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## AGENDA INFORMATION SHEET

**DEPARTMENT: Economic Development**

**ACM: Christine Taylor**

**DATE: September 13, 2023**

### **SUBJECT**

Receive a report, hold a discussion, and make a recommendation to City Council regarding an incentive application for the Fine Arts Theater, LLC project.

### **STRATEGIC ALIGNMENT**

- Foster Economic Opportunity and Affordability
  - Grow Denton's Economic Vitality
- 2040 Comp Plan – Redevelop Fine Arts Theater
- Economic Development Strategic Plan - Downtown Development: continue to utilize various tools to stimulate new private investment in the downtown

### **BACKGROUND**

The Fine Arts Theater, with its striking blue and orange facade, has been a centerpiece of the Denton Square for over 80 years. However, its entertainment roots date back further with the Graham Opera House, established in 1877. By 1935, after the opera house's era ended, the building was transformed into the Texas Theatre, joining the vibrant "Theatre Row" of Denton alongside names like the Majestic and the Dreamland. The theater landscape evolved, and by 1957, the Texas Theatre was renamed The Fine Arts Theater. Although it faced challenges, including a closure in 1981 and a fire in 1982, its legacy has persisted as an icon and landmark of The Square.

### **Project Details:**

The Fine Arts Texas Theatre renovation is a significant undertaking, representing a capital investment of \$9,969,232. Once completed, the theater will offer a variety of spaces tailored to diverse audience sizes and needs:

- A 200-seat main theater
- A 30-seat VIP Mezzanine
- A 50-seat private theater

In addition to the viewing areas, the theater will house a concession and bar area, ensuring patrons have access to refreshments during events. The theater's functionality extends beyond just film screenings. It is envisioned as a multi-use venue, capable of hosting film festivals, concerts, live performances, and private event rentals.

Since acquiring the Fine Arts Building in 2018, significant strides have been made in the predevelopment and planning phases:

- Collaboration with Architexas, a renowned Dallas-based historic preservation architectural firm, to ensure the renovation honors the building's legacy.
- Comprehensive remediation of asbestos and mold, ensuring the structure meets health and safety standards.
- Interior demolition in readiness for an extensive renovation.
- Successful construction of a new roof to safeguard the building's integrity.
- Partnership with local contractor Tim Beaty Builders to value-engineer and formulate a comprehensive renovation budget.
- Completion and approval of renovation plans and specifications in line with the City of Denton's regulations.
- Securing approval for the Federal Historic Tax Credit Application, with the State of Texas Historic Tax Credit approval currently pending.

### **Underwriter Report:**

A thorough underwriter assessment was conducted to evaluate various facets of the Fine Arts Texas Theatre renovation project. The following are the key highlights:

#### *Developer's Credentials & Support Team:*

The developer boasts a rich expertise in real estate development, management, and business operations. They are complemented by a seasoned team, including Jason Reimer, a pivotal figure at Texas Theater. Jason Reimer, serving as a Class B Member of Fine Arts Theater of Denton LLC, plays an instrumental role in assessing building design and overall project viability.

#### *Financial Capacity:*

The developer possesses the financial robustness to cover any potential rehabilitation cost overruns. They have invested \$2,146,714 in the Project, demonstrating their commitment and readiness to pledge further assets beyond the requested incentive of \$2,000,000.

#### *City Incentives:*

The Project is eligible for City economic development incentives. Without the infusion of these incentives, the Project would face challenges due to a discernible financial gap in the funding structure.

#### *Developer's Investment:*

Beyond the initial investment of \$2,146,714, the developer has displayed a willingness to pledge additional resources. Notably, their total contribution surpasses the incentive request, and they have committed to forgo a \$250,000 fee for a decade.

#### *Return on Investment:*

With the proposed City incentive, the developer projects a zero return for the initial six years. This is followed by a modest return, less than 3%, spanning from the seventh to the tenth year.

#### *Underwriter Recommendation:*

The National Development Council (NDC), the underwriter, recommends a \$2 million forgivable loan at 0% interest, with payments deferred for ten years post-rehabilitation. The loan will undergo an annual 10% forgiveness if the Project remains operational under unchanging ownership. By the end of the decade, the loan is envisioned to be entirely forgiven. It's noteworthy that any remaining funds in the reserve account at the end of these ten years will revert to the City. Before the incentive's disbursement, several conditions need fulfillment: conversion of Developer Notes (valued at \$346,593 as of 2/28/23) to

equity, and restrictions on the Project's sale or refinance until loan forgiveness. Any deviation from this mandates the City's explicit written consent.

**TIRZ Balance Overview:**

	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Starting Balance</b>	\$3,500,277	\$3,500,277	\$4,437,780.50
<b>Revenues</b>	\$	\$937,504	\$937,504
<b>Expenditures</b>	\$	\$	(2,000,000)
<b>Ending Balance</b>	\$3,500,277	\$4,437,780.50	\$3,375,284.50

**Economic Impact:**

- In typical stand-alone theaters, approximately 20.4% of patrons complement their movie experience with dining or shopping in the vicinity.
- This percentage sees a significant surge in the context of a Main Street theater in Texas, where a whopping 50.6% of theater-goers choose to dine or shop around their cinema visit.

Given these trends, the economic projections for the Fine Arts Texas Theatre are promising. Surrounding businesses will see an increase in revenues. The theater's presence and its draw of patrons are projected to boost local business revenues by \$20,803,966.

**Community Impact:**

The revitalization of the Historic Fine Arts Texas Theatre promises more than just cinematic experiences. It is set to become a cornerstone for community development, education, and cultural enrichment. Here's how the theater is positioned to influence the community:

*Arts Job Training:*

A strategic partnership with UNT Media Arts & Hospitality Management Department ensures that the theater becomes a ground for practical learning.

This collaboration will pave the way for training, job opportunities, and internships, especially beneficial for film and theater majors.

*Community and Special Events:*

The theater will open its doors to non-profits, civic and community groups, or local businesses, fostering community engagement and collaboration. It is poised to become a hub for regional festivals, celebrating film, music, and arts culture. Beyond public events, the venue will also cater to private rentals, making it an attractive choice for personal events like weddings or parties.

*Education:*

The theater's potential as an educational tool is significant. Plans include DISD field trips for students to view educational and historical films. High school theater arts and film education programs are on the cards. These will include film labs designed in alignment with Texas Essential Knowledge and Skills.

*Partnerships:*

The theater is not working in isolation. Collaborations are in place to host classic and historical movie series. Partnerships with esteemed institutions like the Greater Denton Arts Council, Thin Line and Black Film festivals, and KUZU radio amplify the theater's role in promoting arts and culture in the community.

### **OPTIONS AND RECOMMENDATIONS**

1. National Development Council (NDC) recommended incentive of a \$2,000,000 Forgivable Loan for the historic renovation of the Fine Arts Theatre to City Council
2. No incentive

### **EXHIBITS**

1. Agenda Information Sheet
2. Project Concept
3. Underwriter Report
4. Term Sheet
5. Presentation

Respectfully submitted:  
Wayne Emerson  
Director of Economic Development