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EXCERPT FROM EXHIBIT “A” IN CONTRACT WITH STAINBACK PUBLIC / PRIVATE REAL ESTATE (11/14/03)

Note: Excerpt includes description of tasks in Parts 1A, 1B and 1C only

I. Scope of Work

The Scope of Work allows SPPRE to work closely with the Town Council (“Council”), the Council Committee on Lots 2 and 5 (“Council Committee”), the public and Town Staff to structure and manage the public/private finance and development of Town Parking Lots Number 2 and 5. The Scope of Work of services to be provided by SPPRE includes the following parts:

- Part One: Pre-Developer Solicitation Process
 - Part 1A: Completion of Market Analysis
 - Part 1B: Development of Master Plans for the Two Sites
 - Part 1C: Cost Estimation and Financial Analysis
- Part Two: Developer Solicitation Process
- Part Three: Negotiation of the Development Agreement
- Part Four: Serve as the Committee’s Owners Representative During Construction

The Consultant will provide assistance to the Town Council and staff as an independent agent of the Town, and will have no affiliation with any prospective bidder or developer of any project on either of these sites.

Part One: Pre-Developer Solicitation Process

Preface for Part-One

In order to place the Town Council in a position of strength during the developer solicitation process and during negotiation of the Development Agreement, the Council/SPPRE Team will complete the tasks outlined in Part 1A, Part 1B and Part 1C. The driving force behind this proactive approach is for the Council/SPPRE Team to know whether the proposed development opportunities are market-driven and financially feasible prior to issuing the developer solicitation. This approach provides a basis for the Council not to rely solely on the developer for items such as: market demand, financial measurements, ability to obtain equity and debt financing, etc. Equally important, the Council/SPPRE Team will know whether any private developer actually needs for any

public partner to provide a capital and/or non-capital investment in the proposed development projects on Lots 2 and 5.

Part 1A: Market Demand Study

Task 1.1: Prepare Draft Scope of Work for Market Demand Study

SPPRE will develop a draft Scope of Work for a Market Demand Study. The draft Scope of Work will recommend an approach examining demand for housing (condominiums and townhouses), retail and office as they pertain to development of Parking Lots 2 and 5. SPPRE also will recommend any additional uses for the Council Committee to consider including in the study.

SPPRE will recommend an approach for studying demand for parking associated with the development of the sites.

SPPRE will provide an estimate of the total fee for a study of housing, retail and office components of the study as well as a schedule of fees for providing analysis of other potential uses that the Council Committee may add to the study.

Task 1.2: Complete a Work Session with Potential Key Public Partners

SPPRE will complete a work session with representatives from potential public partners to discuss the development of Parking Lots #2 and #5, and to provide them with the opportunity to ask SPPRE questions about structuring public/private real estate partnerships, public/private finance and the current requirements of the capital market. Some of the entities represented in this initial work session may include:

- The University of North Carolina at Chapel Hill
- Chapel Hill Downtown Commission
- Orange County Economic Development Commission
- Orange County Visitors Bureau
- Chapel Hill/Carrboro Chamber of Commerce
- Community Interest Groups

In addition to these potential public partners, it could be worthwhile to meet with key property owners and owners of vacant buildings and/or vacant lots in strategic downtown locations.

Task 1.3: Complete a Work Session with Committee on Market Demand Study

After the work session with potential key public partners, SPPRE will complete a work session with the Council Committee on the Market Demand Study and the draft Scope of Work completed as part of Task 1.1. The work session will provide the Committee the opportunity to review the Scope of Work for Market Demand Study and include any additional uses to the study.

Task 1.4: Revise Market Study Scope of Work; Execute and Manage the Market Demand Study Contract

SPPRE will subcontract with Economic Research Associates (ERA), a consulting firm based in Washington DC, to conduct a Market Demand Study at a cost not to exceed \$35,000 plus project-related expenses. SPPRE will revise the draft Scope of Work (from Task 1.1) to add uses that the Council Committee decides to add to the Study during Task 1.3. SPPRE will be responsible for negotiating this subcontract; administration of the subcontract; and will review and approve all deliverables produced by Economic Research Associates.

Task 1.5: Conduct Public Forum on Market Study Results

After completion of the Market Demand Study, the Council will conduct a Public Forum on the results of the Study to explain the opportunities and challenges related to the development of Parking Lots 2 and 5. SPPRE will attend to answer questions and present findings.

Task 1.6: Conduct Review Session with Council Committee

SPPRE and the Council Committee will discuss the Market Demand Study findings, Forum comments, and how to proceed with the Land, Building and Infrastructure Program. SPPRE will attend the meeting.

Task 1.7: Present Market Demand Study Findings and Recommendations to Town Council

SPPRE will present to the Town Council the Market Demand Study findings and its recommendations on whether to proceed based on the study's results. The Council will decide at the meeting whether to proceed with the next phase (Part 1B) of this Scope of Work and, if so, decide on the uses to include in the Land, Building and Infrastructure Program (Task 1.8).

AT THIS POINT THE COUNCIL WILL DECIDE WHETHER TO PROCEED WITH PART 1B, DEVELOPMENT OF MASTER PLANS FOR THE TWO SITES, OR CLOSE OUT THE CONTRACT

Part 1B: Development of Master Plans for Both Sites

Task 1.8: Prepare a Land, Building and Infrastructure Program for Lots 2 and 5 Based on Council Direction

Based on direction from the Town Council, SPPRE will develop a building program for Lots 2 and 5. This building program will include land uses, square footage, number of units, parking requirements, etc.

SPPRE also will determine whether the existing infrastructure could accommodate the proposed building program.

The results of this task will be sent to the Council Committee for their review.

Task 1.9: Prepare a Scope of Work for an Urban Designer/Architect and Subcontract with Firm

SPPRE will prepare a scope of work and subcontract with HKS Architects of Dallas, Texas, at a cost not to exceed \$32,000 plus project-related expenses to prepare a master plan for each property. HKS will complete master plans for Lots 2 and 5, as well as three illustrative sketches. HKS will develop color sketches illustrating the desired character and environment of the proposed developments. The HKS Scope of Work will call for the development of an initial draft for Council Committee review, more detailed drawings incorporating Council Committee comments, and revised final drawings reflecting direction provided by the Town Council. In addition, the Scope of Work will call for HKS to provide the Town a CD-ROM with digital images of the drawings produced and stipulate that the Town has the right to use the images as needed.

Task 1.10: Design Review Session with HKS, Council Committee

During the course of preparing a Master Plan for both Lots 2 and 5, the Council Committee will complete a review session with the HKS Team and SPPRE. HKS will send the initial drawings to the Town and SPPRE prior to the meeting. SPPRE and HKS will attend the meeting.

Task 1.11: Select and Manage a Local Construction Company to Provide a Cost Estimate of the Proposed Development of Lots 2 and 5

In order to provide the Council Committee with an objective third-party estimate of the “hard” cost to construct the proposed developments, SPPRE will hire a local construction company to provide “pre-construction services” for one to two months. The fee shall not exceed \$5,000. SPPRE will complete the analysis to select the most appropriate local construction company for this assignment. SPPRE will prepare the Scope of Work and negotiate the contract.

Task 1.12: Conduct Public Forum, Second Design Review Session with HKS, Council Committee

The Council Committee will conduct a forum to receive public comment on the draft master plans produced by HKS. The forum will be followed by a Council Committee meeting to consider recommendations. SPPRE and HKS will attend the forum and Committee meeting.

Task 1.13: Present Master Plans to Council

SPPRE will present the Draft Master Plans to the Town Council and describe the next steps. Council will review the Master Plans and consider any changes and whether to continue with Part 1C. SPPRE will attend the meeting.

AT THIS POINT THE COUNCIL WILL DECIDE WHETHER TO PROCEED WITH PART 1C, COST ESTIMATION AND FINANCIAL ANALYSIS, OR CLOSE OUT THE CONTRACT

Part 1C: Cost Estimation and Financial Analysis

Task 1.14: Subcontract with DesignVision for Producing 3D Computer Renderings of Project for Lots 2 and/or 5 Based on Final Urban Design Plan

After Council authorization to proceed with the next phase (Part 1C), SPPRE will subcontract with DesignVision, Inc. of Lafayette, La., at a cost not to exceed \$8,000 to generate three-dimensional computer representations of the final Master Plan sketches produced by HKS. The images will illustrate the master plan concepts in greater detail and from a variety of vantage points. The images, along with HKS drawings, will be used in the Request for Proposals package as well as on the project website to be developed by the Town.

Task 1.15: Prepare “Total Development Budgets” for the Development of Lots 2 and/or 5

The Total Development Budget will provide the Council with all of the major “hard” and “soft” costs required to finance, design, develop and construct the proposed development or developments. Soft costs include costs such as: architect and engineers fees, developer fees, interest during construction, finance transaction fees, etc.

SPPRE will also provide assumptions regarding Loan-to-Value ratio for each type of building use to determine the current required balance of debt to equity investment for each building type.

Task 1.16: Complete a Finance Model for Development of Lots 2 and/or 5

SPPRE will complete a 10-year Pro-forma for each development. The Pro-forma will include all sources of income, operating expenses, Net Operating Income (NOI), debt service, land lease payments to the Town and the Cash Flow Before Taxes and Depreciation.

The Finance Model for each property will allow the Council/Consultant Team to determine key financial measurements such as: 1) Leveraged and Unleveraged Internal Rate of Return (IRR), 2) Return on Cost (ROC), Debt Coverage Ratio (DCR), etc. These

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calculations will determine whether the proposed developments are financially feasible using only private equity and debt. If the project(s) cannot be financed 100 percent with private equity and debt, SPPRE will determine the cash flow shortfall. If there is a cash flow shortfall, SPPRE will develop alternative finance plans to solve the shortfall in Task 1.19 (“Develop Up to Five Alternative Public/Private Finance Plans”).

Each Finance Model will also include comprehensive footnotes describing assumptions and sources of financial input.

Part of the Finance Model for each property will also include a Reversion Value Analysis. This analysis will provide the Committee the Net Sales Proceeds, if the developments are sold in any year from years 1 through 10. In the Development Agreement, SPPRE will incorporate the requirement that when the selected developer sells the building(s), the developer must share a negotiated percentage of the net sales proceeds to the Town of Chapel Hill. The analysis will assume a ten percent (10%) position for the Town to give the Town Council a sense of the nontax income it can expect if the developer sells the development(s) to a third party.

Task 1.17: Complete a Financial Sensitivity Analysis Including Five Variables for Each Development of Lots 2 and 5

SPPRE will complete a Financial Sensitivity Analysis to provide insights into how a project’s cash flow is impacted by an increase or decrease in selected financial and development features. Factors used in this analysis include; interest rates, rental rates, development cost, etc. The results of this analysis will provide the Council/SPPRE Team with information to better assess the risk of ownership and/or investment by either the public or private partner. The Council/SPPRE Team will jointly select which variables to test, and will also want to test the impact on returns from some combination of variables.

Task 1.18: Complete a Review Session with the Council Committee

SPPRE will present the results of the Finance Model Analysis and Financial Sensitivity Analysis (Tasks 1.16 and 1.17) to the Council Committee at a meeting in Chapel Hill. SPPRE will explain all aspects of the development budgets and the comprehensive financial analysis and the implications of all financial measurements, such as Internal Rate of Return, Return on Cost and Debt Coverage Ratio. The review session will be followed by a presentation on the advantages and disadvantages of each of the eight methods to solicit developers; the Council Committee will consider recommending one of the methods for pursuing the development of Lots 2 and 5. SPPRE will attend the Review Session.

Task 1.19: Develop Up to Five Alternative Public/Private Finance Plans

Once the pro-forma for each project has been completed, the Council/Consultant Team will know whether the projects are financially feasible. Most projects, especially those with underground parking, do not “cash-flow”; as a result, alternative public/private

finance plans, which are acceptable to the equity and debt capital markets, will be needed. SPPRE will develop up to five (5) plans, each of which will include general sources of equity and debt and techniques to enhance cash flow and/or reduce development costs.

Task 1.20: Develop Up to Five Alternative Ownership, Investment, Development and Operational Scenarios

Concurrently with the development of Alternative Public/Private Finance Plans (Task 1.19), SPPRE will develop up to five (5) scenarios describing alternative roles and responsibilities for the Town, other public partners and the selected private developer(s). Each scenario will, at a minimum, address the role of the “primary public and private partners” for owning, investing, developing and operating the proposed development. The results of Finance Model Analysis and Financial Sensitivity Analysis (Tasks 1.16 and 1.17) will be incorporated into the evaluation of the five scenarios.

Task 1.21: Complete a Review Session with the Council Committee

The results of the development of Alternative Public/Private Finance Plans (Task 1.19) and the Alternative Ownership, Investment, Development and Operational Scenarios (Task 1.20) are critically important to implementing the public/private development of Lots 2 and 5; consequently SPPRE will complete a work session with the Committee. SPPRE will attend the Review Session.

Task 1.22: Complete Work Session, Forum with the Town Council

SPPRE will present the results of Tasks 1.20 and 1.21 to the Town Council and be available for questions on the Council Committee’s recommended developer solicitation process. SPPRE will attend the meeting.

Task 1.23: Attend Town Council Meeting on Whether to Proceed

SPPRE will attend the Town Council meeting at which the Council will consider whether to proceed with Part 2, Developer Solicitation and Selection.

AT THIS POINT THE COUNCIL WILL HAVE DECIDED WHETHER TO PROCEED WITH PART 2, THE DEVELOPER SOLICITATION AND SELECTION PROCESS, OR CLOSE OUT THE CONTRACT

