

----- Original Message -----

Subject: RE: 800 E. Washington

Date: Thu, 02 Mar 2006 08:12:46 -0600

From: Mayor <Mayor@cityofmadison.com>

To: waugh@morningwoodfarm.com

Dear Mr. Waugh:

Thank you for your message regarding the Avenue 800 development proposed by Gary Gorman. I also shared your enthusiasm for this development. It set the right tone for the future development of the East Washington Avenue corridor in many ways and Mr. Gorman did a very good job of working with the neighborhood. I wish we could have made the financing work. Here is why we could not make it work:

Gary asked for a "non recourse" loan for an additional \$2 million over the \$2.2 million that city staff had recommended in tax incremental financing support for the project. A non recourse loan essentially means that if the second phase of the project were not built the taxpayers could not get their money back. It essentially made the taxpayers venture capitalists in the project. This would have set a new precedent and it was strongly discouraged by the City Attorney, City TIF Coordinator and City Real Estate Office. All six alders on the Board of Estimates and Ald. Brenda Konkel opposed the non recourse loan. When Gary was informed of this, he immediately pulled out of the project.

Moreover, even beyond the issue of the non recourse loan, participating in long-term holding costs for land would establish a new precedent for future TIF's and it would be inconsistent with previous policy. For example, exactly the same request was made by developer Randy Alexander and he was turned down. If we had agreed to Gary's demand, other developers could legitimately claim that they had been unequally treated.

This was a difficult decision and one that is understandably disappointing to many in the neighborhood. Nonetheless, I think we made the best decision for the long-term interests of the city and its taxpayers.

Looking forward, we need to do a couple of things. First, we need to firmly establish the rule that land use and financing decisions come to the Council at the same meeting. What happened here was that the land use decision got out ahead of the financing decision and created expectations of financial support that, in the end, could not be met. Second, we will continue to work to find other developers who might be interested in pursuing similarly positive projects in the area. With the parameters of the financing now more firmly established, a similar disappointment become less likely.

Again, thank you for contacting me.

Sincerely,
Dave Cieslewicz

Mayor

----- Original Message -----

Subject: Avenue 800

Date: Thu, 02 Mar 2006 16:39:09 -0600

From: Gary Gorman <ggorman@GormanCompany.com>

To: Mayor@cityofmadison.com

CC: dwaugh@library.wisc.edu, brendakonkel@yahoo.com

Dear Mr. Mayor,

Your email to David Waugh of yesterday was forwarded to me. First, thank you for responding to David. He put in a tremendous amount of time on this project. I found David's comments throughout the process to be thoughtful, creative, and productive.

Although our firm has put in an extraordinary amount of time and resources on the Avenue 800 project, I have reconciled myself to it not coming to fruition. I have lived in this area for all of my 50 years. Our firm will be here for many years to come. We do not intend to take our chips and sit on a beach in Costa Rica. We will propose projects in Madison in the future. As I said at the Board of Estimates, our business strategy is to work in partnership with communities to produce projects that are mutually beneficial. Therefore, the way that we part ways on this project is critical to our future relationship with the City of Madison.

To that end, I feel compelled to clear up a number of misunderstandings in your letter to David:

1) Our firm did NOT ask for a non-recourse loan for \$2,000,000.

We initially asked for TIF support for the entire development of \$7,800,000. Staff then told us that we should phase the development in order to reduce the amount requested. We then redesigned the entire project, as a result of the staff suggestion, and submitted a revised TIF request for \$4,500,000. Staff recalculated our request, and, based on the phased approach, calculated the necessary TIF amount at \$4,200,000. We agreed with that figure.

Staff then said that they were uncomfortable with the possibility that we could sell the phase 2 land, which would be paid for, and receive a "windfall". They suggested a mortgage be placed on the property so that if the phase 2 land were sold, the City would receive \$2,000,000. of the proceeds. We agreed.

Staff then said that \$2,000,000. of the TIF funds should be attributed to phase 2. We initially balked at that approach because we thought it created confusion, but said that we would go along if any such note would not be guaranteed. We explained that a guarantee of any such note would amount to a guarantee of feasibility of phase 2 even though we said from the very beginning that phase 2 was NOT feasible without TIF support and the resolution of the removal of the billboard that is on the phase 2 land.

2) Your letter to David says that "A non-recourse loan essentially means that if the second phase of the project were not built, the taxpayers could not get their money back." NOT TRUE.

All of the financial analysis, including that done by staff, showed that the \$4,200,000. TIF investment would be paid back in 15 years, 12 years faster than required by the TIF law, by the phase 1 development only. During those 15 years, additional funds would be generated to be used for other purposes within the TIF District.

3) Your letter draws a comparison to Randy Alexander's project, presumably the West Washington project. Very different circumstances. Randy was dealing with empty buildings. Avenue 800 is dealing with an on-going business that does not lend itself to a staged purchase of land.

I concerns me greatly that the staff presentation to the Board of Estimates apparently did not communicate some critical information, such as the items discussed above. You discussed how the process may be improved going forward. My suggestion is that there be more discussion in open session and less behind closed doors. Perhaps there would then be less misunderstanding of key issues.

Bottom line is that our request was for \$4,200,000., all of which is paid back by phase 1, and we stand ready to provide

all guarantees that have traditionally been provided to insure that the City is paid back in full.

Again, I do not make these comments to be argumentative. If this deal dies, it is not the end of the world. The integrity and reputation of our firm is our most valuable asset. These issues needed to be cleared up so that there is no question that we dealt with the City and neighborhood in a forthright and honorable fashion.

Respectfully,

Gary J. Gorman

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