



DATE: February 12, 2016

TO: Board of Estimates

FROM: Judge Doyle Square Negotiating Team

RE: Informational Report on the Judge Doyle Square RFP Responses Received on January 19, 2016

## Introduction

On Tuesday, January 19, the City received two updated responses to its Request for Proposals (“RFP”) to develop Judge Doyle Square. The project will be located on a two-block area in downtown Madison encompassing Block 88, behind the Madison Municipal Building, and across South Pinckney Street on Block 105, the current site of City’s Government East parking garage. The project will unite the vibrant Capitol Square and the Monona Terrace Community and Convention Center with a significant mixed-use development opportunity potentially comprised of commercial, hotel, residential, retail and restaurant uses combined with parking and bicycle facilities, including the replacement of the Government East public parking ramp.

On November 17, 2015, the Common Council authorized the next steps in the Judge Doyle Square development process. Consistent with the Common Council’s earlier direction of May 19, 2015, the City invited the three teams (Beitler Real Estate Services Joint Venture of Chicago, IL; Doyle Square Development LLC, a joint venture of Urban Land Interests and the North Central Group of Middleton, WI; and Vermilion Enterprises LLC of Chicago, IL) that had submitted development proposals on May 1, 2015 to update their proposals since the exclusive negotiations with the fourth team, JDS Development LLC and Exact Sciences of Madison, WI, had concluded.

The Common Council also directed the City Negotiating Team to solicit confirmation from the three remaining development teams that they remained interested in their respective project proposals and to invite the three teams to make any desired revisions to their respective proposals and address the City’s required elements. Changes were to be submitted to the City by January 19, 2016, at 2pm.

Two development teams submitted updates to their proposals and remain interested in developing the Judge Doyle Square project: **Beitler Real Estate Services Joint Venture** of Chicago, IL and **Vermilion Enterprises, LLC** of Chicago, IL. **Doyle Square Development, LLC**, a joint venture of Urban Land Interests of Madison, WI and The North Central Group of Middleton, WI submitted a letter indicating that it “has thus far not been able to secure a commitment from a new hotel partner willing to advance the project under the terms the City has currently set forth.”

On November 17, 2015, the Common Council directed that the City Negotiating Team complete an initial review of all revised proposals, and to meet with the Board of Estimates and Common Council to obtain direction for future actions by the end of February 2016. To that end, the City Negotiating Team with the assistance of the Traffic Engineer/Parking Utility Manager, Monona Terrace Director and the TIF Coordinator have:

1. Reviewed the submissions to address the conformance of the proposals to the City's requirements;
2. Conducted a face-to-face meeting with each of the two remaining development teams on January 29 (Beitler) and February 1 (Vermilion) to address the Negotiating Team's questions and to clarify responses and provisions in the submissions; and
3. Prepared this informational report to the Board of Estimates for the Board's review and further direction to the Negotiating Team.

The history of the project, the goals for the development, the current RFP, as well as the proposal responses 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/).

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

Beitler Real Estate Services Joint Venture of Chicago, IL proposes to build a 621 stall parking garage to replace the Government East public parking ramp and 31,000 square feet of retail, food court, commercial and bicycle center on Block 88. A 252-room hotel, plus a 210-unit apartment building with 289 parking stalls to serve both uses is proposed for Block 105. The total project cost is estimated at \$125 million. Of that amount, \$26 million would be the City's responsibility to replace the Government East public parking ramp and create the retail/commercial space on Block 88. The developer is not seeking any City financial assistance for the Block 105 components.

Vermilion Enterprises, LLC of Chicago, IL proposes a 279-room hotel on Block 88 with ancillary restaurant and retail facilities. The proposal includes a 125-unit apartment building and a 94,000 square foot office facility with an additional 13,000 square feet of retail and bicycle facilities on Block 105. A total of 1,108 parking stalls, including 639 stalls to replace the Government East public parking ramp, are proposed for Blocks 88 and 105. The estimated total cost of the project is \$200 million. Public financing for the parking is estimated at \$50 million and no City financial assistance is proposed for the other components of the project.

The key features of the Beitler and Vermilion responses are provided in the chart below.

Team Name	Key Partners	Block 88 Concept	Block 105 Concept	Hotel Affiliation
Beitler	Beitler Real Estate Services LLC, Chicago, IL; Lothan Van Hook Destefano Architecture LLC, Chicago, IL	<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>• 252-room hotel with 15,635 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 (154 stalls)</li> </ul>	<ul style="list-style-type: none"> <li>• EVEN Hotel (InterContinental Select Service Brand) (Response included IC Hotels Group Commitment Letter)</li> <li>• No operator selected.</li> </ul>
Vermilion Group	Vermilion Development, Chicago, IL; EUA Architects, Madison, WI; Tri North Builders, Fitchburg, WI; Marcus Hotels & Resorts, Milwaukee, WI; Siegel-Gallagher Mgt Company, Milwaukee, WI	<ul style="list-style-type: none"> <li>• 279-room hotel with 17,629 of meeting space</li> <li>• 358-stall primarily below grade garage with 100 stalls for hotel and 258 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>• 750-stall primarily below grade garage (369 to serve the apts and office and 381 municipal parking) (Total public parking on both blocks is 639 stalls)</li> </ul>	<ul style="list-style-type: none"> <li>• Renaissance Hotel (Marriott Full Service Brand) (Response did not include Marriott Commitment Letter)</li> <li>• Marcus Hotels and Resorts operator</li> </ul>

**Conformance with the Request for Proposal (RFP) and Letter of Direction (LOD) Requirements**

The RFP issued by the City of Madison in February 2015 and the Letter of Direction issued to the development teams following the Common Council’s November 17, 2015 action both contained requirements to be followed by the development teams in submitting and updating their respective proposals for Judge Doyle Square. The RFP requirements (which are found on Page 8 of the RFP) and the Letters of Direction to the development teams are posted on the Judge Doyle Square website.

The chart below summarizes the respective requirements and the responses from the Beitler and Vermilion teams.

Item #	Proposal Requirement	Beitler	Vermilion
RFP #1	Propose on one or both blocks	Both	Both
RFP #2	MMB and MLK Blvd Notice	NA	NA
RFP #3	City ownership of parking	Yes (Developer to construct)	Yes (Developer to construct)
RFP #4	Maintain public parking during construction	Yes (621 stalls during phase II)	Yes (352 stalls during phase II)
RFP #5	High quality mixed use project	Yes	Yes
RFP #6	New walkable 200 block of Pinckney St	Yes	Yes
RFP #7	Priority to a large commercial user	No	No
RFP #8	Minimum 250 room hotel	Yes – 252 rooms	Yes - 279 rooms
	National Flag and Reservation System	Yes – InterContinental – select service product	Yes – Marriott - full service product
	Interesting Reasonably priced restaurant	Yes – Pricing unknown	Yes – Pricing unknown
RFP #9	Option for additional City office space	NA	NA
RFP #10	City financing limited to parking	No (retail on Block 88 would be City cost)	Yes
	Lease/Purchase of land at FMV	Yes	No
	No TIF for non-parking elements	Yes	Yes
RFP #11	Commitment to include labor provisions during const & operation	Yes	Yes
LOD a.	Strict adherence to RFP Requirements	See #1-#11 above	See #1-#11 above
LOD b.	Maintain 9/30 approved workforce and labor commitments	Not known/TBD	Not known/TBD
LOD c.	Fully below grade parking structure plan with above grade alternative	No – Above grade only	Yes- Primarily (willing to provide an above grade parking alternative)
LOD d.	250 room hotel room count	Yes	Yes
LOD e.	Financial guarantees per City policy	Response states the guarantees are NA	TBD - Identified exceptions to TIF Policy – Parking can't be financed with only 50% of increment and no private guarantees would be available
LOD f.	TIF Application	Response states the application is NA	To be submitted at a later date
LOD g.	Parking to be owned by the City	Yes	Yes
LOD h.	25 foot bldg setback from MMB	Yes	Yes

Neither Team has provided a response that meets all the requirements of the RFP or the Letter of Direction. The key areas of non-conformance are as follows:

Beitler:

1. *RFP #10 – No TIF for non-parking elements.* The proposed retail/office elements on Block 88 are proposed as publicly owned and financed elements.
2. *LOD b. - Maintain 9/30 approved workforce and labor commitments.* While the response states a commitment to include labor provisions during construction and operation, it doesn't address a commitment to the level of detail the Council approved workforce and labor provisions of 9/30/15.
3. *LOD c. - Fully below grade parking structure.* The public parking facility is proposed as an above grade ramp on Block 88. The accessory parking for the hotel and apartments on Block 105 is primarily an above grade ramp.

Vermilion:

1. *RFP #10 – Lease/Purchase of land at FMV.* The purchase of property rights on Blocks 88 and 105 from the City are not proposed to be acquired at fair market value.
2. *LOD b. - Maintain 9/30 approved workforce and labor commitments.* While the response states a commitment to include labor provisions during construction and operation, it doesn't address a commitment to the level of detail the Council approved workforce and labor provisions of 9/30/15.

## **Tax Increment District #25**

One of the key factors in moving forward with Judge Doyle Square is the potential use of resources in existing TID #25. The City is striving to maintain a balance in TID #25 equal to or greater than the amount on December 31, 2014, approximately \$19 million, for distribution to the taxing jurisdictions upon closure of TID #25. In addition, TID #25 provides resources to assist the City to replace an important piece of public infrastructure, the aging Government East parking facility which is a component of the Judge Doyle Square project.

Timing of the Judge Doyle Square project is a key element. TID #25 can legally remain open until September 19, 2022, for economic development and infrastructure projects, with one additional year of increment available for affordable housing projects. In order to utilize available TIF #25 funds to assist with the construction of the replacement Government East parking facility as a component of the project, the binding commitments must be in place by September 19, 2017. Any expenditure will require a TIF project plan amendment approval by both the Common Council and the Joint Review Board.

## **Financial Elements of the RFP Responses**

At this point in the process, the Negotiating Team has not analyzed the proposals in depth nor have any negotiations been initiated. However, from the proposals received and the follow-up discussions conducted with the respective teams, the City Negotiating Team can present an overall picture of the financial structure of the responses as proposed. The table on the following page summarizes the key elements of the Beitler and Vermilion proposals.

	<u>Beitler</u>	<u>Vermilion</u>
Hotel Square Feet	164,166	228,683
Residential Square Feet	192,215	142,018
Office Square Feet	in retail s.f.	94,445
Retail and Bike Center Square Feet	58,153	13,134
Parking Square Feet (est. for Beitler)	<u>347,855</u>	<u>394,533</u>
Gross Square Feet	762,389	872,813
Hotel Rooms	252	279
Hotel Style	Select Service	Full Service
Function Space Square Feet	7,818	17,629
	could have up to 23,450 s.f. depending on allocation to retail	11,000 s.f. ballroom and 4 meeting rooms
Parking Stalls	910	1,108
Public Stalls (Govt East Replacement; not needed for development)	581	599
City Fleet Stalls	40	40
<b>Total Cost</b>	<b>\$125 million</b>	<b>\$200 million</b>
Cost per Square Foot	\$164	\$229
Debt	\$64 million	\$105 million
Equity	<u>\$35 million</u>	<u>\$45 million</u>
<b>Total Private Contribution</b>	<b>\$99 million</b>	<b>\$150 million</b>
<b>Total Cost less Private Contribution ("Gap")</b>	<b>\$26 million</b>	<b>\$50 million</b>
TIF	\$11 million	\$35 million
Parking Utility	\$13 million	\$13 million
City Fleet Parking	\$1 million	\$1 million
Bike Center	<u>\$1 million</u>	<u>\$1 million</u>
<b>Direct Public Investment</b>	<b>\$26 million</b>	<b>\$50 million</b>
City Land Value -- Indirect Public Investment	\$6.5 million*	\$11 million+
<b>Public Investment before Land Sale Proceeds</b>	<b>\$32.5 million</b>	<b>\$61 million</b>
<b>Net Land Sale Proceeds</b>	<u><b>-\$5 million*</b></u>	<u><b>-\$2 million</b></u>
<b>Total Public Investment</b>	<b>\$27.5 million</b>	<b>\$59 million</b>
	* Block 105 lease of \$575,000 / year for 10 years using 3% discount rate; City would continue to own Block 88	+Appraised value of both blocks, less value of space allocated for replacement of Government East parking

Estimated Assessed Value of Project	\$58 million	\$76 million
Assessed Value Added per TIF Invested	5.3 to 1	2.2 to 1
New TIF from Project Value	\$12 million	\$15 million
TIF from remaining time in TID 25 from Project Value	\$3 million	\$3 million
Estimated post-2014 TID 25 Balance with Project	\$39 million	\$39 million

Some items of note from the table include the developed space in each proposal, number of hotel rooms, hotel style, and function space, and parking spaces. The overall cost, cost per square foot and amount of TIF requested is considerably different given the number of parking stalls, above vs below ground parking format, number of hotel rooms and overall size of the development. In addition, the cost per square foot for the Beitler proposal does not include the build out areas of the structure on Block 88 that might be used for retail or office space.

Regarding sale of City-owned land, Beitler proposes to make lease payments for use of Block 105. These lease payments would be derived from revenues generated by the hotel, residential and retail development on that block. In the table, the lease payments are estimated to generate approximately \$5 million on a net present value basis, assuming a \$575,000 annual lease payment over a 10 year term with 3% discount rate (this is the term and interest rate typically used for City general obligation debt). Vermilion has allocated \$2 million toward acquisition of land on both blocks, under the assumption that reasonable rates of return on equity invested in the project do not allow a higher payment for the property.

While the Vermilion proposal generates more assessed value, the Beitler proposal generates more property value per dollar of TIF invested. The Beitler proposal also appears to be able to generate sufficient TIF increment from a new TIF to cover the overall investment. This is not the case with the Vermilion proposal, although none of the previous proposals was able to generate sufficient increment to cover the entire amount of TIF funds invested.

On this latter point, the Council has considered using the estimated growth in incremental revenues from existing property value within TID 25 to help finance the Judge Doyle Square project. The final figures in the chart show the TID 25 balance at closure, net of the \$19 million balance at the end of 2014 which is planned to be set-aside for payment to the taxing jurisdictions when TID 25 is closed. As with previous Judge Doyle Square analyses, the Council will need to consider the extent to which TID 25 revenues are used to assist with financing the development.

### **Initial Considerations**

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 Vermillion 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 Vermillion team has indicated concerns with the requirements as presented in the 9/30/15 adopted language. How should we proceed on this issue?

**Concluding Comments**

On November 17, 2015, the Common Council directed that the City Negotiating Team complete an initial review of all revised proposals and meet with the Board of Estimates to obtain direction for future actions by the end of February. This report is intended as that initial review.

The City Negotiating Team recommends the following next steps for consideration:

1. The Board of Estimates determines at the February 15<sup>th</sup> meeting whether one, both or neither proposal proceeds in the process.
2. The Board of Estimates conducts a public interview of one or both teams prior to the end of February.
3. The Board of Estimates meets in March to:
  - a. addresses the relative importance of the key considerations identified in this Report;
  - b. recommends a development team to negotiate with and directs the next steps to be carried out by the City Negotiating Team (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).  
  
End of March – Project chosen  
April 15, 2016- TIF review materials submitted  
May 31 – Term sheet signed  
End of June – Term sheet for financing (CC - June 7, BOE - June 13, approved by CC - June 21)  
July 19 - Project Plan – CC intro  
9/2016 - JRB Approval  
October 31, 2016 (Statutory deadline) Certification materials to DOR
4. The Common Council receives and concurs in the direction recommended by the Board of Estimates prior to any additional work by the City Negotiating Team.