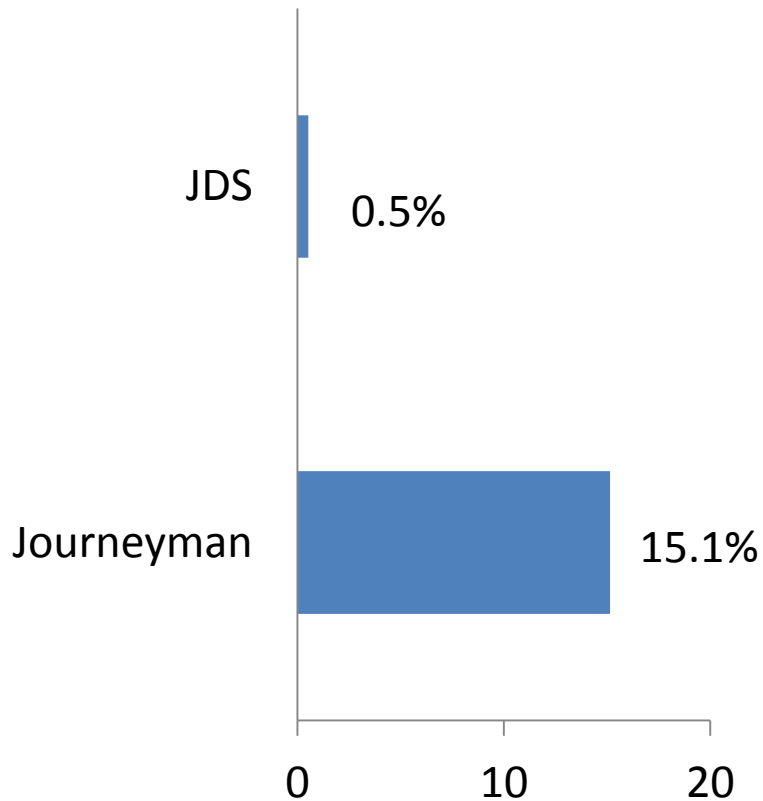
JDS – 1 Block 105 Financial Structure

- 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



Variations in Return Expectations

Rate of Return (IRR) on Tax Credits & Equity



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

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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.