Proposed Theater Project
Need for Assistance Analysis

To:	Leslie Haase, Finance Director Chris Williams, Williams & Campo
From:	Tom Denaway, Director, Baker Tilly Municipal Advisors
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Subject:	Proposed Movie Theater – Project 4 32nd Street TIF District – Need for Assistance Analysis

Proposed Development

The Developer (Woodsonia Real Estate) is proposing the development of an entertainment complex located within Project 4 of the existing 32nd Street Place Tax Increment Financing (TIF) District. The complex is proposed to include an approximately 37,000 square foot facility containing an 8-screen movie theater, a bar and restaurant, and an arcade/family entertainment component. The complex will located along 32nd Street at Hammons Boulevard within Project Area 4 of the TIF District.

Development Cost and Reimbursable Budget

			Existing TIF & CID Areas			
Development Cost	**Total Cost**	**Private**	**TIF PILOTS/EATS**	**CID Bond Proceeds**	**CID Non-Captured**	**New CID**
Acquisition	$3,136,320	$836,320	-	$2,300,000	-	-
Building Construction	$23,681,546	$19,681,546	$4,000,000	-	-	-
Sitework/Parking Lot	$2,650,000	$149,220	-	-	$1,200,780	$1,300,000
Professional Services	$745,675	$745,675	-	-	-	-
Financing	$2,000,000	$500,000	$1,500,000	-	-	-
Dev. Fee & General Cond.	$545,752	$0	$545,752	-	-	-
Contingency	$865,983	$865,983	-	-	-	-
Total Costs	$33,625,276	$22,778,744	$6,045,752	$2,300,000	$1,200,780	$1,300,000
Percentage	-	67.74%	17.98%	6.84%	3.57%	3.87%

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The Developer provided the above referenced estimate of the project costs for the proposed entertainment complex. In total the anticipated 37,000 sf development is anticipated to cost approximately $33,625,276. The cost estimate includes the total cost of acquiring the site, necessary sitework and parking lot improvements, the construction of the vertical building, the full interior build-out of the building, and related soft costs and contingency amount associated with the development of the site. The Building Construction line-item includes the cost of constructing the building itself, as well as the full interior build-out of the complex which includes costs associated with the specialized theater equipment and furniture, restaurant build-out and kitchen, and the arcade/family entertainment component.

In reviewing the proposed project costs, the Developer identified a preliminary cost estimate for the vertical building improvements and interior build-out of approximately $15,000,000 as provided by their anticipated contractor. This cost estimate does not include the specialty theater equipment or arcade/family entertainment build-outs. In comparison we reviewed the Swiftestimator online cost estimating software to determine the anticipated cost of developing a structure of this size within the City of Joplin. The Swiftestimator software identified an approximate cost of $13,700,000 for construction of a theater building of comparable size, however the cost comparison provided by the Swifestimator does not included the additional build-out costs associated with the bar/restaurant, snack bar, seating, patio, or any of the other enhanced features proposed to be included within this complex. Based on the enhanced features and building components proposed for this project a total cost estimate of $15M appears reasonable. The Developer is seeing reimbursement for building cost from TIF of approximately $4.0M. Given the unique nature of the project and the specialized equipment purchases necessary, the City may wish to request verification and documentation of the full construction costs upon completion of the project.

Sources of Assistance

The Developer is seeking reimbursement from a mix of TIF PILOTS/EATS from the Existing 32nd Street TIF District and the existing Community Improvement District (CID). In addition, the Developer is also seeking the creation of a new Community Improvement District applicable to just the entertainment complex area that would apply its own 1.0% sales tax.

TIF assistance from the existing District is being sought in an amount of $6,045,752 which will be used to reimburse the Developer for building improvement costs of $4.0M, financing and interest carry costs of $1,500,000, and developer fee/general conditions costs of $545,752. Due to the limitation on interest reimbursement associated with the TIF District the total TIF reimbursable costs, the gross amount of TIF reimbursement realized over the life of the District will not exceeds the identified amount of $6,045,752. The Developer has identified that the present value of the proposed pay-as-you-go TIF assistance to be approximately $3,664,329 since the TIF reimbursement will be provided over an extended period of time.

Assistance from the existing Community Improvement District is being sought in two forms. The first component of the assistance from the existing CID is the use of existing CID Bond proceeds from the 2021 CID issuance of $2,300,000, which will be used by the CID to acquire the land dedicated to for the public parking lot servicing the entertainment complex. Additionally, future revenues from the existing CID will be used to reimburse the Developer for a portion of the public parking lot improvements on a pay-as-you-go basis in an amount of $1,200,780. The anticipated net present value of the pay-as-you-go assistance from the existing CID is $578,018.

The other source of assistance being sought is the creation of a new Community Improvement District applicable to the Theater. The Theater CID will be applicable to just the Project Area 4 site and will apply an additional 1.0% sales tax. The Developer is seeking assistance from the City in an amount of $1,300,000 to fund the remaining costs associated with the construction of the parking lot. The request is for the City to initially contribute the $1.3M for the remainder of the public parking construction cost from existing resources, with the City being reimbursed over time from the new Theater CID sales tax.

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Need for Assistance

Baker Tilly Municipal Advisors was retained by the City to determine the need for the requested financial assistance for the project. In order to make the determination of the need for assistance the project is evaluated on the basis of its financial feasibility by measuring various return on investment metrics both with and without the requested assistance. If the proposed project without assistance does not generate a sufficient return on investment, a determination can be made that the project would be unlikely to proceed absent the requested assistance. Making this determination on the basis of the return-on-investment metrics allows an objective measure to be used in the determination of the need for assistance.

The potential return on investment generated by the project is a function of the anticipated project costs for the initial construction of the development and the revenues generated by the operation of the project and the anticipated value of the complex upon completion. The Developer is proposing that they will construct and own/operate the proposed development. The Developer is proposing they will enter into a management agreement with B&B Theaters who will be a for-fee manager of the theater operation. Ultimately, the Developer will be undertaking the full operational risk associated with the Development and the potential income generated by the project will be subject to the operation of the Theater and will be a function of the operational revenues and expenses incurred by the theater.

The Developer shared the operating assumptions utilized in the preparation of their operating pro-forma for the project, which included their anticipated revenue and expense projections. The revenue projections were based on a market study prepared by B&B Theaters. The market study projected a range of potential ticket sales using a variety of methodologies. The assumption used by the Developer in the preparation of their operating pro forma, and on what this analysis is based, is approximately 8.3% higher than the average of the four different projection methodologies provided within the market study. In comparison to the highest possible projection identified within the market study, the Developer's assumption in their pro forma is approximately 86.7%. Based on the market study the Developer's projection appears reasonable.

The Developer's operating expense assumptions were based on information provided by B&B Theaters and were largely based on comparison to an existing operational facility located in Topeka, Kansas. The Developer's assumption did include an allowance for a higher operating expense cost in relation to personal expenses compared to the Topeka Theater, which the Developer attributed to a combination of additional personnel needs due to the arcade/family entertainment component and due to anticipating higher wages for the Joplin market. If actual personnel costs result in amounts closer to the Topeka project, the potential return on investment would be greater than the amounts shown within this analysis.

A project of this nature is unique in comparison to traditional real estate development, in regard to the potential range of revenue and expense variability. By comparison, more traditional real estate projects have a more predictable potential return on investment because of the limiting effect the market has on revenue potential from items such as lease rates. Conversely, investments in projects like this, which are more of a business enterprise than a real estate development, typically have a higher level of unpredictability within the potential revenue generated by a project. As such higher return ranges are typically sought by investors in these types of projects due to the increased risk profile these projects represent.

The determination of the need for assistance is based on the project's feasibility without the requested assistance, by comparing the projected return without assistance with industry benchmark for return on investment. Given the inherent risk with real estate investing if the anticipated return on an investment falls below certain thresholds, the conclusion can be made that the project would not be undertaken due to inadequate return on investment. For purposes of this review we utilized the RealtyRates.com Investor Survey – 1st Quarter, 2023 to identify a feasibility benchmark for the project. This survey is completed of nationwide developers and identifies the return thresholds they would need to undertake projects within the current marketplace. The RealtyRates survey does not have a specific category for movie theater developments, so we utilized the returns identified for the Free Standing Retail development category as the feasibility benchmark for this review. As noted above hospitality type enterprises such as this typically have a higher return need

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due to the greater complexity of the project and the higher level of variables that could be impacted. The use of the Free Standing Retail development return thresholds therefore sets a conservative (i.e. low) benchmark for purposes of determining feasibility. If the projected return without assistance falls below even this conservative, or low hurdle, it only further emphasizes the need for the assistance.

For purposes of this analysis we reviewed the project on the basis of multiple measures of return on investment to determine the feasibility of the project with and without assistance. The first measure by which we evaluated the potential return on invest was the projected Unleveraged Internal Rate of Return ("IRR"). The IRR is a return calculation measure that accounts for the time value of money, and is based on the entire life cycle of the development including project construction, a holding/operating period by the Developer of 10-years, and then finally a hypothetical sale of the asset in the final year of the analysis. This hypothetical sale is included in order to full count the value of the asset within the return on investment calculation, and is not necessarily indicative of the intent to sell at that point in time. The RealtyRates.com survey identified a range of desired returns for the Free Standing Retail category of 9.50% to 17.66% with an average of 14.39%. The table below identifies the projected Unleveraged IRR for the project without assistance and with varying levels of assistance.

Project Scenario	Unleveraged IRR
Without Assistance	4.55%
With Only Existing TIF & CID Areas	7.62%
With Existing TIF/CID & New CID Area	8.35%

Another return on investment measure that was utilized for purposes of this analysis is what is referred to the cash on cash return. This is an annual return test that measures the amount of return generated annually by the cash flow remaining after debt-service as a percentage of the initial developer equity invested in the project. For the cash on cash return benchmark the RealtyRates.com survey identified a range of 7.61% to 16.58% with an average of 11.65%. The table below identifies the projected cash on cash return for the project without assistance and with varying levels of assistance.

Project Scenario	Cash on Cash Return Year 1	Cash on Cash Return 10-Year Average
Without Assistance	3.38%	5.26%
With Only Existing TIF & CID Areas	5.96%	9.27%
With Existing TIF/CID & New CID Area	7.02%	10.92%

The final measure on which project feasibility can be measured is the Debt-Coverage Ratio. This is a measure of the rate by which project operating revenues exceed the estimated debt-service on the private financing. This is typically a test based on the first-year of stabilized operation for the project. In order for a project to secure private financing lenders are going to want to see sufficient coverage from the project, to ensure the ability of the loan to be repaid. As a result, this can be utilized as a measure of the need for assistance. If the project has an insufficient Debt-Coverage Ratio without assistance it can be determined that it would be unlikely to proceed due to inability to secure financing. The Developer identified their lender is seeking a Debt-Coverage Ratio of 1.35 times, meaning they will lend up to an amount where the projected operating revenues exceed the annual debt-service amount by 1.35x. The table below identifies the first-year stabilized Debt-Coverage Ratio for the project without assistance with varying levels of assistance.

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Project Scenario	Debt-Coverage Ratio
Without Assistance	0.95x
With Only Existing TIF & CID Areas	1.27x
With Existing TIF/CID & New CID Area	1.36x

Conclusion

As illustrated in the varying return calculations above, the project without assistance falls significantly below our feasibility benchmarks for unleveraged IRR, Cash on Cash Return, and Debt-Coverage Ratio. The IRR and Cash on Cash returns without assistance fall significantly outside of the range identified within the survey, and the Debt-Coverage Ratio is less than the amount of annual debt-service. Based on this analysis, and the return calculations outlined above, we can conclude that the project would be unlikely to occur but-for the requested assistance.

Additionally, as part of our return analysis we analyzed varying levels of assistance in order to illustrate if the requested assistance amount is reasonable. In comparison to the RealtyRates.com survey the projected return based on the total assistance request, from the existing TIF/CID and new CID area, fall within the lower range of the identified returns. Additionally, the Debt-Coverage Ratio identifies how the additional CID area impacts the Debt-Coverage Ratio moving it to a position where the project is capable of securing financing based on their identified threshold. Based on this analysis, we can conclude that the requested assistance amount are reasonable.

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