



November 1, 2013

Mr. George E. Austin, Judge Doyle Square Project Director
Room LL-100, Madison Municipal Building
215 Martin Luther King Jr. Blvd.
Madison, WI 53703-3346

Re: Judge Doyle Square – JDS Staff Team Questions/Issues
Madison, WI

Dear Mr. Austin:

In our efforts in developing a response to the questions/issues of your October 28, 2013 we wish to in advance express some issues and concerns we have with the October 28, 2013 **Preliminary Financial Analysis of Proposals** presented to the JDS Staff Team. We do not believe this Financial Analysis fairly represents an accurate comparison of the competing proposals and fails to place an emphasis on the identified *“main reason for undertaking this project is to achieve the room block for Monona Terrace”*. Your review and consideration of the following will be appreciated.

The **Financial Analysis** presented to the Staff Team does state Journeyman is delivering “more hotel rooms” but we believe is far short in addressing the differences of a full-service Marriott hotel we have proposed to an unidentified flag of “Select to full service, mid to upscale pricing” hotel. The Staff Team may want to give consideration to the potential cost differences of the hotel products proposed and we reference the 2012/2013 HVS HOTEL DEVELOPMENT COST SURVEY that identifies an average development costs of a full-service hotel of \$260K/Key vs. \$123K/Key for a mid-scale hotel with F&B. The Staff Team might note that our RFQ response submitted a full/select service mix but for our RFP response we elected to present a full-service product which by far will best serve the Monona Terrace. Should a smaller and lesser product be desired, we could deliver a total of 312-Keys in full/select service hotels (~50/50 mix) at a cost ~\$11M less than we proposed.

Further, our meeting program of 25,000+ GSF is close to the minimum we believe this hotel will need for the hotel to support Monona Terrace. If others can be convinced that 10,000 to 15,000 square feet are adequate our budget could be adjusted by approximately \$3.5M (15,000 sf) to \$5.3M (10,000 sf). The Staff Team might benefit from developing a better understanding of why the additional room block for Monona Terrace is desired and how the significant differences in the hotel products proposed could assist the City’s ability “to attract convention business, bring substantial returns to the local economy” and “provide the kind of revenue politicians like best: taxes paid by people who vote somewhere else”. It might also be worth considering that “the average conference delegate spends approximately 2.0 to 2.5 times the amount spent by ‘recreational tourists’ on a daily basis”, and the convention hotel we propose has the specific elements that address such delegate guest needs.

We disagree with your **Key Preliminary Findings** that “Generally, the hotel proformas for both proposals appear to be consistent with industry standards”. We note that our proforma reflects food & beverage revenues in the 3rd (1st stabilized) year of ~\$6.1M (\$17,300/room) as compared to ~\$1.8M (\$5,800/room) of the JDS proposal. For one to state such revenues are “consistent with industry standards” would require they acknowledge these are significantly different hotels.

Within the "Overview of Proposals" the **Financial Analysis** presented **does not** reflect in JDS-1 the costs of \$22.9M to replace the City offices which we believe should be considered as a "Public Investment". It is a requirement for them to complete their project. It also does not reflect the fact the city is giving away **The Historic Madison Municipal Building** at no cost with a present day value of at least 12 Million dollars and the total private cost of the JDS-1 & JDS-2 are incorrect, which indicates that their overall cost is less than they submitted. Additionally, a TIF is a loan to be repaid; where as an investment of 22.9M by JDS team is reflecting that it will not be repaid.

Within the "**Projected Daily Revenue Per Available Room**" we would disagree with the conclusion that the "JDS is more conservative with regard to room and food revenue projections", and as stated above, reflects either (1) a considerable lack of knowledge of the hotel industry or (2) the intent to deliver a lesser hotel product. The variance in RevPAR at Stabilization amounts reflected by both Journeyman and the City's Hospitality Consultant (HVS) compared to those of JDS might support such a conclusion.

In the "**Sources of Capital**" the **Financial Analysis** presented "assumes \$26 million cost of renovation for the MMB" and it would appear that the City has elected to accept the value presented in JDS-2. We note that Journeyman provided greater detail in our proposal that reflected an amount of \$17.65M for the MMB renovation, which reflects our belief that renovation of the MMB to remain as City offices is more cost effective. We would request this MMB cost variance be reflected in the table adjusting the gross amount to \$197M. It should also be noted that this is an alternate to our proposal not a requirement. Using this figure it would appear Journeyman is still delivering "more residential units, more private office, more hotel rooms, more parking" for \$19M less than that proposed by JDS-2. It is also worth noting that JDS-1 will benefit from ~\$3.6M of Historic Tax Credits that might be considered in your tax credit/equity comparisons.

We believe the "Hotel Development Cost Per Key" reflected for Journeyman of \$247,000 is inaccurate. Table A in Chapter 14 of our proposal reflects what we consider to be the accurate value of \$273,000.

In the "**Tax Base Created**" slide the amount of public investment is also inaccurate. If you include a building value for the MMB and the 22.9 million for the offices in JDS-1 the tax base creation is less than the investment and regardless in the JDS-2 graph it should include the 25.9 million for city offices also to show the value to investment is minimal.

In the "**Uses of Capital**" slide the Journeyman total is incorrect it should be 179 million with an alternate bar for the cost of MMB alternate, with a graph of a total cost of 197 million. It's amazing that you show the correct amount for the JDS proposals here.

In the JDS-1 Block 88 Financial Structure we believe it would be appropriate to consider the costs of \$22.9M for new City offices on Block 105 as a further "public investment" increasing the total public investment to 49Million. We believe this represents a fairer comparison to the \$40M public investment identified for our proposal; and we again wish to note we are delivering 44 more rooms in hotel of known quality for less "public investment". This argument is further supported by the fact that in the JDS-1 Block 105 Financial Structure the \$22.9M for new City offices is not even identified.



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We are deeply concerned with the in inaccurate and inconsistent nature of the preliminary analysis as it relates to public support requested for the competing proposals. It portrays an unfair and inaccurate analysis resulting in potential negative public opinion of our proposal. We are simply requesting that the City of Madison provide a corrected analysis that includes all sources of requested public investment in the project and accurate numbers as it relates our pro forma. Your review and response to this correspondence will be appreciated.

Respectfully Submitted,

Journeyman Group



Harley Blackburn
Vice President

