



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

FROM: Judge Doyle Square City Negotiating Team

RE: Report to the Mayor and Common Council

Date: August 22, 2014

Summary and Next Steps

As directed by the City Council, the Judge Doyle Square Negotiating Team has been working with JDS Development LLC regarding a development concept that meets the goals set forth in #RES-14-00161. Through regular briefings of the Board of Estimates, the Negotiating Team has conveyed the design concepts and the associated financing implications. At its July 28, 2014 meeting, the Board of Estimates communicated that the development concept needs to be adjusted in order to significantly reduce the level of public TIF investment in the project.

In accordance with the Board of Estimates direction, the Negotiating Team requests that the negotiation period be extended through October 15, 2014 (and prior to the final consideration of the 2015 Capital Budget) to allow the City Negotiating Team and JDS Development LLC to frame alternatives that will significantly lower the level of City investment for further consideration and direction.

Introduction

The City Council, by its adoption of Resolution # RES-14-00161 on February 25, 2014, directed that the City "enter into negotiations with JDS Development LLC for a final development agreement to undertake the Judge Doyle Square development and to report back to the Common Council by August 15, 2014."

This report will provide the following information:

1. a recap of RFQ/RFP Process and direction to the City Negotiating Team;
2. an overview of the negotiation phase from February 26 to August 15, 2014 including a summary of the negotiation status; and

RFQ/RFP Process and Direction to the Negotiating Team

The issuance of a Request for Qualifications (RFQ)/Request for Proposals (RFP) was the product of a significant planning and decision process with the Common Council. On July 17, 2012, following Council directives in February and June of 2011, the Common Council directed the Judge Doyle Square Staff Team to draft an RFQ for development teams for Judge Doyle Square (Blocks 88 and 105) using the Findings and Recommendations of the Judge Doyle Square Staff Team Report and the Blocks 88 and 105 studies as the basis of the RFQ/RFP. The Common Council also established the Judge Doyle Square citizen committee to oversee the RFQ/RFP process.

The Common Council reviewed and approved the issuance of the RFQ on February 5, 2013, and directed the Judge Doyle Square Committee to (1) review the RFQ submissions and recommend to the Common Council those teams to be invited to participate in the RFP stage, the second stage of the Judge Doyle Square selection process and (2) recommend the proposal requirements for the RFP stage by the end of June 2013; and

On February 18, 2013, the RFQ was issued and four responses were received by the submittal deadline of April 30, 2013. The Judge Doyle Square Committee (1) established an RFQ selection process and criteria on April 15, 2013, (2) invited three of the four responders on May 9, 2013 for an interview (one responder withdrew from consideration after the invitation was extended), (3) conducted the two interviews on May 16 and 29, 2013 along with reference checks of the two teams. The Judge Doyle Square Committee (1) administered the selection criteria on June 11, 2013 and determined that the JDS Development LLC and the Journeyman Group have the experience, capability and project concept that meets or exceeds the City's expectations and (2) received and reviewed the draft Request for Proposals (RFP) document from the Staff Team; and

The Common Council on July 16, 2013, (1) reviewed and approved the RFP for the Judge Doyle Square project; (2) invited JDS Development LLC and the Journeyman Group to participate in the RFP stage and (3) directed the Judge Doyle Square Committee to review the RFP submissions and to recommend a Judge Doyle Square development team for the Common Council's consideration by the end of November 2013. The Request for Proposals was issued on July 17, 2013 and two responses were received by the submittal deadline of September 30, 2013.

The Judge Doyle Square Committee (1) established an RFP selection process and criteria on September 17, 2013, (2) conducted the two development team interviews on October 14 and 16, 2013; (3) held a public feedback meeting on November 5, 2013, (4) received a staff report from the Judge Doyle Square Staff Team on October 28 and December 2, 2013, and (5) solicited additional feedback from the development teams on December 16, 2013 and January 28, 2014; and

The Judge Doyle Square Committee completed its analysis of the two RFP responses on February 3, 2014 and found that JDS Development LLC offered the best combination of project features, feasibility and development attributes which would strike the most advantageous balance for achieving the City's Judge Doyle Square goals and the potential best overall value. Having held 18 meetings since the Committee members were appointed by the Common Council in October 2012, it concluded its work and recommended that the Common Council provide negotiating instructions for the Mayor and Judge Doyle Square Staff Team in the negotiation of a final development agreement.

On February 25, 2014, the Common Council directed that the City enter into negotiations with JDS Development LLC to undertake a mixed use development called Judge Doyle Square. In approving that action, the Common Council memorialized the following Preamble to the Resolution, as follows:

Judge Doyle Square represents an important opportunity to add another dynamic and high quality, tax-generating development for the benefit of the City and its other taxing jurisdictions on two currently tax-exempt parcels. Judge Doyle Square can be a destination for residents, employees and visitors by expanding and unifying the restaurant and entertainment district on the south side of the Capitol Square. It's the first City initiated development project as a result of the new downtown plan and is intended to:

- *Utilize two City-owned, tax-exempt parcels to significantly expand the City's tax base and employment by replacing an obsolete parking facility, activating South Pinckney Street and improving the pedestrian connections between the Square and Monona Terrace;*
- *Unlock the development potential of the sites through careful selection of mixed uses that includes residential, retail, restaurant, bicycle and parking facilities, and a hotel;*
- *Retain and grow the business of the Monona Terrace Community and Convention Center;*
- *Increase economic and retail activity from additional convention attendees, visitors, downtown workers and residents.*

The result of this effort will be a healthier downtown though increased property values, added employment opportunities and downtown residents, improved public facilities; and additional external capital injected into the region's economy by visitors to Madison.

To be successful however, the project must meet the City's land use and urban design objectives for the currently City-owned, underutilized and tax-exempt property on South Pinckney Street between East Doty and East Wilson Streets.

The Judge Doyle Square development must also be affordable for the taxpayers and be efficient in the use of the City's financial resources. The City has an unusual opportunity to fashion a project to re-build the functionally obsolete Government East parking ramp, using the property as a catalyst for new tax producing development. This opportunity can

significantly improve the walkability of the CBD which is the most important element to improve the CBD as a destination. The inclusion of a bicycle center will also address the City's multi-modal transportation objectives.

Providing an additional hotel room block would be a most important controllable issue to keep Monona Terrace a productive catalyst for attracting visitors, and the outside capital that visitors bring, to fuel our regional economy. In meeting this objective, the new hotel however must not compete with Monona Terrace. Equally important, the new hotel should minimize any negative impact on the existing downtown hotels during the absorption of the new hotel rooms into the marketplace.

Achieving these objectives must not harm the Madison Parking Utility's ability to implement its capital plan to maintain the City's parking facilities in the CBD over the next twenty years.

Finally, keeping the Madison Municipal Building (MMB) in civic use will help achieve the City's desire to maintain a nexus of City offices together in the CBD and continue the historic use of the building as an important civic building. The new structures in Block 88 must be of high design quality, respecting the design requirements of the MMB as a National Register of Historic Places building, and create a project design that is compatible with surrounding buildings and uses.

Overview of the Negotiation Phase

Following the Council's action to select JDS Development LLC to develop the project and authorize negotiations, the Mayor appointed the City Negotiating Team on March 10, 2014. The kick-off negotiating session was held on March 18, 2014.

A total of eleven negotiating sessions were held on April 8, 22 and 30, May 13 and 22, June 3 and 17, July 15 and 17, and August 1, and 15.

The Negotiating Team reported to the Board of Estimates on six occasions on March 31, April 14, May 12, June 9, July 7 and July 28. In addition, design workshops were held with City Staff and JDS Development on April 1 with follow-up sessions on April 22 and May 13.

At the June 9 meeting of the Board of Estimates, the Board provided feedback to the Negotiating Team on the orientation of the hotel tower on Block 88 in an east/west configuration on the block, including construction in the "U" of the Madison Municipal Building. The Negotiating Team also reported on the status of the design progression and the financial plan development (see chart below).

This plan is referred to the JDS Development LLC Option in the balance of the report.

| Core Objective | Plan Considerations |
|-----------------------------|--|
| Authentic Destination | A Unique Design Concept That Showcases Madison Built From Historic and Iconic Character of Monona Terrace and MMB |
| Meeting Space | A Complementary Program was Established with Monona Terrace Supporting Function Space and Breakout Rooms are Essential Networking / Technology / Social Areas are Critical |
| Room Count | 300+ Rooms with 250 Room Block |
| Civic Design Character | Engaging and Active Public Spaces |
| Integrated Development Plan | Planning for MMB and adjacent hotel should be thought of as an integrated development process |
| Viable Finance Plan | Public Investment in Core Civic Assets Program to Maximize Tax Base and Fiscal Returns |

Negotiations on the JDS Development LLC option proceeded in June and July. On July 28, 2014, the Negotiating Team provided a comprehensive overview of the development and financial elements of the plan that had been preliminarily reviewed at the June 9, 2014 Board of Estimates meeting,

As Attachment A to this report, four charts are provided on the financial elements of the approach: (1) Program Summary; (2) Sources and Uses of Funds; (3) Investment Summary and (4) a history of the estimated cost and level of TIF support indicating its relative consistency throughout the earlier staff team review, RFQ, RFP and negotiating processes to date.

As Attachment B to this report, a summary of the estimated economic impacts is also provided of the JDS Development LLC option. The table in the attachment shows the net present value (NPV) associated with the TIF increment from the development, and the annual and net present value estimates of room taxes, state sales taxes and county sales taxes from the proposed development.

The direction provided to the Negotiating Team by the Board of Estimates on July 28 was to significantly reduce the public investment in the project.

Reduction of the overall cost and public investment is possible. To accomplish this level of reduction in development cost and City participation will require changes to the configuration, design, size and individual project elements of the Judge Doyle Square project. To properly evaluate these options, the City Negotiating Team needs additional time to work with the development team to bring forward alternatives to accomplish the Board of Estimates directive.

Based on the review of the status with the JDS Development LLC following the July 28th Board of Estimates meeting, JDS Development LLC has indicated that it wants to continue to work for a successful outcome for Judge Doyle Square, and is prepared to work with the City to evaluate alternate development concepts to achieve the City's objectives.

Attachment A
Summary of Financial Elements of the JDS Development LLC Option
July 28, 2014

Program Summary

Block 88

| | |
|--|--------------------|
| Parking Area | 127,680 GSF |
| Parking Drive Connection | 2,130 GSF |
| Civic and Public Circulation | 36,445 GSF |
| <i>Vertical Transportation – Public</i> | <i>8,070 SF</i> |
| <i>Circulation – Public</i> | <i>5,740 SF</i> |
| <i>East West Public Connection</i> | <i>1,085 SF</i> |
| <i>North South Public Connection</i> | <i>2,670 SF</i> |
| <i>Civic Gathering Space</i> | <i>7,110 SF</i> |
| <i>Civic Space Circulation and Support</i> | <i>11,770 SF</i> |
| | |
| Hotel | 190,110 GSF |
| Meeting Rooms | 16,450 GSF |
| Dining Component | 11,760 GSF |
| Wellness | 8,365 GSF |
| Retail | 12,085 GSF |
| | <hr/> |
| Total Gross Building Area | 405,025 GSF |

| | |
|----------------|-----|
| Hotel Rooms | 311 |
| Parking Stalls | 283 |

Block 105

| | |
|----------------------------------|--------------------|
| Parking Area | 292,445 GSF |
| Loading Dock | 6,260 GSF |
| Bike Center | 4,900 GSF |
| Retail | 6,260 GSF |
| Residential | 187,705 GSF |
| | <hr/> |
| Total Gross Building Area | 497,570 GSF |
| | |
| Residential Units | 140 |
| Parking Stalls | 698 |

Sources and Uses of Funds

| Block 88 | Block 105 | Overall Project (Block 88 + Block 105) |
|-------------------------------|------------------------------------|--|
| SOURCES OF FUNDS | | |
| Equity | Equity | Equity |
| 19,780,000 | 10,095,000 | 29,875,000 |
| Debt | Debt | Debt |
| 45,230,000 | 23,553,000 | 68,783,000 |
| Public Investment | Public Investment | Public Investment |
| 43,215,000 | 3,977,000 | 47,192,000 |
| | City Parking & Bike Center Funding | City Parking & Bike Center Funding |
| | 28,325,000 | 28,325,000 |
| TOTAL | TOTAL | TOTAL |
| \$ 108,225,000 | \$ 65,950,000 | \$ 174,175,000 |
| USES OF FUNDS | | |
| Site Acquisition | Site Acquisition | Site Acquisition |
| \$ - | \$ 2,800,000 | \$ 2,800,000 |
| Demolition & Site Preparation | Demolition & Site Preparation | Demolition & Site Preparation |
| 1,643,030 | 1,446,778 | 3,089,808 |
| Construction and FF&E | Construction and FF&E | Construction and FF&E |
| 81,279,712 | 46,936,839 | 128,216,550 |
| Architecture and Engineering | Architecture and Engineering | Architecture and Engineering |
| 4,975,364 | 2,903,017 | 7,878,381 |
| Development / Soft Costs | Development / Soft Costs | Development / Soft Costs |
| 20,326,894 | 11,863,366 | 32,190,260 |
| TOTAL | TOTAL | TOTAL |
| \$ 108,225,000 | \$ 65,950,000 | \$ 174,175,000 |

Investment Summary

| (\$MM) | Block 88 | Block 105 | TOTAL |
|---|----------------|----------------|----------------|
| PRIVATE INVESTMENT | | | |
| Equity | \$ 19.8 | \$ 10.1 | \$ 29.9 |
| Tax Credit | \$ - | \$ - | \$ - |
| Debt | \$ 45.2 | \$ 23.6 | \$ 68.8 |
| Subtotal - Private Investment | <u>\$ 65.0</u> | <u>\$ 33.6</u> | \$ 98.7 |
| PUBLIC INVESTMENT | | | |
| Public Investment | \$ 43.2 | \$ 4.0 | \$ 47.2 |
| <i>Site Acquisition</i> | \$ - | \$ 2.8 | \$ 2.8 |
| <i>Block 88 Destination Elements</i> | \$ 29.1 | \$ - | \$ 29.1 |
| <i>Block 88 Parking</i> | \$ 14.1 | \$ - | \$ 14.1 |
| <i>Block 105 Infrastructure</i> | \$ - | \$ 1.2 | \$ 1.2 |
| City Parking & Bike Center Funding | NA | \$ 28.3 | \$ 28.3 |
| <i>Government East Replacement</i> | | \$ 22.3 | \$ 22.3 |
| <i>Residential Monthly Parking (140 Spaces)</i> | | \$ 4.7 | \$ 4.7 |
| <i>Bicycle Center</i> | | \$ 1.3 | \$ 1.3 |
| TOTAL | \$108.2 | \$ 66.0 | \$174.2 |

- Estimated cost and level of TIF support has remained relatively consistent throughout the staff team review, RFQ, RFP and negotiation process to date.

Project Cost Estimate Comparisons

| | 2012 Staff Team Report | Journeyman RFP Proposal | JDS 2 RFP Proposal | JDS Development LLC Proposal |
|--|-------------------------------|--------------------------------|---------------------------|-------------------------------------|
| Total Cost | \$192m | \$179m | \$190m | \$174m |
| Total Square Feet | 1,079,000 | 962,214 | 784,485 | 902,595 |
| Cost per Sq Ft | \$178 | \$186 | \$242 | \$193 |
| TIF Estimate (Journeyman and JDS 2 from staff analysis of RFP) | \$25m to \$50m | \$56m | \$49m | \$48m |
| TIF Share of Cost (exc. City Parking and Bike Center) | 15% to 30% | 36% | 29% | 31% |

Attachment B
Estimated Economic Impacts of the JDS Development LLC Option

The Judge Doyle Square project, as proposed by JDS Development LLC / Hammes Corporation in June 2014, would generate an estimated \$54.5 million of assessed value on Blocks 88 and 105. Of that amount, \$18 million is related to the hotel development; \$4.4 million is for retail development on Block 88 and the remaining \$32.1 million is associated with the retail and residential development on Block 105.

The figures in the table below rely on developer pro formas and TIF applications. Room taxes use the city’s current 9% tax rate applied against estimated hotel room revenues. The state sales tax rate is 5% and the county’s rate is 0.5%. These have been applied against all revenues generated by the hotel (rooms, food and beverage, parking, reception, and other departments). Revenues from retail activity on Blocks 88 and 105 and broader economic impacts associated with activating Pinckney Street and additional pedestrian connections to Monona Terrace are not included in this analysis.

Annual and net present value estimates of property taxes, room taxes, state sales taxes and county sales taxes are also shown in the table. While the sales taxes are not collected by the City, these do represent public revenues generated by the project. Room taxes are collected by the City, and could possibly be allocated to the project to reduce the TIF component of a financing approach. The developer pro formas have a 15 year horizon, the room and sales tax net present value estimates reflect that same time span.

| | |
|--|---------------|
| (\$ in millions) | |
| Hotel | 18.0 |
| Block 88 Retail | 4.4 |
| Block 105 | 32.1 |
| Assumed Project Assessed Value at Completion | \$54.5 |
| Annual Property Taxes | \$1.3 |
| 27 year TID Increment Generated (net present value) | \$13.6 |
| <u>Annual Tax Revenues at Stabilization (year 3)</u> | |
| Room Tax | \$1.1 |
| State Sales Tax | \$1.0 |
| County Sales Tax | \$0.1 |
| Annual Room Tax and Sales Tax related to Hotel | \$2.2 |
| <u>Room and Sales Tax Increment Generated (net present value --15 years)</u> | |
| Room Tax | \$13.8 |
| State Sales Tax | \$12.5 |
| County Sales Tax | \$1.2 |
| Room Tax and Sales Tax Increment related to Hotel | \$27.5 |