



DATE: March 18, 2016

TO: Board of Estimates

FROM: Judge Doyle Square Negotiating Team

RE: Informational Report Following the Judge Doyle Square Development Team Interviews on March 9, 2016

### **Introduction**

On Wednesday, March 9, 2016, the Board of Estimates interviewed Beitler Real Estate Services Joint Venture and Vermilion Enterprises. At the interviews, each development team made modifications to its respective proposal in response to questions from the City of Madison.

This informational report is intended to serve as an Addendum to the Judge Doyle Square Negotiating Team's February 12, 2016 Report to the Board of Estimates.

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

### **Changes to the Key Elements of the Beitler and Vermilion Proposals**

The Beitler team was asked to consider placing some of its parking below grade and to address how such a change would impact the proposal and the financing plan. Beitler responded by providing an Option B that would place 608 parking stalls below grade on Block 88 to replace the Government East facility. With this change, 144 apartment units would be built above two floors of retail/office (33,400 square feet) and three levels of parking to serve the apartment (200 parking stalls). The City's cost to replace Government East would increase by approximately \$12.67 million. Beitler proposes to lease the Block 88 air rights for the apartment project starting at \$180,000 in Year 1.

- The Vermilion team was asked to describe changes it would make to its proposal to reduce the required City TIF assistance for the project to \$25.0 million. Vermilion responded by further refining their original concept to reduce the total development cost from \$194 million to \$180 million, resulting in a reduction in the total public investment of \$3.0 million. To accommodate above grade parking on levels 1 – 4 Block 105, the number of apartments was decreased from 125 to 86 units on Block 105 and the office component was increased to 102,000 square feet from 94,500 square feet on

Block 105. In addition, Vermilion offered the following options to further reduce the public investment:

- A shared parking concept was introduced to reduce 26 to 34 parking stalls for an up-front cost savings of \$1.12 million to \$1.45 million.
- The size of the replacement public parking could be reduced to the RFP required minimum replacement of 560 stalls (a reduction of 52 to 67 stalls from the original proposal for an estimated cost savings of \$2.24 to \$5.0 million respectively depending upon a partial above grade or below grade parking option being selected).

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

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



## Changes to the Financial Elements of the Beitler and Vermilion Proposals

|   | <b>BEITLER</b>  |  | <b>VERMILION</b>   |  |
|---|---|--|--|--|
|   | Original Proposal<br><b>Aboveground</b>   | Option B<br><b>Underground</b>   | Original Proposal<br><b>Underground</b><br>(as modified on<br>3/9/16)  | Option B<br><b>Partial</b><br><b>Aboveground</b>   |
| 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<br><small>could have up to 23,450<br/>s.f. depending on<br/>allocation to retail</small>  | 19,545   | 17,629<br><small>11,000 s.f. ballroom and<br/>4 meeting rooms</small>  | 17,629<br><small>11,000 s.f. ballroom<br/>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   |
| <b>Total Cost</b>   | <b>\$125 million</b>  | <b>\$170 million</b>   | <b>\$194 million</b>   | <b>\$180 million</b>   |
| 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   |
| <b>Total Private Contribution</b>                                 | <b>\$99 million</b>   | <b>\$131 million</b>   | <b>\$147 million</b>   | <b>\$136 million</b>   |
| <b>Total Cost less Private Contribution ("Gap")</b>               | <b>\$26 million</b>   | <b>\$39 million</b>  | <b>\$47 million</b>  | <b>\$44 million</b>  |
| 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  |
| <b>Direct Public Investment</b>                                   | <b>\$26 million</b>   | <b>\$39 million</b>  | <b>\$47 million</b>  | <b>\$44 million</b>  |
| City Land Value -- <b>Indirect Public Investment</b>              | <b>\$6.5 million*</b>   | <b>\$11 million+</b>   | <b>\$11 million+</b>   | <b>\$11 million+</b>   |
| <b>Public Investment before Land Sale Proceeds</b>                | <b>\$32.5 million</b>   | <b>\$50 million</b>  | <b>\$58 million</b>  | <b>\$55 million</b>  |
| <b>Net Land Sale Proceeds</b>                                     | <b>-\$5 million*</b>  | <b>-\$7 million*</b>   | <b>-\$2 million</b>  | <b>-\$2 million</b>  |
| <b>Total Public Investment</b>                                    | <b>\$27.5 million</b>   | <b>\$43 million</b>  | <b>\$56 million</b>  | <b>\$53 million</b>  |
|   | <small>* Block 105 lease of<br/>\$575,000 / year for 10<br/>years using 3% discount<br/>rate; City would continue<br/>to own Block 88</small> | <small>* Block 88 lease of<br/>\$180,000 / year for 10<br/>years and Block 105<br/>lease of \$575,000 /<br/>year for 10 years using<br/>3% discount rate</small> | <small>+Appraised value of both<br/>blocks, less value of<br/>space allocated for<br/>replacement of<br/>Government East parking</small> | <small>+Appraised value of<br/>both blocks, less value<br/>of space allocated for<br/>replacement of<br/>Government East<br/>parking</small> |
| <b>Estimated Assessed Value of Project</b>                        | <b>\$58 million</b>   | <b>\$87 million</b>  | <b>\$76 million</b>  | <b>\$70 million</b>  |
| <b>Assessed Value Added per TIF Invested</b>                      | <b>5.3 to 1</b>   | <b>3.6 to 1</b>  | <b>2.4 to 1</b>  | <b>2.4 to 1</b>  |
| <b>New TIF from Project Value</b>                                 | <b>\$12 million</b>   | <b>\$18 million</b>  | <b>\$15 million</b>  | <b>\$14 million</b>  |
| <b>TIF from remaining time in TID 25 from Project Value</b>       | <b>\$3 million</b>  | <b>\$4 million</b>   | <b>\$3 million</b>   | <b>\$3 million</b>   |
| <b>Estimated post-2014 TID 25 Balance with Project</b>            | <b>\$39 million</b>   | <b>\$40 million</b>  | <b>\$39 million</b>  | <b>\$39 million</b>  |

## **Notes to the Financial Chart**

In its below grade parking proposal, Beitler adds a 144 unit apartment building on Block 88. Based on a preliminary review by the City Assessor, this structure would be valued at \$29 million, increasing the value of the development by 50% compared with the above ground parking proposal. This proposal requires \$13 million more in TIF support than the above ground option and generates \$6 million more in TIF incremental revenues under a 27 year TIF projection.

Beitler is also proposing to enter into a ground lease with the City on Block 88, similar to the ground lease on Block 105 in its initial above ground proposal. The additional lease revenue from Block 88, combined with Block 105 lease revenues, is anticipated to generate \$7 million in present value over a 10 year period at a 3% discount rate (in other words, the City could use the revenue stream to support an estimated \$7 million in GO debt for the project at today's interest rates). The present value of the lease revenues, combined with the estimated TIF revenues from the project value, would cover the cost of the public subsidy.

One point to consider regarding the ground lease is that it may result in the City taking on the risk of debt repayment rather than the developer. Revenues from the ground lease are dependent on the ability to charge a certain level of apartment rents and hotel room rates and achieve a certain occupancy rate. The developer could attempt to work with lenders to provide additional debt with the revenue stream. Lenders may have expressed to the developer that the risk is too great and that more equity would be needed, reducing the overall return on the developer's investment. Instead, Beitler is proposing that the City take on the risk that the revenue from the residential and hotel properties would be sufficient to fulfill the ground lease between the developer and the City. If the City proceeded with a GO borrowing based on revenues from the ground lease, and those revenues fell short, property taxes would have to make up the difference. If the City chooses to proceed with Beitler, the ground lease provisions will be a critical negotiating point.

The Vermilion partial above ground parking proposal generates less assessed value and requires less TIF support than its below grade parking proposal. This is due to replacing space for apartments with parking. The Vermilion above ground parking proposal still requires more TIF than the Beitler proposal (\$29 million for Vermilion compared with \$11 million for Beitler) due to providing approximately 163 more parking stalls at an overall higher cost per stall (\$41,007 per stall for Vermilion compared with \$28,571 for Beitler) to support additional development that creates more assessed value (\$70 million for Vermilion compared with \$58 million for Beitler). As described above, the Vermilion TIF gap can be reduced by a total of \$3.1 million (to \$26 million) by reducing the number of parking stalls.

## **Racial Equity and Social Justice Element**

A team including staff from the Department of Civil Rights ("DCR"), City Attorney's Office, the Racial Equity Social Justice Initiative Team, and the Judge Doyle Square Negotiating Team will use the Racial Equity & Social Justice Tool (Comprehensive Version) to assess both proposals. That analysis which includes recommendations will be completed by April 7 and available to the Board of Estimates prior to its April 11 meeting.



Please note that during the last iteration of the Judge Doyle Square project, a Memorandum of Understanding was executed to adopt goals for minority hiring, which were considered vague by some. Upon analysis by the City Attorney's Office, it was determined that any additional goals specifying percentages for minority hiring were not legally enforceable by the City. The City was not able to reach into the hiring practices of a private business.

### **Parking Element**

Both development teams have had an initial meeting with the Negotiating Team at which (and in writing prior to) the design of the proposed ramps were preliminarily discussed. Traffic Engineering and Parking Utility staffs have identified issues to be addressed when the negotiation and land use approval processes commence. The parking solutions proposed by each development team need additional design modification going forward.

Vermillion proposes two discrete parking ramps be built, one on Block 88 and one on Block 105, and the replacement public parking will be provided in both ramps. The Block 105 access to parking will be blocked by traffic queues from the King Street traffic signal. A connection underneath Pinckney Street is needed to allow the public to circulate to other entrances/exits on Doty and Wilson Streets. This connection will reduce traffic circulation on the surface streets and improve overall conditions for pedestrians. This connection was not provided due to cost. If the subterranean Pinckney Street connection cannot be made, it will be important that multiple access points be provided for the two discrete ramps to operate effectively. An access from a Pinckney Street driveway should be considered, which would operate similarly to the entry to the Government East ramp from Pinckney Street today. The proposed Block 88 parking ramp does not have access to Doty Street, which will also need to be addressed.

Beitler proposes one public ramp on Block 88 and a separate ramp for the private accessory parking on Block 105. The proposed Block 88 ramp has public parking access only available from Wilson Street. To reduce traffic circulation and minimize conflicts with pedestrians, access should be provided from both Doty Street and Wilson Street. As an additional note, the cost per stall for Beitler's Block 88 proposal includes all development costs for the retail component. As such, the cost per stall cannot be easily compared to Vermillion proposal without further analysis. In addition, without separating the development costs for parking vs retail, the actual cost per stall is overstated.

### **Schedule**

The timeline to negotiate and approve a project remains important. In its February 12<sup>th</sup> Report, the Negotiating Team suggested that a development team be chosen for final negotiations by the end of March. Due to the interview scheduling and the Board of Estimates' meeting schedule, that will not be able to be achieved.

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. In order to accomplish that goal, BOE must address the relative importance of the key considerations identified in the February 12th Report (attached at the end of this Report), and direct any additional follow up to be carried out by the City Negotiating Team in advance of the April 11 meeting.

Common Council action would be needed **on April 19**. This would allow a maximum of 62 days to negotiate the final 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 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.

## Excerpt from the February 12, 2016 Negotiating Team Report to the Board of Estimates

The initial review of the updated Beitler and Vermilion proposals show two very different approaches to the Judge Doyle Square project. Considering the potential choices and tradeoffs presented by the two proposals now, prior to engaging the process in finer detail, would be beneficial to an efficient and effective execution of the negotiation process and the preparation of a development agreement.

Having clear statements from the Board of Estimates and the Common Council about the relative importance of the key tradeoffs should inform the structure of the negotiation going forward (with whom to negotiate) the negotiation strategy (key outcomes of the negotiation), and ensure the time of our public or private partners is used as effectively as possible.

Some basic questions for the Board's consideration are:

Hotel:

- Do you have a preference for the two hotel products that have been submitted?
- Is the number of hotel rooms above 250 a material issue for you?
- Does the amount of meeting space proposed complement Monona Terrace's needs?
- Is there a strong preference for the hotel to be built on Block 88 or Block 105 and if so, does that outweigh other factors in the decision?

Parking:

- 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)?
- Is the loss of about 250 stalls during construction under the Vermilion proposal something the City is willing to accept?
- Is an above ground ramp an acceptable use for the back half of Block 88?

Financing:

- Is the City willing to receive less than fair market value for the property rights to be acquired?
- Are you willing to maximize the incremental property value at any public investment cost?

Project Design:

- Are there any design considerations or concerns upon your initial review of the proposals?

Labor Peace:

- The City Attorney's Office believes a labor peace agreement for the operation of the hotel can't be required as a condition of the Beitler team since there aren't any public funds being invested in the private portion of the project. In addition, the Vermilion team has indicated concerns with the requirements as presented in the 9/30/15 adopted language. How should we proceed on this issue?