TO: Mayor Paul R. Soglin and Members of the Common Council

FROM: Judge Doyle Square Negotiating Team

RE: Updated Addendum to the Report to the Judge Doyle Square Negotiating Team – BOE Motion

DATE: September 22, 2015

On Monday, August 24, 2015, the Board of Estimates considered the Report of the Judge Doyle Square Negotiating Team, the draft Amended and Restated Development Agreement and a Common Council Resolution, Legistar No. 39800. The Board of Estimates recommended approval of the resolution with the addition of the following language:

> "The BOE recommends approval of the resolution, subject to satisfactory resolution of these issues prior to September 1:
>
> (1) Language on a Labor Peace Agreement;
> (2) Language on the timing and nature of reacquisition by the City of the hotel condominium unit and the future office expansion condominium unit;
> (3) Completion of the Real Estate Purchase Agreement;
> (4) Removal of the Developer's right of first refusal on leasing of parking utility spaces; and
> (5) More information on the TIF jobs grant and the other questions of the TIF Coordinator.
>
> If these matters are not satisfactorily resolved, the BOE recommends referral of the resolution to the Council's September 15 meeting."

Subsequent to the Board of Estimates meeting, the Common Council referred the matter to a special meeting on September 29, 2015. The City Negotiating Team conducted four additional negotiating sessions on August 26, September 3, September 8, and September 17 to address the five areas identified in the motion.

A brief summary of the items is provided below.

(1) Labor Peace Agreement

The Developer has agreed to execute a Labor Peace Agreement (LPA) as a condition precedent to the Project Commencement closing with a labor union representing hotel employees. Due to both legal and practical issues, the Developer must negotiate directly with the union representatives in coming to the final terms of the agreement. Unite Here is the only interested union in representing hotel employees and have negotiated LPAs with developers and hotel operators around the country, and we assume the LPA will be with United Here.

The language in the Development Agreement was drafted in part by Unite Here.

(2) Reacquisition of Block 105 Condominium Units

Hotel Unit

One of the City's high priorities in pursuing the Judge Doyle Square development is to add additional hotel rooms adjacent to Monona Terrace with a room-block agreement to support Monona Terrace. The City and the JDS Development LLC agree that construction on the hotel must commence by May 1, 2017. It is the most efficient timing for the hotel since the construction team will already be mobilized on site and the hotel tower construction can continue without interruption or re-mobilization at a later date. Further, the developer will have posted approximately $17.5 million in equity capital with the commercial lender at the Project Commencement closing in December, 2015. That equity capital isn't in a productive use until the hotel is completed and is operating, which is a significant motivation for JDS Development to move forward on the project in a timely manner.

To the extent that market or financial conditions prevent the hotel project from proceeding by May 1, 2017, there will be an 18-month grace period to permit the developer to extend its deadline. To the extent the hotel project hasn't commenced by November 1, 2018 (the end of the grace period), the City will have the concurrent right to find a new developer for the hotel project for a period of 18 months until May 1, 2020. If the City executes a binding development agreement with an alternative hotel developer that includes requirements substantially similar to the development agreement with JDS Development LLC (e.g. labor peace agreement, approval of the hotel operator, evidence of debt and equity financing), then the City will have the right to reacquire fee simple title to the Hotel Unit and develop the hotel project. However, the Developer will continue to have a right to complete the hotel project at the same time until the reacquisition right is exercised by the City.

If the City cannot find a new developer to complete the hotel project by the end of the 18 month period, the Developer will have the exclusive right to complete the hotel project for 7 years, ending in 2027.

At the end of that time period, the City will have a final right to reacquire the Hotel Unit. No further rights will exist regarding the Hotel Unit.

At all times, the cost for reacquiring the Hotel Unit is $232,000 which is the proportionate share of the actual price the Developer will pay for the land.

Exact Sciences Office Expansion Unit

In addition to the original office tower for Exact Sciences, the Exact Sciences office expansion site on Block 105 is the third and final phase of the Judge Doyle Square development. Based on the underwriting analysis, the completion of the expansion of the office building is targeted for 2023 with the property tax payments on the completed facility commencing in 2024. The Amended and Restated Development Agreement provides that in addition to expansion space for Exact Sciences, the site could also include another office tenant, additional hotel capacity or residential use (Section 5.4 (a) of the Amended and Restated Agreement). Given the development schedule to start construction in 2022, the multiple land uses that can be developed on the site and the fact that the site will have the authorized zoning and approvals in place and available parking to support those uses, the City Negotiating Team did not seek a reacquisition option for this development site.

(3) Real Estate Purchase Agreement

At the time the Negotiating Team Report was submitted to the Board of Estimates on August 21, 2015, the Real Estate Purchase Agreement wasn't finalized. That has now been completed and is provided as Exhibit B to the Amended and Restated Development Agreement.

(4) Developer's Right of First Refusal on Leasing Parking Utility Spaces and Pricing

The Lease Term Sheet included a provision to give JDS Development a right of first refusal (ROFR) on any blocks of spaces in the Public Ramp that the City may wish to make available to any third parties on a long-term basis (e.g. for a year or longer) along with an option to acquire any stalls in the public portion of the ramp that may become available during the lease term in the event the City constructs or secures other stalls for public use in the downtown and no longer desires to maintain all 600 stalls within the ramp.

This provision has been removed from the Lease Term Sheet.

Additionally, the Lease Term Sheet now contains a provision that clarifies that the hourly parking rate will be established by the Madison Parking Utility for the entire ramp. Due to the configuration of the stalls, vehicles entering the parking structure will pass gates operated by the Parking Utility. While vehicles traveling to the private portion of the ramp will pass a different gate, they will have to pay the same rate set by the Parking Utility due the program used to control revenue division.

(5) Additional TIF Jobs Grant and Related TIF Questions

On August 27, 2015, TIF staff received an updated cash flow from Developer that included the office, private parking and hotel cash flows and an itemization of the tenant improvements that propose a $12 million gap for the Exact Science component. The itemization of tenant improvement costs did not provide the detail of information needed to justify the tenant improvement costs; however, staff found that the development has a $12 Million gap. Findings of the TIF staff included the following:

- Phase 1 which includes the parking structure and the Exact Sciences headquarters has a funding gap of $12 million caused by (1) the below market rent paid by Exact Sciences (approximately $30 per square foot versus Downtown Class A market rents of $36 to $37 per square foot), (2) a conservative underwriting by the lender's which is driven by risk of Exact Sciences as a start-up, and (3) the relatively high cost of the phase 1 development.

- The project requires net parking revenue generated by excess parking stalls to make debt service payment on the phase 1 loan and provide a return to the investors.

- The project cost is higher than normal ($382/SF) and the amount of subsidy greater than recent projects due to cost of about 200 excess parking stalls constructed for subsequent development components. Land, hard construction and soft cost appear to fit standards for multiple story Downtown construction.

- The guaranty of increment to repay the $46.7 million City investment which includes measuring cumulative taxes paid at the end of years 15 and 27, paying shortfalls with net parking proceeds in Year 15 and with a LLC guarantee of proceeds in Year 27 represents a significant policy exception.

- The construction loan will be participated to an estimated 5 to 8 banks. The City should obtain and understand the terms and conditions of the loan agreement between Developer and the participating lenders.

- It should be noted that the City investment is comprised of $42.5 Million from TID 25 and $4.2 million in land sales proceeds being deposited at closing in TID 25.

- Using the City's usual TIF underwriting assumptions, a $103 million value supports a $15.6 million City investment over 27 years. Those assumptions use a conservative 7% discount rate. Traditionally, the City would borrow the funds upfront for the Project and recover the principal and interest costs over the life of the TID. The $42.5 million proposed subsidy is well in excess of this traditional amount. By using TID 25, the Project avoids significant interest costs and the property taxes generated by the Project value are expected to exceed the subsidy over a 27 year period.

(6) Property Taxes

Section 6.1 adds new language that declares the CDA as owner of the private parking ramp. This is an attempt to ensure that the private ramp is not subject to property tax, but remains tax exempt due to CDA's ownership. However, the Negotiating Team does not have the authority to make a determination of taxability, only the Assessor can make that determination. Nothing in section 6.1 can bind the Assessor to a determination.

Section 6.1 also adds language indicating that the Developer will not have any PILOT payment passed through to it should the City require a PILOT from the CDA for the private parking ramp. Since the Parking Lease has a set dollar amount, adding a PILOT on top of the lease payment would not be

appropriate. Note, however, that the Parking Utility likely will be paying a PILOT for the public portion of the ramp.

For additional information on the negotiating issues and elements within the executed Development Agreement and the proposed Amended and Restated Development Agreement, please see these previously submitted reports from the Negotiating Team:

June 25, 2015 Report of the Negotiating Team (Report on the elements of the proposed Development Agreement (Approved by the Common Council on July 7, 2015 and executed on July 15, 2015)

July 7, 2015 Addendum to the Report of the Negotiating Team (Report on the Guaranty provisions in the Development Agreement)

August 20, 2015 Report of Negotiating Team (Report on the elements of the proposed Amended and Restated Development Agreement as well as the information requested by the Common Council in RES -15-00598 adopted July 7, 2015)

MEMORANDUM

TO: Common Council of the City of Madison

FR: Joe Gromacki, TIF Coordinator

DATE: September 29, 2015

SUBJECT: Updated Judge Doyle Square TIF Report

Background

On August 24, the TIF staff report to the Board of Estimates concluded the following:

1) The $20.8M Private Parking construction investment is in the form of a grant to the CDA for public infrastructure and as such does not require gap analysis.

2) The $12M Jobs TIF request requires an itemization of the tenant improvements attributable to Exact Science.

3) The distribution of an average of approximately $1 million per year in parking revenue to the Exact Science component is unusual and unexplained.

4) There are 13 TIF Policy exceptions including the $12 million of Jobs TIF assistance which is 500% of the TIF generated by the Project.

The Board of Estimates recommended approval contingent upon the remaining issues being resolved between Developer and the Negotiating Team and that Developer provide more detail to TIF staff for Common Council to consider on September 29.

Executive Summary – Updated TIF Report

On August 27, 2015, TIF staff received an updated cash flow from Developer that include the office, private parking and hotel cash flows and an itemization of the tenant improvements that propose a $12 million gap for the Exact Science component. TIF staff asked additional questions of Developer and other private sector lenders as part of its analysis. The following are TIF staff's findings concerning TIF proposal:

1) Building 1, occupied by Exact Science ("the Project"), has a funding gap of $12 million caused by the factors listed in the subsequent paragraphs. Exact Science, as a tenant, has not demonstrated a $12 million gap.

2) The Project requires net parking revenue generated by excess parking stalls due to lower rent paid by Exact Science, higher project cost and more stringent bank credit requirements that require more net revenue.

3) The Project cost is higher than normal ($382/SF) and the amount of subsidy greater than recent projects due to carrying the cost of about 200 excess parking stalls constructed for subsequent development components (i.e. the hotel and a possible office expansion) that may be developed in as many as 5-6 years.

4) The anchor tenant, Exact Sciences, will not pay rent greater than approximately $30 per square foot, a rate at the low end of Downtown Class A market rent (the high end being typically $36-37 per

square foot), while occupying a space that is at the high end of the cost spectrum. This factor is a large contributor to gap. A less risky, better paying tenant would eliminate the $12 million gap.

5) The overall concept of the $46.7 million investment, measuring cumulative taxes paid at the end of Years 15 and 27, paying shortfalls with net parking proceeds in Year 15 and with a LLC guaranty of proceeds in Year 27 is problematic. In contrast to the bank's more short-term, stringent security structure, the City's guaranty structure is more long-term and leaves more to uncertainty and risk.

6) The City should evaluate the participation loan in greater detail. In addition to a lower loan to value ratio, higher debt coverage and deposit of two years' rent ($12 million), the loan is structured as a participation loan with five to eight other banks sharing a small portion of the loan. These are all measures taken by banks to mitigate high tenant risk. Staff interviews with other lenders have confirmed this conclusion. Understanding the terms and conditions of the loan agreement between Developer and the participating lenders is crucial.

7) In today's dollars, the recovery of the City's $46.7 million investment from taxes generated by estimated $103 million of development is far less than projected. Using the City's typical discount assumptions, a $103 million value supports only $15.6 million of City investment using all of the taxes generated by the Project and its subsequent components over 27 years. In today's dollars, a $46.7 million City investment would require a $300 million project value to recover the investment over that time.

Updated TIF Report Detail: September 29, 2015

1) The Project (and not Exact Science) has a gap. Developer provided a list of $12 million of cost differentials between constructing a 290,000 SF two-story suburban structure to a multi-story building constructed Downtown. The list included structural cost, elevators, freight elevators, loading docks, downtown building code compliance and other costs that are required of a developer to construct a core and shell of a typical Class A, Downtown building. Staff instructed Developer to re-submit a proper itemization of tenant improvements but to date has not received an updated document.

Observations:

(a) First, cost differentials do not qualify as tenant improvements. Developer stated that Exact Science needed $12 million of TIF because the company would not pay for the tenant improvements as it would increase the rent beyond $30 per square foot. By definition, tenant improvements are costs that a tenant pays to improve the core and shell of a rental space to its needs. Only $2.8 million of the proposed $12 million of tenant improvements qualified as actual tenant improvements.

(b) Second, cost differentials are not a gap. Gap is the difference between the total project cost and the total amount of private investment that the project can attract. In terms of gap analysis, the economics of a suburban location is only relevant to a suburban location. In this case, the gap measurement would be based upon what capital and cost are necessary to construct the Project in a Downtown location, not in comparison to a suburban location.

(c) The Project assumptions change but the $12 million gap remains unchanged. TIF staff has three versions of the TIF Application. Version 1 proposes $1.6 million of tenant improvements; Version 2 proposes $9.6 million; and Version 3 proposes $14.1 million of tenant improvements. Also in Version 3, Exact Science occupies only 200,000 SF, leaving 50,000 SF leased to unidentified tenants. In each version, the TIF request is exactly $12 million. Simply put, a changing project

with an unchanging gap is mathematically impossible. When costs and/or fund sources shift, the gap should shift. The unchanging gap suggests that the Project and not the tenant may have a gap.

2) **The Project requires excess net parking revenue for debt service and not operations.** In Exhibit A below**,** TIF staff demonstrates the impact between the proposed Project controlling revenue from 535 stalls, to a project that controls only the 370 stalls required by Exact Science, to the Project if all 650 stalls are used for revenue purposes **(Exhibit A).**

Observations:

(a) As proposed, the Project yields a satisfactory profit, yielding 8% cash on cash return and a 12% internal rate of return (IRR).

(b) Profits without excess net parking revenue are also satisfactory. The Project still achieves a 7% cash-on-cash return and IRR of 11%.

(c) Including all net revenue from all 650 stalls of parking, the Project achieves 9% cash-on-cash return and a healthy 14% IRR.

(d) Based upon the similar investment returns, the Project performs about the same with or without excess parking revenue. So why is it needed?

Exhibit A

REVENUE	**Proposed**	**w/o Excess Net Pkg. Revenue**	**w/All Parking Revenue**
Gross Rent Retail	$ 906,000	$ 906,000	$ 906,000
Gross Rent – Office	$ 7,575,000	$ 7,575,000	$ 7,575,000
Gross Rent - Parking	$ 993,000	$ 622,000	$ 1,235,000
Potential Gross Income	$ 9,474,000	$ 9,103,000	$ 9,716,000
Less: Vacancy	$ (224,000)	$ (424,000)	$ (424,000)
Effective Gross Income	$ 9,250,000	$ 8,679,000	$ 9,292,000
EXPENSES			
Retail	$ (285,000)	$ (285,000)	$ (285,000)
Office	$(2,845,000)	$(2,845,000)	$ 2,845,000)
Parking	$ (358,000)	$ (224,000)	$ (380,000)
Total Expense	$(3,488,000)	$(3,354,000)	$ 3,510,000)
NOI	**$5,562,000**	**$ 5,325,000**	**$ 5,782,000**
Less: Capital Reserves	$ (100,000)	$ (100,000)	$ (100,000)
Less: Debt Service	$3,571,000)	$(3,571,000)	$(3,571,000)
CASH FLOW	**$ 1,891,000**	**$ 1,654,000**	**$ 2,111,000**
Comparisons			
No. of Parking Stalls	535	370	650
Net Parking Revenue/YR	$635,000	$398,000	$855,000
Debt Coverage Ratio (DCR)	1.6	(e) 1.4	1.6
Cash on Cash Return	(a) 8%	(b) 7%	(c) 9%
IRR at Sale	**12%**	**11%**	**14%**

(e) Perhaps the answer to this question lies in the debt coverage ratio (DCR), also listed in Exhibit A. DCR is a measure of cash flow available to pay debt, or Net Operating Income (NOI) divided by debt service. The proposed Project demonstrates a 1.6 DCR, much higher than the 1.25 standard. Without excess parking, the DCR drops to 1.4. Therefore the purpose of the excess parking revenue is to ensure that the Project meets bank underwriting standards.

(f) In addition, TIF staff investigated a hypothesis that Developer might use excess net parking revenue to provide a rent rebate to Exact Science. Although possible under certain relaxed lending conditions, it was unlikely given the lender's current underwriting requirement to maintain a higher DCR.

(g) TIF staff also explored the impact of excess parking revenue if the Hotel is not developed in the near future. In this event, the remaining 115 stalls (650 minus 535) could also generate an additional $220,000 of net parking revenue (total net revenue of $855,000 per year) for the Project, assuming Developer charges a higher non-tenant rate of $175/stall/month. As Developer presently proposes to delay the Hotel construction, this revenue would also improve the Project's bottom line as evidenced in the fourth column of **Exhibit A.**

3) **The project cost is higher than usual, the impact of City subsidy is greater than comparable recent projects and excess parking is one of the likely contributors.** Including parking construction cost, the total estimated project cost would be $111 million or approximately $382 per square foot. However, land, hard construction and soft cost appear to fit standards for multiple story Downtown construction. It appears that the reason for this is that the Project is carrying about $6.4 million of excess development parking (about $22 per square foot) for subsequent development components. Therefore, net of excess parking, the project cost would be about $360 per SF.

EXHIBIT B

Project (Exact Science)		
Gross Building Area		290,000 SF
Total Cost (Including Parking)		$111,012,000
Cost/SF		**$382**
Less: TIF and City Subsidy		$46,737,000
Adjusted Total Cost		$64,275,000
Adjusted Cost Per SF		**$222/SF**
Anchor Bank – 2014		
Gross Building Area – Office, Comm.		232,991 SF
Total Cost	$	73,489,000
Cost/SF (w/o TIF)	$	315/SF
TIF Loan	$	13,317,000
Adjusted Total Cost		$60,172,000
Adjusted Cost Per SF		**$258/SF**
University Square – 2006		
Gross Building Area - Commercial		148,653 SF
Total Cost		$48,241,000
Cost/SF	**$**	**325/SF**
TIF Loan	$	3,000,000
Adjusted Total Cost		$45,241,000
Adjusted Cost/SF		**$304/SF**

Observations:

(a) Including parking, the project cost of $382 per square foot is very high for a Downtown project.

(b) By category, land, hard construction (not including parking) and soft cost are in line with most Downtown cost parameters.

(c) The carrying cost of constructing excess parking appears to contribute to the higher cost. At 450 stalls, the Project would carry $14.4 million of parking cost, a difference of $6.4 million ($20.8 million minus $14.4 million). This adds about $22 per square foot to the construction cost.

(d) Compared to recent TIF-assisted projects that are somewhat similar in their complexity, i.e. the Anchor Bank and University Square projects, the Project is the most dramatic cost write-down to date **(EXHIBIT B).**

(e) In this Project, City subsidy reduces its cost from $382 per square foot to $222 per square foot.

(f) As demonstrated in Exhibit B, this adjusted cost is below other Class A office projects.

4) **A higher-paying, less-risky tenant would be better able to reduce gap.** Developer proposes to invest $24 million of equity. The bank proposes a $39.9 million loan with a loan–to-value ratio not exceeding 55%, requiring a debt coverage ratio of 1.6. The loan is secured by a first mortgage and a 7-year note with a 20-year amortization.

Exhibit C

REVENUE	**Proposed YR1**	**Rent @ $35/SF**
Gross Rent Retail	$ 906,000	906,000
Gross Rent – Office	$ 7,575,000	$8,750,000
Gross Rent - Parking	$ 993,000	$993,000
Potential Gross Income	$ 9,474,000	$10,649,000
Less: Vacancy 5%	$ (224,000)	$ (453,000)
Effective Gross Income	$ 9,250,000	$10,196,000
EXPENSES		
Retail	$ (285,000)	$(285,000)
Office	$ (2,845,000)	(2,845,000)
Parking	$ (358,000)	(358,000)
Total Expense	$ (3,488,000)	(3,488,000)
NOI	**$ 5,562,252**	**$6,708,000**
Less: Capital Reserves	$ (100,000)	(100,000)
Less: Debt Service	$ (3,571,000)	(3,365,000)
CASH FLOW	**$ 1,891,252**	$3,243,000
Gap Analysis		
Estimated Value	$54,600,000	$67,553,000
Loan	$39,909,000	$49,314,000
Equity	$24,366,000	$24,366,000
City Parking TIF	$20,800,000	$20,800,000
Land Write Down	$13,937,000	$13,937,000
Total Sources	$99,012,000	$108,417,000
Less: Project Cost	$(111,012,000)	$(111,012,000)
GAP	**($12,000,000)**	**($2,595,000)**

Observations:

(a) The amount of Developer equity in the proposed Project appears satisfactory. As indicated in **Exhibit A**, IRR ranging between 11% and 14% is acceptable.

(b) The lender's loan sizing and credit requirements indicate a high-risk tenant, demonstrated by the low loan-to-value ratio (55%), high debt coverage ratio (1.6) shorter amortization (20 years.) In addition, Exact Science must deposit two years' rent (approximately $12 million) prior to closing. This is rarely required of Downtown office projects. Staff consulted commercial bankers who concurred that these are measures that banks use to mitigate high tenant-risk.

(d)The gap is reduced with a lower-risk tenant that pays a typical Class A Office rent (in this case, assuming $35 per square foot.) With higher rent, the Project could attract more private capital thus reducing gap to approximately $2.6 million **(Exhibit C).**

(e) With higher rents, it is arguable that Developer may be able to raise additional equity that would almost completely erase the gap.

5) **Developer's guaranty structure of the City's $46.7 million is problematic.** By policy, all TIF loans are secured by an annual increment guaranty. The guaranty proposed for the Project is a cumulative guaranty, i.e. at the end of 15-year and 27-year marks, Developer pledges payment of any cumulative tax revenue shortfall if it does not meet a mutually-agreed sum at those milestones.

A complication exists in the funding sources for each guaranty threshold. At Year 15, the guaranty is funded with net parking revenues rather than a personal or corporate guaranty, such funds only available after bank debt service is paid. This would be accomplished through a collateral assignment of parking rents to the City, under which the City takes control of net parking revenue from

Developer. The Developer does have an option to pay the increment shortfall in lieu of the collateral assignment, but the City does not have the power to require this option. At year 27, the City must rely on whether the assets are still viable and marketable (i.e. buildings can become obsolete) and the LLC still exists and has sufficient funds to make payment in the event of a shortfall.

Exhibit D

REVENUE	2032 (YR16)	Net Parking Revenue Guaranty	
Gross Rent Retail	$ 1,264,000	$ 1,264,000	
Gross Rent – Office	$ 0,576,000	$10,576,000	
Gross Rent – Parking	$ 1,387,000	$ 1,387,000	
Potential Gross Income	$13,229,000	$,229,000	
Less: Vacancy	$ (286,000)	$ (286,000)	
Effective Gross Income	$ 12,943,000	$ 2,943,000	
EXPENSES			
Retail	$ (398,000)	$ (398,000)	
Office	$ (3,971,857)	$ 3,971,857)	
Parking	$ (500,000)	$ (500,000)	
Total Expense	$ (4,869,857)	$(4,869,857)	
NOI	$ 8,073,143	$ 7,186,143	
Less: Capital Reserves	$ (350,000)	$ (350,000)	
Less: Debt Service	$ (3,571,000)	$ (3,571,000)	
CASH FLOW BEFORE TX	$ 4,152,143	$ 3,265,143	
Guaranty Analysis			
Parking Net Revenue	$ 887,000	$ 887,000	**A**
Cumulative Shortfall	$ -	$ (2,000,000)	**B**
Deficient Guaranty	N/A	$ (1,113,000)	**C**

Observations:

(a) A cumulative guaranty carries a greater degree of uncertainty—giving gradual feedback on performance but no opportunity for financial intervention until much time has passed; versus an annual guaranty which gives annual opportunity for feedback and intervention.

(b) There is no straight line to net parking revenue. A first mortgage lender gets priority assignment of all rents and revenues. If there are no residual profits after debt service is paid, there is no method to recover on the City's guaranty.

(c) Many unpredictable factors can reduce net revenue, lower rents, higher vacancy, etc. that would reduce the Project's ability to honor the City's guaranty.

(d) The long term impact is also problematic given the parking net revenue assumptions. For example, a hypothetical $2 million cumulative shortfall would only have $887,000 available in Year 16, leaving $1.1 million to be collected over time **(Exhibit D).** Multiple years' assignment of net parking revenue to the City would inevitably have a negative impact on the private parking enterprise and the other components that depend upon net parking revenue.

Notes:
A-Net parking revenue for 535 stalls
B-Hypothetical shortfall
C-Deficient guaranty

6) **Taxes generated over time do not recover the City's $46.7 million investment in today's dollars.** Typically, TIF staff generates an estimate of the projected tax increments generated over the life of a TIF District, called the "TIF Run," that estimates a discounted amount of TIF assistance that could be provided in today's dollars that may be recovered. Each projected tax increment is discounted at a risk rate of about 7% **(Exhibit E on Page 8).**

   Observations:

   (a) Based upon these assumptions, the value of the taxes paid by the Project over the first 15 years to guaranty the first $10 million would support only $8.7 million of TIF in today's dollars.

   (b) At the end of 27 years, the net present value of taxes paid by the Project, Hotel and Building 2, comprising $103 million of value, supports only $15.2 million of TIF.

   (c) Therefore, in a typical TIF underwriting, the City would provide no more than $15.2 million of investment, assuming a 27 year payback. An investment of $46.7 million, representing about 300% of tax revenue, would theoretically require tax revenues generated by other Downtown growth to recover this amount, or such investment could be recovered through taxes if the Project value was at least $300 million.

7) **Due to its complexity, the City should carefully analyze the participation loan agreement between Developer and lender prior to closing on the City investment.** Developer proposes that the $39.9 million of private financing is in the form of a participation loan. A participation loan is a financing structure in which a lead bank is custodian for the investment of several other banks, in order to mitigate the risk and debt exposure of each of the participating lenders. Developer proposes that Greenwoods State Bank will operate as lead lender on behalf of approximately five to eight other banks to capitalize the $39.9 million first mortgage loan.

   Observations:

   (a) The City needs to analyze the lead bank's experience with participation lending on this scale. At this time, TIF staff does not have information about Greenwoods State Bank's experience as lead lender of a participation loan involving perhaps five to eight other banks.

   (b) The City needs to analyze the powers and responsibilities between the lead bank, Developer and participating lenders. Other lenders have advised that the City should know, prior to closing, what powers, responsibilities and requirements that both the lead bank and Developer have as a condition of the loan. Many things can go wrong with a participation loan that would impair the City's security and objectives. For example, how many of the lenders must agree to project changes as they occur? How much control does the Developer have in the project? In a dispute, participating banks can demand to be bought out. What are the conditions that regulate this action? Under what circumstances could the lead lender stall or rescind financing of subsequent components i.e., the hotel or Building 2?

   (c) As a condition of closing, the City should review the loan agreement between Greenwoods and Developer.

Exhibit E - TIF Run
JDS "VIRTUAL TID" Estimate - ALL PHASES

YEAR	CITYWIDE TAX BASE AS OF JAN 1 PRIOR YEAR	NET TAX LEVY	TAX RATE	DISTRICT VALUE AS OF JAN 1	PROJECT VALUE ADDED		INCREMENTAL VALUE AS OF JAN 1	INCREMENT REVENUE	INCREMENT AFTER COVERAGE	PRESENT VALUE
2016	21,362,962,100	517,050,810	0.02420	0	0					
2017	22,644,739,826	537,732,842	0.02375	0	0		0	0	0	0
2018	24,003,424,216	559,242,156	0.02330	0	5,460,000		0	0	0	0
2019	25,443,629,668	581,611,842	0.02286	0	24,570,000		0	0	0	0
2020	26,970,247,449	604,876,316	0.02243	24,570,000	27,050,000	A	24,570,000	0	0	0
2021	28,588,462,296	629,071,369	0.02200	52,111,400	11,160,000		52,111,400	551,045	551,045	392,887
2022	30,303,770,033	654,234,223	0.02159	64,313,628	11,416,000	B	64,313,628	1,146,679	1,146,679	764,081
2023	32,121,996,235	680,403,592	0.02118	77,015,901	11,520,000		77,015,901	1,388,480	1,388,480	864,676
2024	34,049,316,009	707,619,736	0.02078	90,076,219	11,520,000		90,076,219	1,631,340	1,631,340	949,455
2025	36,092,274,970	735,924,525	0.02039	103,397,743	0		103,397,743	1,871,982	1,871,982	1,018,234
2026	38,257,811,468	765,361,507	0.02001	105,465,698	0		105,465,698	2,108,289	2,108,289	1,071,747
2027	40,553,280,156	795,975,967	0.01963	107,575,012	0		107,575,012	2,109,880	2,109,880	1,002,389
2028	42,986,476,966	827,815,005	0.01926	109,726,512	0		109,726,512	2,111,472	2,111,472	937,519
2029	45,565,665,584	860,927,606	0.01889	111,921,042	0		111,921,042	2,113,066	2,113,066	876,847
2030	48,299,605,519	895,364,710	0.01854	114,159,463	0		114,159,463	2,114,661	2,114,661	820,102
2031	51,197,581,850	931,179,298	0.01819	116,442,652	0		116,442,652	2,116,257	2,116,257	767,029
2032	54,269,436,761	968,426,470	0.01784	118,771,505	0		118,771,505	2,117,854	2,117,854	717,390
2033	57,525,602,966	1,007,163,529	0.01751	121,146,935	0		121,146,935	2,119,452	2,119,452	670,964
2034	60,977,139,144	1,047,450,070	0.01718	123,569,874	0		123,569,874	2,121,052	2,121,052	627,543
2035	64,635,767,493	1,089,348,073	0.01685	126,041,272	0		126,041,272	2,122,652	2,122,652	586,931
2036	68,513,913,542	1,132,921,996	0.01654	128,562,097	0		128,562,097	2,124,254	2,124,254	548,948
2037	72,624,748,355	1,178,238,876	0.01622	131,133,339	0		131,133,339	2,125,858	2,125,858	513,422
2038	76,982,233,256	1,225,368,431	0.01592	133,756,006	0		133,756,006	2,127,462	2,127,462	480,196
2039	81,601,167,252	1,274,383,168	0.01562	136,431,126	0		136,431,126	2,129,068	2,129,068	449,120
2040	86,497,237,287	1,325,358,495	0.01532	139,159,748	0		139,159,748	2,130,675	2,130,675	420,055
2041	91,687,071,524	1,378,372,835	0.01503	141,942,943	0		141,942,943	2,132,283	2,132,283	392,871
2042	97,188,295,815	1,433,507,748	0.01475	144,781,802	0		144,781,802	2,133,892	2,133,892	367,447
2043	103,019,593,564	1,490,848,058	0.01447	147,677,438	0		147,677,438	2,135,502	2,135,502	343,667
					102,696,000	C		44,783,152	44,783,152	15,583,520

Notes:

- **A** Assumes 10% of Hotel value added
- **B** Assumes 10% of Building 2 added
- **C** Total estimated project value
- **D** Maximum amount of TIF that would be recoverable, today's dollars, 100% of taxes
- **E** Percentage of tax revenue required to recover cost at 7% risk rate
- **F** Percentage of tax revenue required to recover cost at lowest estimated City borrowing cost

NPV= **15,583,520** **D** 15,583,520

ASSUMPTIONS:

Annual Increase in Citywide Tax Base	6.00%
Annual Increase in Tax Levy	4.00%
Annual Increase in Assessment after constructi	2.00%
Percent of Estimated Increment Available	100.00%
Assumed Interest Rate (Risk Rate)	**7.00%**
NPV Assumes Discounting to	2015
Est. Project Value	**$ 102,696,000**

At Standard 7% Risk Rate

NPV of Tax Pmts	$ 15,583,520	% of Taxes
Total City Subsidy	$ 46,700,000	**300%** **E**

At 3% Discount Rate (low G.O. Borrowing Cost)

NPV of Tax Pmts	$ 25,689,369	% of Taxes
Total City Subsidy	$ 46,700,000	**182%** **F**