



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

FROM: Judge Doyle Square City Negotiating Team

RE: Transmittal Letter- Report to the Mayor and Common Council

DATE: November 3, 2014

The Judge Doyle Square Negotiating Team has completed its Report to the Common Council as directed by #RES -14-00624. In submitting this Report, the Negotiating Team wishes to reiterate that 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. 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; and
- Increase economic and retail activity from additional convention attendees, visitors, downtown workers and residents.

The result of this effort will be a healthier downtown through 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.

The Judge Doyle Square Negotiating Team believes the recommendations in the attached Report represent a more affordable path forward to achieve this exceptional development opportunity.



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Summary

As directed by the Common 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 adopted on February 25, 2014. On September 2, 2014, the Common Council extended the negotiation period with the selected Judge Doyle Square developer, directing the City Negotiating Team to work to significantly reduce the level of city financial participation for the project and to report back to the Common Council by November 1, 2014. The Resolution also directed that a "large floor plate" parking solution under Blocks 88 and 105 be studied.

The City Negotiating Team recommends that the Common Council authorize negotiations to continue with JDS Development LLC based on the recommended developments concepts presented in this report and to direct the City Negotiating Team to present a final development term sheet to the Common Council for consideration by May 1, 2015.

A summary of the Judge Doyle Square RFQ/RFP Phase and the Negotiation Phase to date is provided as Attachment A.

Negotiating Team Approach to Achieve the Common Council Directives

To significantly reduce the total development cost of the project and the resulting level of City financial participation in the project requires that major changes be made to the project. The City Negotiating Team and JDS Development LLC reached agreement on a series of objectives to guide its joint efforts to significantly reduce the level of city financial participation. The parties also concluded that the reduction in cost should not significantly diminish the opportunity for

the City to achieve a majority of its original development objectives set forth in the Request for Qualifications and Request for Proposals.

The major driver of the City's investment in Judge Doyle Square is the hotel component and modifications to the size and amenities of the hotel must be addressed to achieve any significant reduction in cost. The parties agreed that any changes to the hotel component must not jeopardize the primary intended benefits of the Judge Doyle Square project to the Monona Terrace Community and Convention Center. To guide the joint efforts of the negotiators to significantly reduce the City's financial participation, the following objectives were established:

1. **Move the hotel tower away from the east side of the MMB.** Simplifying the development by removing the extensive interface with the Madison Municipal Building will drive down cost. This will increase the building massing somewhat on Pinckney Street, however.
2. **Maintain the quality urban design elements of the project.** The RFQ/RFP objectives to screen parking from view and to use quality building materials and superior design to improve the streetscape of Pinckney Street and also be compatible with the structures around the project should be a focus for any City investment.
3. **Reduce the number of hotel rooms.** A 300 plus room hotel is larger than the market can support without significant public assistance. The developer believes the market supportable hotel would be sized in the 200 to 250 room range.
4. **Design the hotel to allow for its future expansion.** Building a market supportable hotel now will reduce the city's financial participation. Providing for the expansion of the hotel in the future when the market will support it will allow the City's goals to be achieved on a more efficient and affordable basis.
5. **Modify the required room block.** A smaller hotel will provide a smaller room block for Monona Terrace. The smaller room block however will provide immediate benefits for Monona Terrace and allows a phased attainment of the desired additional 250 room block over time.
6. **Downsize the meeting and civic spaces in the hotel.** By downsizing the majority of the civic spaces and meeting rooms from the Base Plan for the hotel, a significant portion of the City' required investment can be removed.
7. **Commit to a hotel brand to meet the needs of today's connected traveler.** By positioning the retail/restaurant/wellness components (typical in a traditional full service convention style hotel) of the mixed use project in a way that supports an urban style brand, additional development costs associated with a full service hotel development can be avoided.
8. **Keep Block 105 uses as presented with the exception of the large loading dock.** Eliminating the large consolidated loading dock on Block 105 will reduce cost.
9. **Maintain the bicycle center in Block 105.** The bicycle center was a required element in the RFQ/RFP.
10. **Provide an affordable option(s) for the Parking Utility's replacement parking.**

Options Selected to Significantly Reduce the Level of City Investment

The Base Plan, which was the subject of the initial stage of negotiations, provided a mixed use development of over 900,000 square feet on Blocks 88 and 105 with a total projected development cost of \$174.2 million with a combined City investment of \$47.2 million. The proposal included a 311 room full service convention headquarters style hotel on Block 88 with a development cost of \$108.2 million and a City investment of \$43.2 million.

Block 88		Block 105	
Parking Area	127,680 GSF	Parking Area	292,445 GSF
Parking Drive Connection	2,130 GSF	Loading Dock	6,260 GSF
Civic and Public Circulation	36,445 GSF	Bike Center	4,900 GSF
<i>Vertical Transportation – Public</i>	<i>8,070 SF</i>	Retail	6,260 GSF
<i>Circulation – Public</i>	<i>5,740 SF</i>	Residential	187,705 GSF
<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>		
		Total Gross Building Area	497,570 GSF
Hotel	190,110 GSF	Residential Units	140
Meeting Rooms	16,450 GSF	Parking Stalls	698
Dining Component	11,760 GSF		
Wellness	8,365 GSF		
Retail	12,085 GSF		
Total Gross Building Area	405,025 GSF		
Hotel Rooms	311		
Parking Stalls	283		

	Block 88	Block 105	TOTAL
(\$MM)			
PRIVATE INVESTMENT			
Equity	\$ 19.8	\$ 10.1	\$ 29.9
Tax Credit	\$ -	\$ -	\$ -
Debt	\$ 45.2	\$ 23.6	\$ 68.8
Subtotal - Private Investment	\$ 65.0	\$ 33.6	\$ 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

To achieve a significant reduction in the level of City investment, the negotiators selected two options for consideration. The first option is an urban mixed-use hotel with a national brand that has many full-service hotel attributes capable of creating at a reduced cost the environment the City is trying to achieve with the Judge Doyle Square development. The second option is a limited service style hotel with few amenities that would be a lowest cost alternative. These three options (the Base Plan as already presented, the urban mixed use option and the limited service option) will provide decision makers with an appropriate range of options for further consideration.

An urban mixed use hotel with 200-250 rooms

These hotels are designed for urban markets to meet the needs of today's connected traveler. The hotels are focused on style, technology and engagement and feature innovative concepts in architectural and modern hotel design, and great dining and nightlife. Brands that typify this type of product are Radisson Blu, W and Aloft.

A limited service hotel with 200-250 rooms

These hotels offer a very limited amount of on-site amenities and often only offer basic accommodations with little to no services. Limited service hotels often lack an on-site restaurant but in return may offer a limited complimentary food and beverage amenity such as on-site continental breakfast service. Examples include Hampton Inn, Holiday Inn Express and Fairfield inn.

Impact of a Smaller Room Block on Monona Terrace

Building a smaller hotel will result in a smaller room block at least until the time the hotel can be expanded. Achieving an additional room block was one of the key reasons to include a hotel component in the Judge Doyle Square project. The Request for Qualifications issued on February 12, 2013 stated the following objectives for the hotel component:

- Add hotel rooms within easy walking distance of the Monona Terrace Community and Convention Center.
- Provide an additional 250 room block for the Monona Terrace to grow its book of business.
- Develop hotel facilities that support and complement Monona Terrace.
- Address unmet opportunities for capturing the group, commercial and leisure travel sectors and periodic, peak demand.

Research completed by Aaron Olver, former Director of Economic Development for the City of Madison, and presented to the Board of Estimates on July 28, 2014, found the following market considerations for Monona Terrace:

- Monona Terrace's business is predominantly smaller events with 52% of conferences and conventions demanding less than 150 peak room nights and 75% demanding less than 250 peak room nights.
- However, this business is highly mobile and more easily accommodated by other local venues. And it accounts for only 42% of Monona Terrace's conference and convention revenue and 33% of its conference and convention economic impact (as measured by total room nights generated).
- Monona Terrace is currently most competitive trying to win business with 250 to 900 peak room nights. However, competitiveness is declining.
- Compared to other venues, Monona Terrace has comparatively few attached hotel rooms relative to its meeting space capacity (234-room Monona Terrace Hilton).
- Increasing the immediately adjacent room block substantially expands both the number of events Monona Terrace can compete for and, more importantly, the number of room nights it can generate. This expanded impact will spillover to other hotels and will likely displace additional smaller events into the marketplace. The goal is to compete less and attract more of the business that helps everyone.
- Shifting Monona Terrace's business mix toward conferences and conventions will increase revenue in a cost-effective way and stabilize and/or improve their bottom-line.

Regarding the room block issues, the report found that with a room block of 400 rooms (the total room block targeted in the original RFQ was 400 rooms, a combination of the existing 150 room block from the Hilton plus a 250 room block to be created from Judge Doyle Square), Monona Terrace could add 21 additional conventions and conferences with a revenue impact of \$677,733 per year. If the total room block was 350 rooms, the number of additional conventions and conferences would be 18 (a reduction of 3) and additional annual revenue of \$580,914 (a reduction of \$96,819). If the total room block was 300 rooms, the number of additional conventions and conferences would be 15 and the additional annual revenue to Monona Terrace of \$484,095.

From this data, we can conclude that a smaller additional room block of 150 to 200 rooms which would be achieved by a new 200 to 250 room hotel would have a substantial positive impact on the number of conventions and conferences that Monona Terrace can attract and provide a significant increase in Monona Terrace's annual revenues.

Aaron Olver's entire presentation can be found on the Judge Doyle Square website at: http://www.cityofmadison.com/planning/judgeDoyleSquare/documents/Monona_Terrace_Market_Analysis0728BOE.pdf.

Potential Reductions in Total Development Cost and Required City Investment

Urban Mixed Use Hotel

As stated above, the objective of the proposed urban mixed use hotel approach is to (1) reduce

the overall cost of the project by eliminating or significantly reducing in size the elements of the project that were included in the full service, destination hotel proposed in the Base Plan and (2) in their place, combine third party retail, restaurant and wellness elements to approach the quality level of a full service hotel as opposed to moving completely to limited service hotel product. A preliminary assessment of the order of magnitude of the reduction in costs and associated reduction in City financial participation in the funding sources for the project under the urban mixed use hotel approach as opposed to the Base Plan is provided in the following table.

BASE PLAN vs. URBAN MIXED-USE	
Component Description	Range Estimate (\$MM)
BASE PLAN - PUBLIC INVESTMENT	\$47.2
LESS:	
ELIMINATE / DEDUCTIONS:	
Meeting & Banquet Space to Support Monona Terrace	\$3.2 to \$3.5
Civic / Public Circulation and Support Areas	\$3.2 to \$3.6
N-S & E-W Public Connections and Vertical Circulation	\$8.0 to \$8.9
Block 105 Loading Dock & Support Space	\$1.1 to \$1.2
REDUCTIONS:	
Structured Parking	\$6.0 to \$6.7
Civic Gathering Space	\$3.1 to \$3.4
Building Systems Upgrades for Public Areas	\$1.4 to \$1.5
Exterior Architectural Finishes	\$0.2 to \$0.2
Subtotal - Targeted Reductions	\$26.2 to \$29.0
URBAN MIXED-USE - PUBLIC INVESTMENT	\$21.0 to \$18.2

The ballroom and associated civic gathering space included in the Base Plan would be substituted for with some limited meeting rooms typical for limited service hotel product. In lieu of the civic gathering space, the urban mixed use hotel approach would look to create a ground floor space along Pinckney Street that would combine third party retail, restaurant and health/wellness elements with the hotel lobby and a smaller scale civic gathering space to provide something more attractive to Monona Terrace and hotel guests as well as the general public.

In the interest of reducing overall costs, the significant North-South and East-West connections through Block 88 and associated vertical circulation elements would be eliminated.

As a result of the proposed changes that reduce the overall program on Block 88 and the elimination of connections through the Madison Municipal Building (MMB) there may also be an opportunity to shift the structured parking to an above grade mid-block location. The reduced

program would also reduce the overall inventory of parking spaces required on Block 88.

Limited Service Hotel

As stated above, the limited service hotel option is intended to provide the lowest cost option and limits any public participation in the funding sources for the project to the financing of structured parking. A preliminary assessment of the order of magnitude of the reduction in costs and associated reduction in City financial participation in the funding sources for the project under the limited service hotel approach as opposed to the Base Plan is provided in the following table.

BASE PLAN vs. LIMITED SERVICE	
Component Description	Range Estimate (\$MM)
BASE PLAN - PUBLIC INVESTMENT	\$47.2
LESS:	
ELIMINATE / DEDUCTIONS:	
Meeting & Banquet Space to Support Monona Terrace	\$3.2 to \$3.5
Civic / Public Circulation and Support Areas	\$3.2 to \$3.6
N-S & E-W Public Connections and Vertical Circulation	\$8.0 to \$8.9
Block 105 Loading Dock & Support Space	\$1.1 to \$1.2
Civic Gathering Space	\$4.1 to \$4.6
REDUCTIONS:	
Structured Parking	\$6.3 to \$7.0
Building Systems Upgrades for Public Areas	\$1.4 to \$1.5
Exterior Architectural Finishes	\$6.3 to \$7.0
Subtotal - Targeted Reductions	\$33.6 to \$37.3
LIMITED SERVICE - PUBLIC INVESTMENT	\$13.6 to \$9.9

This proposed approach would take the cutbacks from the urban mixed use hotel even further by completely eliminating any kind of civic gathering space element resulting in a more typical limited service hotel lobby space.

Since this approach is intended to provide the lowest cost alternative and no public investment beyond structured parking, there would also be expected to be a significant change to the architectural quality of the building. The exterior finishes would be consistent with other limited service hotel products in the market at a cost that must be market supportable.

The structured parking would still require public participation in the funding sources for the project. The cost of the structured parking would look to be minimized by moving as much as

possible to a mid-block above ground location and may not include the proposed screening/ façade upgrades to mask the above grade parking that were suggested during the RFQ/RFP process.

In general, the areas that would be targeted to reduce costs and the public participation in the funding of the project include:

- East-West Public Connection
- North-South Public Connection
- Vertical Circulation – Public
- Design & Construction Coordination with MMB
- Meeting Space to Complement Monona Terrace
- Civic Gathering Space
- Program Space for Community Activation Areas
- Structural Frame and Enclosure Impacts Related to Meeting Space / Civic Spaces
- Architectural Exterior Features Based on Compatibility with MMB
- Security and Building Management Systems
- Underground vs. Above-Grade Parking Mix
- Façade Treatment of Above-Grade Parking
- Phasing Requirements for Maintaining Parking Inventory
- Underground Connection Between Parking on Block 88 and Block 105
- Combined Loading Dock Serving Block 88 and Block 105

Large Plate Parking Solution

Clause #2 in the Common Council’s September 2nd Resolution directed, as part of the options to be returned to the Council by November 1, a plan be studied that would provide for two levels of “large floor plate” parking underneath the development on Blocks 88, Pinckney Street and Block 105. City staff (Negotiating Team and Parking Utility) met with the author of the amendment, Alder Chris Schmidt, on September 9th to discuss the directive in more detail. Subsequent to that conversation, the Parking Utility had its consultant, JSD Professional Services Inc, prepare a layout of the large plate floor plate.

The large floor plate plan provides 776 parking stalls underground at Blocks 88 and 105 and below Pinckney Street. The plans show the parking on 3 floors on Blocks 88 and 105, Entries are provided on each side of Pinckney Street from Wilson Street and traveling down two parking levels below the Wilson Street level. There are retail uses along Wilson Street and Pinckney on both Blocks 88 and 105. There are 275 spaces at the lowest level, 311 spaces on the second level one floor level below Wilson Street and 190 stalls at the entrance level from Pinckney Street.

The concept drawings for the large floor plate are provided as Attachment B, and the Opinion of Probable Cost for the large floor concept is included as Attachment C to this report.

These plans were reviewed with JDS Development LLC. Issues raised for further discussion include:

1. **Program/parking inventory.** Additional parking above the 776 proposed spaces will be needed to serve the public and private parking requirements of the development.
2. **Cost of parking.** Further study of the Pinckney Street right-of-way and the utilities under the street is needed. The proximity of the west wall of the proposed design is extremely close to the Madison Municipal Building which may require additional cost for underpinning the existing building.
3. **Marketability of the Block 105 development.** The lowest above grade floors are less valuable and not as marketable for residential or office uses. Care should be taken to make sure we don't create a less valuable product above grade. An above grade parking podium helps to create height /views for the lowest level of private development.
4. **Timing/coordination with proposed development.** The added cost of below grade parking to be supported with TIF doesn't necessarily provide for additional development. Coordinating future development on top of the parking may be challenging since the design does not provide for the vertical circulation cores for development above.

The City Negotiating Team believes the large floor plate proposal and the issues identified should be incorporated into the next phase of negotiations as the project planning moves forward.

City Negotiating Team Recommendations

The Common Council challenged the negotiators to significantly reduce the cost of the Judge Doyle Square project without losing the special qualities and opportunities the project has to further shape our central business district by effectively retooling an outdated municipal parking facility and adding dynamic new uses to grow Monona Terrace's book of business. We believe the Council's directives have helped to improve the project and achieve an affordable yet exciting project concept which is worthy of further consideration.

The City Negotiating Team believes the urban style mixed use hotel solution of 200-250 rooms with future expansion capability as described in this report is the most prudent approach for the project.

To complete the negotiation and work through the many details associated with this development concept, the City Negotiating Team recommends that it be directed to continue negotiations with JDS Development LLC to bring forward a Final Development Term Sheet for Common Council consideration by May 1, 2015 to include the following elements:

1. Additional market information on the proposed hotel sizing;
2. Project site and land assembly;
3. Detailed description of each of the project components including the owner, funding source, primary development responsibility and operational responsibility;
4. Preliminary design of the project with input from the City's Landmarks and Urban Design Commissions;
5. A study of shared parking opportunities to determine whether further economies can be achieved with the parking required for the project;
6. Project costs and sources of funding, including the a complete financing plan for the Government East Ramp replacement;
7. Project sequencing including the pre-development and development phases; and
8. Additional responsibilities of the parties including the requirements previously set forth in #RES – 14-00161 adopted by the Common Council on February 25, 2014.