



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Economic Development

CM: Sara Hensley, City Manager

DATE: April 2, 2024

SUBJECT

Consider adoption of an ordinance approving an economic development agreement under Chapter 380 of the Local Government Code to promote economic development, increase foot traffic, stimulate business activity and economic growth of the City of Denton between the City of Denton and Fine Arts Theater of Denton, LLC for an amount not to exceed \$1,620,869 of Tax Increment Reinvestment Zone One funds; authorizing the expenditure of funds therefor; and providing an effective date. The Downtown Tax Increment Reinvestment Zone Number One Board recommends approval (5-0).

STRATEGIC ALIGNMENT

- This action supports Key Focus Area: Foster Economic Opportunity and Affordability
 - Increase in tourism.
- This action supports the Economic Development Strategic Plan: Successful downtown development and an authentic town square are among Denton's top economic development achievements. The City should continue to prioritize the downtown area.
 - Downtown Development: continue to utilize various tools to stimulate new private investment downtown.
- This action supports the 2040 Comprehensive Plan: Identify opportunities to incorporate venues for arts and music events in future development, including Downtown. Pursue the next steps for the reuse of City Hall West and the potential development of a new fine arts theatre.

BACKGROUND

The Fine Arts Theater was built in 1934 and has been the centerpiece of Denton Square for over 80 years. However, its entertainment roots date back further to 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 Denton Downtown Square.

The Theater was purchased by Fine Arts Theater of Denton, LLC in 2018. Since acquiring the property, the owners have made strides in the predevelopment and planning phases:

- Engaged Architexas, a Dallas-based historic preservation architectural firm, to assist in the development of renovation plans.

- Remediated asbestos and mold, ensuring the structure meets health and safety standards.
- Completed demolition of the interior in readiness for a renovation and expansion.
- Completed construction of a new roof.
- Partnership with local contractor Tim Beaty Builders to value-engineer and formulate a comprehensive renovation budget.
- Completed renovation plans and specifications and received a city permit.
- Securing approval for Federal Historic Tax Credit Program, while their application to the State of Texas Historic Tax Credit Program is still pending.

The City of Denton Economic Development Department was contacted by the owners/developer NorthBridge, in May 2022 regarding the Fine Arts Theater. The developer provided information regarding the status of the rehabilitation and renovation project and discussed a potential funding gap related to the project. At the time, the developer requested the City consider participation in the project as part of a Public/Private Partnership (P3). Staff used initial information provided by the owner to review potential participation strategies and researched other historic theater projects and city-involved theater projects throughout Texas. Staff found that several cities participated through P3s projects, typically through a Tax Increment Reinvestment Zone (TIRZ), bond funds, or an incentive (Lewisville, San Antonio and Temple). There were also a couple of instances of cities owning/operating theaters outright (Lewisville and Llano).

Project

The Fine Arts Texas Theatre renovation is a significant undertaking, representing a capital investment of \$9,119,623. 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. 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.

Underwriter Report

An underwriter assessment was conducted to evaluate various facets of the Fine Arts Texas Theatre renovation project (Exhibit 4) The following are the key highlights and options:

Developer's Credentials and Support Team

The local 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 potential rehabilitation cost overruns. They have invested \$2,209,467 in the Project, demonstrating their commitment and readiness to pledge further assets beyond the initial 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 \$2,209,467, 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.

Developer Return on Investment

With the proposed City incentive options, the developer is projected to receive a cash-on-cash return on \$1,837,041 equity starting in year 8 under Option 1 and year 5 under Option 2. This is followed by a modest return, less than 3%, spanning to the tenth year.

Underwriter Report Options

Grow America, formerly the National Development Council (NDC), the underwriter, was asked to prepare an underwriting report and incentive options to assist the City in the consideration of possible incentive mechanisms and options best suited for this project. The report presented two funding options for the project detailed below.

- Option 1:
 - \$1,076,366 in a City of Denton Chapter 380 incentive grant at Certificate of Occupancy (CO) for 5 to 7 years to pay down construction loan principal to the required \$3,195,000.
 - No tax rebates.
 - Downtown Reinvestment Grant in the amount of \$50,000.
 - An additional \$544,503 City of Denton Chapter 380 incentive funded at opening or annually from 5 to 7 years, as needed to cover the projected shortfall between Net Profit and Debt Service.
 - The second grant could be paid over 7 years with payments in the amount of \$152,402, \$124,396, \$69,512, \$54,077, \$38,243, \$21,723, \$5,348 to meet cash flow requirements, and \$78,802 for debt service reserve to be withdrawn if needed.
- Option 2:
 - \$1,076,366 in a City of Denton Chapter 380 incentive grant at CO to pay down construction loan principal to the required \$3,195,000.
 - Downtown Reinvestment Grant in the amount of \$50,000.
 - Performance-based annual rebates for property, sales, and mixed beverage taxes for a term of 10 years.
 - An additional \$301,947 City of Denton Chapter 380 incentive funded at opening or annually, as needed, to cover the projected shortfall between Net Profit and Debt Service.
 - Second Grant could be paid over 4 years, with payments in the amount of \$111,870, \$81,200, \$23,312, \$6,763 to meet cash flow requirements, and \$78,802 for debt service reserve to be withdrawn only if needed.

Funding and Source

Funding Mechanisms	Funding Source
Chapter 380 Grant or Loan	Property Taxes Generated (rebate)
	Sales Taxes Generated (rebate)
	Mixed Beverage Taxes Generated (rebate)
	Cash Grant/Loan (Catalyst Fund)
	TIRZ Cash Grant or Loan (Tax Increment Fund)
	TIRZ rebate of real property taxes
Property Tax Abatement	Abatement of property taxes from Improvements and Business Personal Property (BPP) (TIRZ participates, but BPP does not go in to the TIRZ)

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 downtown.

Policy Considerations

Strategic Growth Areas have been identified in the strategic plan for cultivation and recruitment and will be given priority consideration. This project is a targeted SGA and falls under the Creative category, with North American Classification System (NAICS) 711310 Promoters of and Similar Events with Facilities. An Incentive Evaluation Matrix incorporating these strategic initiatives, priority considerations, and public benefits has also been conducted (Exhibit 3). The project addressed four of the priority considerations and five of the Public Benefit Factors. Highlights of the considerations and public benefits include:

- Spur Infill Development or Redevelopment includes developing/redeveloping a property or facility in a manner that reduces urban sprawl and or increases density in a desirable area; the redevelopment of the property has been vacant for more than two years.
- Other Considerations: Adds to the culture of Denton and will help with foot traffic, and quality of life, and enhance the Downtown Square.
- Public-Private Partnership: includes the development of public infrastructure or amenities deemed beneficial, or the developer assumes responsibility for the development of infrastructure or public facilities beyond what is required. The project will involve a significant relationship with DISD and institutions of higher education.
- Community Investment: The company or developer demonstrates a commitment to community support or involvement through monetary or in-kind support of local nonprofits, public institutions, or community organizations.

Project Benefits

Staff and the underwriter conducted a significant analysis of the information provided by the developer to ensure that stated policy criteria were met and determine both qualitative and quantitative public benefits. Staff also used an economic impact analysis model to quantify the economic impact and rate of return.

Quantitative Benefits and Economic Impact on the Community

<u>Option 1</u>	<u>Option 2</u>
● 10-year net benefits estimated at 897,700 ● Rate of Return: 5.4% ● Payback period: 16.9 years	● 10-year net benefits estimated at 897,700 ● Rate of Return: 4.7% ● Payback period: 18.9 years
● 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 50.6% of theatergoers 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.

Qualitative Benefits and 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. The theater is positioned to influence the community:

Arts Job Training

A strategic partnership with UNT Media Arts and 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.

INCENTIVE OPTIONS AND DIRECTION

Staff is recommending Option 1. to provide financial support or incentives to the Fine Arts Theater project.

- \$1,076,366 in a City Chapter 380 Grant at CO to pay down the construction loan principal to the required \$3,195,000. An additional \$544,503 Chapter 380 Grant funded at opening or annually as needed to cover the projected shortfall between Net Profit and Debt Service. No tax rebates. Total incentive: \$1,620,869.

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

January 10, 2024, Presented to the Economic Development Partnership Board

February 28, 2024, The Downtown Tax Increment Reinvestment Zone Number One Board recommended approval (5-0).

FISCAL INFORMATION

This incentive will be funded from the Tax Increment Reinvestment Zone Number One (Downtown) Fund.

EXHIBITS

Exhibit 1 – Agenda Information Sheet
Exhibit 2 – Project Concept
Exhibit 3 – Incentive Evaluation Matrix
Exhibit 4 – Underwriter Report
Exhibit 5- Impact Report
Exhibit 6 – Ordinance and Contract
Exhibit 7 – Presentation

Respectfully submitted:
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&
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