



Date: August 18, 2023

To: Wayne Emerson, Director of Economic Development, City of Denton
Ralph Bishop, Fine Arts Theater of Denton, LLC.

Re: Final Underwriting Report – Fine Arts Theater of Denton, LLC.

From: National Development Council
Underwriter: Sheldon Bartel

PURPOSE: The City of Denton (“City”) and Fine Arts Theater of Denton, LLC (“Developer”) have retained NDC to underwrite Fine Arts Theater of Denton, LLC request for \$2,000,000 City economic development incentive. This preliminary underwriting report is delivered as a guide to assist the City in determining the type(s), timing, and amount(s) of incentives to commit, if any.

NDC has reviewed the application from the Developer for the following economic development incentives:

- \$2,000,000 to help fill the \$2,627,054 gap in construction costs and operating/debt service reserve.
 - \$2,000,000 includes \$1,075,366 for rehabilitation and \$924,634 for an operating reserve

The requested incentive will support the development of 113-115 N. Elm Street, Denton TX (“Project”). The expected outcome is a rehabilitated historic theater with approximately 200 seats and V.I.P. mezzanine (25-30 seats), a smaller movie theater on the second level with approximately 50 seats, and a new concession area at the entrance with a bar that overlooks the downtown courthouse open to theater patrons and casual visitors alike. Developer believes the Project will contribute to the City as follows:

- Generate new revenue (sales and mixed beverage as well as property taxes) and drive tourism and visits to Denton Square and the City.
- Increase Denton Square’s value as a unique business and promote investment in other non-competing businesses due to increased visits.
- Enhance the creative arts culture of Denton.
- Provide new jobs and training in the theater arts with plans to partner with UNT’s media arts and hospitality management departments.
- Continue to revitalize Denton Square by bringing another newly rehabilitated building up to code.

PROJECT SUMMARY: Developer is proposing the rehabilitation of a Historic Theater into a multi-use entertainment facility. Existing 9,900 sqft structure is situated on 6,000 sqft footprint located at 113-115 N. Elm in the Denton Square. This is in a 2023 Qualified Census tract. Developer has site control via fee simple ownership of the property since 2018.

The building was originally constructed as a furniture store in the 1890’s and converted to a movie theater in 1935. The building ceased operation as a movie theater in 1982. From 1982 to 2014 the space was utilized as a church and performance space. It has been vacant since 2014 and sustained considerable interior damage due to a small fire and weather-related issues due to a faulty roof. The Developer acquired the Project site in 2018 has restored the building to shell condition which included replacing the roof,



asbestos removal and abatement, and demolition of the damaged areas along with architectural services at a cost of approximately \$2,146,714.

The ownership intends to completely renovate the building and convert it into a multi-use entertainment facility. Examples of its activity will involve assorted options including movies, film festivals, concerts, live performance, and rentals such as receptions, seminars, and worship services, as well as various community-based rentals. The renovated facility will have three interior levels and includes a restored main theater with approximately 200 seats and V.I.P. mezzanine (25-30 seats), a smaller movie theater on the second level with approximately 50 seats, a new concession area at the entrance and a bar that overlooks the downtown courthouse open to theater patrons and the public.

The total rehabilitation budget for the Fine Arts Theater is \$9.969M per the sources and uses statement provided. The funding gap is highlighted in yellow.

Fine Arts Theater of Denton-Property Owner S&U		
Rehabilitation Budget & Funding Sources		
As of 3.21.23		
Uses:		
Building Purchase (at actual)		\$769,442
Pre-development Costs (at actual)		\$1,377,272
Rehabilitation Costs (projected)		
Rehabilitation costs & Contingency		\$5,185,490
Furniture & fixtures		\$629,985
Soft costs		\$410,000
Interest & related costs		\$672,409
Total Projected Rehabilitation costs		\$6,897,884
Cash Reserve to meet OWC/DSCR Requirement		\$924,634
Total Projected Project Costs		\$9,969,232
Funding Sources:		
Cash equity already invested		\$1,152,260
Deferred developer fee		\$250,000
Construction Loan Proceeds:		
Appraised Value - As Complete 75%LTV	\$3,195,000	
Loan on Historic Tax Credits 75% LTV	\$2,000,000	
Pledged collateral 75% LTV	\$744,918	
Funding GAP	\$2,627,054	
Construction Loan Amount	\$8,566,972	\$8,566,972
Total Funding Sources		\$9,969,232
Post Construction Loan Paydown		
Construction Loan		\$ 5,939,918
Historic Tax credits (Estimated)		\$ (2,694,918)
Denton Downtown Econ Façade Grant (Estimated)		\$ (50,000)
Loan Balance		\$ 3,195,000



Uses

- Developer has invested \$2,146,714 to acquire and complete some preliminary repairs (pre-development costs). Sources of these funds were \$800,121 cash plus \$346,593 short term Developer loans and a \$971,357 loan from ANB&T.
- Rehabilitation costs are projected at \$6,897,884 per quote from the Rudick Construction Group.
 - The Project is to rehabilitate a historic theater into a community asset. These are unique undertakings. Rehabilitation is guided by and are subject to review by State and Federal Historic Preservation offices. Restoration to as near as original status is expensive. The Developer is working with Architexas and HRTC Service who bring a wealth of knowledge and experience in the rehabilitation of historic theaters. This knowledge and experience includes keeping costs reasonable as possible given the end goal.
- Developer projected a Cash Reserve to make debt service of \$924,634. Developer includes this amount in the request for City incentive. These funds are needed as projected cash flow is not sufficient to repay debt service on proposed permanent \$3,195,000 ANB&T loan through year 7.

Sources

- Developer provided evidence (2021 and 2022 Tax Returns and Balance sheet at 2/28/23) of \$1,146,714 investment in the form of \$800,121 cash and \$346,593 short term loans into the Project.
- Developer proposes deferring a \$250,000 developers fee for 10 years at 0%.
- ANB&T Construction loan of \$5,939,918
 - According to Marty Rivers, Denton Market President – ANB&T, the Developer has not secured rehabilitation/construction and permanent financing. American National Bank & Trust provided a loan offer only.
 - Loan offer (5/3/23) states “a [construction loan] loan up to \$5,939,918, or 75% LTV, which ever is smaller. The \$5,939,918 loan is the sum of 75% of appraised “as complete value” \$3,195,000 plus 75% of value of Federal and State Historic Tax Credits generated by the Project up to \$2,000,000 plus 75% of value of additional pledged property collateral owned by the Developer up to \$744,918.”
 - Rate is Wall Street Journal Prime plus 0.50% (8.75% today) with a term of 10 years. The rate will be fixed at closing for 5 years and then adjust to Wall Street Journal Prime plus 0.50% for the remaining 5 years.
 - Repayment will be interest only during the 24-month construction period then monthly principal and interest based on the remaining outstanding balance
 - Loan will be amortized over 25 years.
 - This offer is consistent with the market in terms of rate, term and amortization for real estate development projects.
 - Note, the Bank’s disclaimer “These terms in the offer are presented at a time before full and final underwriting of the proposed transaction. The purpose is to facilitate further discussion towards our mutual understanding and agreement of the likely final terms of the Loan as approved by the appropriate authority of the American National Bank & Trust.”

The proposed bank financing will work as follows:



A \$5,939, 918 construction loan with 24 months interest only repayment to provide Developer time to complete construction (estimated at 19 months) and reduce the loan balance to \$3,195,000 via the sale of Federal and Historic Tax Credits (HTCs) and with a \$50,000 Denton Downtown Façade Grant. ANB&T will only provide a permanent loan for 10 years with 25-year amortization in the amount of \$3,195,000. Developer, in their application, estimates the value of these HTCs at \$2,694,918. Analyst values the HTCs at \$2,952,848 and Appraiser values them at \$2,585,840. The difference is likely due to assumptions of the sales price per dollar for the HTCs and absence of transaction costs. Note, the HTCs can only be sold after Project completion. A source of risk for the Developers and ANB&T exists because they cannot predict the demand and sales price of HTCs 19 months out. Marty Rivers of ANB&T expressed a preference for some other entity to lend against the HTCs on a call (6/12/23) if possible.

Historic Tax Credits

Federal and historic tax credits (HTCs) are awarded, after successful application and project construction/rehabilitation, to Developers to help offset the high cost of renovating a historic building as close as possible to its original construction and design. Developer has provided evidence of successful approval of the Project by both the Texas Historical Commission and the US Dept of the Interior National Park Service (Part 1 and Part 2 Applications). Both these entities will need to certify the completion of the proposed rehabilitation work prior to awarding the HTCs. At this point, the HTCs can be sold to raise cash to pay down the construction loan so that the maximum permanent loan is \$3,150,000.

Developer is working with [Architexas](#) (Renee (Bresson) Powell, AIA) and [HRTC Service](#) (Jay Firsching) on the Historic Rehabilitation. Architexas has been providing architectural work for historic rehabilitation projects for 45 years. They have worked on historic theater projects across Texas. HRTC Services is a Texas based historic preservation consulting firm helping individuals, architectural firms, governments, non-profits, and for-profit companies in the preservation of historic properties.

There are transactional costs of using HTCs such as a typical return (Cash on Cash) to the investor of 2% to 3% each year of the 5-year compliance period and a 10% -15% exit fee, but every investor is different. There are also syndication/legal fees for creating the LP and a cost cert and annual audits. For example: \$1.6 million Federal Tax Credit allocation may only net \$1,350,000 for the project. These transactional costs have not been identified by the Developer in their estimate of possible HTC equity. In addition, potential buyers of the tax credits have not been identified.

PROJECT ELIGIBILITY: The City of Denton’s Resolution # 22-357 “A Resolution of the City Council of the City of Denton, Texas, approving the establishment of policies, guidelines, and criteria governing Chapter 380 incentives; and declaring an effective date” was approved May 3rd, 2022. Resolution # 22-357 provides the framework for the consideration of the use of public resources to stimulate economic activity. The Resolution established the policy to align the use of incentives with the City’s strategic focus areas and ensure a positive return on investment for the community. The Resolution refers to the City of Denton 2020 Economic Development Strategic Plan that has 5 guiding principles: Core Resiliency, Future Focused, Inclusive Growth, Entrepreneurial Spirit, and Cultural Vitality. Furthermore, the City has strategic growth areas and related industries, organized by NAICS codes. These industries have been identified in the Strategic Plan for cultivation and recruitment and will be given priority consideration.

This Project fits into the Cultural Vitality guiding principle “Strengthen Denton’s cultural vitality by continuing to promote arts and music while also marketing the City as DFW’s cultural hub”. In addition, the Project falls into the strategic NAICS codes 531 Real Estate (Connected), 711 Performing Arts (Creative), and



236 Building Construction (Sustainable).

Resolution # 22-357 states “If, upon initial application, a project qualifies for an incentive under the guidelines set forth in this Policy, the City may consider the following factors in evaluating its public benefit:

1. Expands the tax base through property, sales, Hotel Occupancy Tax (HOT), or other taxes to the City, County, DISD, and DCTA through the development of property, facility or by making improvements to an existing property or facility, through the development of a new business or expansion of an existing business, through the development of a new multi-tenant complex where businesses can locate, or through the addition or increase in jobs available in the City,
2. Community Investment demonstrates a commitment to community support or involvement through monetary or in-kind support of local nonprofits, public institutions, or community organizations,
3. Public Private Partnerships includes development of public infrastructure or public amenities that City deems beneficial, or developer assumes responsibility for development of infrastructure or other public facilities beyond what is required. Project will involve a significant relationship with a public school district or institution of higher education,
4. 25% of local contractors used in construction or 25% of new jobs filled by Denton residents.
5. Other priorities or considerations as determined by City Council”

The proposed Project will fall into factors #1 and #2. The Project expands the tax base through property, sales, and Hotel Occupancy Tax through the development of property, facility or by making improvements to an existing property or facility, through the development of a new business. Currently Project is an unused historic property. It will expand the tax base via rehabilitation of the facility and establishment of a new business. Furthermore, the Project is intended to attract visitors to Denton. The Project demonstrates a commitment to community support or involvement by providing performance space to local non-profits, public institutions, or community organizations.

Additional eligibility is identified in the Denton 2040 Comprehensive Plan and Downtown TIRZ #1 Project Plan.

Denton 2040 Comprehensive Plan

Key Action Item #69 : Identify opportunities to incorporate venues for arts and music events in future development, including Downtown (The Original Denton District) and in Regional Centers. Study opportunities for arts and music venues in vacant or underutilized sites adjacent to Downtown and the Downtown Denton Transit Center that can be supported by the A-Train. Pursue next steps for the reuse of City Hall West and *potential development of a new fine arts theatre.*

4.7.1; 4.7.4

Downtown TIRZ #1 Project Plan

Downtown Projects may include grants, loans and services for public and private development. Eligible TIF project costs are not limited to public uses and may also include projects that involve: historic preservation, demolition, environmental remediation and economic development grants. Chapter 380 of the Local Government Code grants municipalities in Texas the authority to offer grants and loans of public funds to stimulate economic development.

DEVELOPER EXPERIENCE AND FINANCIAL CAPACITY:

Fine Arts Theater of Denton LLC was formed May 25, 2018, for the purpose of transacting of any and all lawful



purposes for which a limited liability company may be organized under the Texas Organizations Business Code. The LLCs first project is the property located at 113-115 North Elm Street, Denton, TX. Class A Members (voting members) of Fine Arts Theater of Denton, LLC include:

- Ann P. Andrus Exempt Trust (42.76%)
- Brad Andrus (16%) *
- Michael A. Payne (10.67%) *
- Bret Andrus (5.33%)
- Brenda Oxley (5.33%)
- * Denotes Managing Members (verified by Texas Comptroller of Public Accounts)
- All Class A Members are Accredited Investors as that term is defined in Regulation D promulgated by the SEC under the Securities Act of 1933 as amended.

Class B Members of Fine Arts Theater of Denton, LLC. have no voting rights. They provide Project economic viability, building layout and space planning services. Class B members include:

- ACI North LLC (20%). This entity is a Texas Domestic Limited Liability Company formed in 2018. ACI North has a registered address of 231 West Jefferson, Dallas, TX 75208. Three manager/members are listed as Jason Reimer, Lles Martin, Barak Epstein. Mr. Reimer is the registered agent. In 2010 Mr. Reimer helped open/operate the historic Texas Theater in the Oak Cliff neighborhood of Dallas, TX via the entity Aviation Cinemas. Aviation Cinemas ownership is the same as ACI North LLC members. Mr. Reimer has been providing consulting for the Developer. Specifically, he helped with the development of the business plan and projected financial statements. During a recent call with Mr. Reimer, he explained that he believes the latter will exceed the performance of Texas Theater because “it is in a more walkable community which will result in more bodies in seats.”

Managing Member Bios

Brad Andrus

Brad Andrus is a co-founder and principal at Northbridge Management and Consulting. Mr. Andrus is a third-generation resident of Denton County, Texas and has real estate, banking, and entrepreneurship in his blood. Prior to co-founding Northbridge Realty Holdings in 2015, Brad spent seven years as an executive for a community bank. In that role, Brad guided clients in the development and acquisition of commercial real estate throughout North Texas. His experience underwriting and financing commercial real estate transactions has provided a strong foundation for his development responsibilities and enables him to efficiently work through complex real estate transactions. Brad also has a strong background in construction and property management. He is passionate about developing and adding value to real estate. Brad earned a bachelor’s degree from Brigham Young University in marketing and a master’s degree in Journalism from the University of North Texas. He currently serves as a trustee of the Krum Independent School District and is a graduate of the 2006 class of Leadership Denton.

Michael A. Payne

Since 1999, Mr. Payne is a co-founder and principal at Northbridge Management and Consulting. He has been representing owners and tenants of all commercial property types throughout Denton County and the Dallas/Fort Worth area. He has been retained as a consultant on large assignments including high profile clients such as City of Lake Dallas, North Central Texas College, and Denton Fireman’s Pension Fund and Denton County. Alex received his bachelor’s degree from the University of Texas at Austin in 2000 and has been an active member of International Council of Shopping Centers (ICSC), Texas Self Storage Association, the North Texas Commercial Association of REALTORS (NRCAR), Greater Denton/Wise County Association of Realtors (GDWCAR), The Chamber of Commerce in Denton, Denton Economic Development Partnership, The Urban Land Institute,



Class of 2004-2005 Leadership Denton. He serves/has served on the Board of Directors for Health Services of North Texas, Denton Community Theatre, Downtown Development Task Force, Denton Zoning Board of Adjustment, Texas Filmmakers (Thin Line Film Festival), Denton Downtown TIF Board, and West Park TIRZ Board.

Mr. Payne and Mr. Andrus are owner/broker and executive VP of Axis Realty Group. This company is a commercial real estate brokerage providing brokerage, leasing, investment sales, property management, and consulting services for office buildings, retail centers, industrial/flex/warehouse buildings, medical facilities, multi-family complexes, and commercial land. Furthermore, Mr. Payne and Mr. Andrus are principals with Northbridge Realty Holdings.

Bret Andrus

Mr. Bret Andrus is a principal at Northbridge Realty Holdings. Bret is a member of Fine Arts Theater of Denton LLC and the brother of Brad Andrus. The company has acquired and developed commercial properties with a total value of over \$500 million. A third affiliate, Northbridge Management, provides construction management, engineering, and technical services to engineering and architectural firms to coordinate construction activities and schedules.

Non-Member Bios

Ralph Bishop, CPA, is the CFO for Northbridge Management and Consulting. Northbridge offers property and construction management services and consulting. Ralph Bishop joined Northbridge Management in 2022 as Chief Financial Officer. Ralph brings over 25 years of finance and accounting industry knowledge to the Northbridge team. He previously held executive positions with both Guggenheim Real Estate Partners and Victory Real Estate Group. Ralph has a proven track record of building lasting teams, strategies, and systems that are the foundation of successful real estate organizations. As a financial professional with an extensive history in commercial real estate development, debt and equity structuring, strategic planning, and analysis, Ralph leads organizations to thrive in fast-paced, capital intensive, tech dependent environments. Ralph earned a bachelor's degree from Texas State University and is a Certified Public Accountant. He is a member of both the American Institute for CPAs and the Texas Society of CPAs. Mr. Bishop provided the financials and documents for the application. He has no ownership in Fine Arts Theater of Denton.

Renee (Bresson) Powell, AIA, is an associate planner with Architexas. She is providing the architectural services for the Project. Mrs. Powell joined Architexas in 2015 after completing her Masters of Architecture. Her project experience includes The First Presbyterian Church of Dallas and Factory Six03. She completed the Texas Theater, an adaptive use of an abandoned historic main street theater in downtown Athens TX into a multi-purpose performing arts facility. Ms. Powell and Architexas use Jay Firsching of HRTC Historic Preservation Service for Historic Tax Credit services.

Established, by Jay Firsching in March 2023, HRTC Services is a Texas based historic preservation consulting firm helping individuals, architectural firms, governments, non-profits, and for-profit companies in the preservation of historic properties. Prior to this Mr. Firsching worked at Architexas for almost 25 years as the in-house historic preservation professional. Prior to his work with Architexas, Mr. Firsching served for 3 years for the Texas Historical Commission.

The Developer (Class A and B members) have ample experience and access to subject matter expertise via their staff and consultants (non-members). A capable development team exists to manage the permitting, construction, operations, and administration/management of the Project.



Financial Capacity of the Developer

Developer submitted 2021 and 2022 federal tax returns for Fine Arts Theater of Denton, LLC as well as a balance sheet at 2/28/23. These financial statements only included balance sheet items (e.g., assets such as property acquisition and improvement and liabilities such as accounts and loans payable) as no operating activity has been completed to date. These tax returns and balance sheet do not convey the business activities and financial performance of Fine Arts Theater of Denton, LLC beyond acquisition and rehabilitation costs. Proforma profit and loss statements for 10 years were provided to project the revenues and expenses for the Project post construction. The Developer did not submit personal tax returns or personal financial statements for the Class A Members who are Accredited Investors/high net worth individuals.

Mr. Brad Andrus supplied information evidencing liquidity sufficient to fund the \$627,024 of the \$2,627,024 gap as well as cost overruns (should they occur). No financial information was provided by the other Class A Members of Fine Arts Theater of Dallas.

MARKET FOR PROJECT: Developer has worked with Jason Reimer of the Texas Theater to produce financial projections for 10 years. Attendance (for movies, private events, live events, and festivals) and ticket sales is based on actual performance of Texas Theater. Project will attract patrons residing inside and outside of Denton. Project has an advantage over the Texas Theater – the University of North Texas is located less than 1.5 miles from Denton Fine Arts Theater. It is unlikely Texas Theater will compete with Project because it is 42 miles away. It is likely Project will bring additional customers to Denton Square food and retail establishments.

DEVELOPMENT PROFORMA:

Development Proforma

Developer provided sources and uses statement, balance sheet at 2/28/23, annual proforma (10 years) to model the operating revenue and expenses, reconciliation of predevelopment costs, estimate of value of HTC equity, detailed rehabilitation costs, list of furniture, fixtures, and equipment with costs, and visitor information (projected attendance and # of events/films etc). Developer estimated that construction would take 19 months. Therefore, Developer will initially incur +/- 20 months of expenses before earning any revenue from operations.

The information provided was grounded in the experience of an owner/operator of Texas Theater, Rudick Construction Group, Architexas, HRTC Services, and vendors for the furniture, fixtures, and equipment.

Gap Analysis

To determine whether a funding gap exists for the Project, the underwriter examined Developer's sources and uses statement as well as projected revenues and expenses to determine if:

1. Sources equal uses
2. Developer will achieve a reasonable profit.

A gap of \$2,627,054 exists in the Project budget after proposed bank loan and Developer equity are considered. The gap for rehabilitation is the difference between what the lender will lend and the "as completed" Project appraisal (3/17/23). The Bank will only lend up to 75% of the "as completed" appraised value of the Project for construction loan and the permanent loan. The construction gap is reduced by the Developer pledging additional \$1 million real estate at 75% loan to value as well as 75% of the HRTCs on the Project. Even with additional real estate and HRTCs pledged there exists a \$2,627,054 gap. The gap



includes estimated \$1,702,421 for rehabilitation and \$924,634 for cash reserves. While the Project is expected to generate profits in its start-up year and beyond, it is not expected to generate sufficient cash to repay bank debt service at the required 1.25:1 debt coverage ratio for the initial 10 years. The bank requires the Project to have \$1.25 of cash flow for every \$1 of debt. The reserve is projected to fund debt service (if the Project is unable) over the initial 10 years of operations.

Developer has invested \$2,146,714 in the Project to date. Furthermore, the Developer has pledged \$1 million of real estate (at 75% loan to value) to support the proposed Bank construction loan. Also, the Developer is willing to defer payment of the \$250,000 developer fee for 10 years with no interest accumulation. It appears that the Developer is willing to fund \$627,054 of the total gap as the incentive request to the City is \$2 million.

In general, if a project does not provide a reasonable return for the Developer and their investors, the Developer is unlikely to move forward with the project. This is an owner-occupied Project meaning the Developer owns both the operating business and the real estate. There are no rents involved, the operating business will pay the debt service. Therefore, the income capitalization approach to Project valuation is not reasonable because it only values the real estate (excludes the operating business). Furthermore, the sales comparison approach to Project valuation is not reasonable because it only values real estate (excludes the operating business). Returns to Developer in this instance are based on:

- 1) Sales minus expenses equaling profit or loss. Debt service is subtracted from the profit or loss to calculate cash flow for distribution. According to the 10 years of sales and expenses projections provided as well as debt service on the Bank loan there will be no cash flow for distribution until year 8. Therefore, there will be no return on equity until year 7 when a 1% return is projected. Return on equity may increase to 3% by year 10 (assuming financials targets are achieved).
- 2) Some future anticipated sales of the Project (both the real estate and operating business)
- 3) Tax benefits to the Developer, that is, mitigating taxes from other investments and businesses.

Given the Developer has invested more than \$2 million to this point, is willing to pledge additional \$1 million of real estate to collateralize the proposed construction loan, appears ready to inject an additional \$627,054 to close the gap, the Project is not projected to provide a cash-on-cash return on equity until year 8, the Developer is willing to forgo a \$250,000 developer fee for 10 years, Developer motivation is not purely financial reward in nature.

SUMMARY AND CONCLUSIONS:

The Project is the complete renovation of an unused historic property into a multi-use entertainment facility (movie theater, concert venue, meeting facility). Examples of its activity will involve various options including movies, film festivals, concerts, live performance, and rentals such as receptions, seminars, and worship services, as well as various community-based rentals. The renovated facility will have three interior levels and includes a restored main theater with approximately 200 seats and V.I.P. mezzanine (25-30 seats), a smaller movie theater on the second level with approximately 50 seats, a new concession area at the entrance and a bar that overlooks the downtown courthouse open to theater patrons and the public. This will be a +/- \$10 million project.

The proposed project is aligned with The City of Denton 2020 Economic Development Strategic Plan that has 5 guiding principles: Core Resiliency, Future Focused, Inclusive Growth, Entrepreneurial Spirit, and Cultural Vitality. Furthermore, the City has strategic growth areas and related industries, organized by NAICS codes. These industries have been identified in the Strategic Plan for cultivation and recruitment and will be given priority consideration. This Project fits into the Cultural Vitality guiding principle "Strengthen



Denton's cultural vitality by continuing to promote arts and music while also marketing the City as DFW's cultural hub". In addition, the Project falls into the strategic NAICS codes 531 Real Estate (Connected), 711 Performing Arts (Creative), and 236 Building Construction (Sustainable).

1. Developer has extensive real estate development and management as well as business operation knowledge, skills, and experience. In addition, Developer has retained a very capable and experienced support team for the Project. Notably, the Developer is receiving Project assistance from Jason Reimer who is a founding member and owner of the Texas Theater. In addition, Mr. Reimer has been a past creative director of the Texas Theater and continues to assist in its renovation and programming. Mr. Reimer is a Class B Member of Fine Arts Theater of Denton LLC via the entity ACI North LLC. According to the Operating Agreement of Fine Arts Theater of Denton LLC, the Class B member will assist with the building design and space layout of the Project. Furthermore, the Class B member will work with Class A members to assess whether the Project is viable as a Theater venue. Together these parties have provided a plan with financial projections for the Project based on Mr. Reimers' experiences at the Texas Theater.

2. Developer has financial capacity to fund rehabilitation cost overruns.

3. The Project is eligible for City economic development incentives. Without economic development incentive it is likely the Project will not occur because the gap cannot be filled. Given projected inability to cash flow proposed permanent debt of \$3,195,000 for a decade, the Project cannot leverage additional debt. Without City incentive, The Project will remain unfinished and unutilized (and likely for sale) into the foreseeable future.

4. Developer investment of \$2,146,714 in the Project (\$800,121 cash and \$346,593 short term Developer loans as well as \$1 million ANB&T loan) plus willingness to pledge \$1 million in real estate collateral for the construction loan plus additional equity required to reduce the gap to \$2 million exceeds the requested incentive of \$2,000,000. In addition, the Developer is willing to forgo a \$250,000 developer fee for 10 years.

5. If the City provides the requested cash incentive requested, Developer's return is projected at 0% for 6 years. The cash-on-cash return is less than 3% for years 7 thru 10. The request is reasonable as it is not unduly enriching the Developer. Developer of this Project is not primarily motivated by financial returns. Note that all Class A Members of the Developer are Accredited Investors as that term is defined in Regulation D promulgated by the SEC under the Securities Act of 1933 as amended.

RECOMMENDATION:

The City begin negotiations to provide an incentive of \$2 million in the form of a forgivable 0% loan with payments deferred until 10 years after rehabilitation is completed or the Bank construction loan becomes a permanent loan. For each year the Project is operational (that is, is an ongoing operating business under the same continued ownership) the loan principal is forgiven 10%. Using this structure, the City incentive loan will be 100% forgiven after 10 years of continuous operations. Conditions of the City incentive loan include:

- Short Term Developer Notes valued at \$346,593 on 2/28/23 Balance Sheet are converted to equity prior to award of any City incentive.
- The Project (real estate and/or business) cannot be sold until after the City incentive loan has been 100% forgiven. If the Developer wishes to sell prior to this benchmark:
 - the outstanding balance of the City incentive loan must be repaid in full.



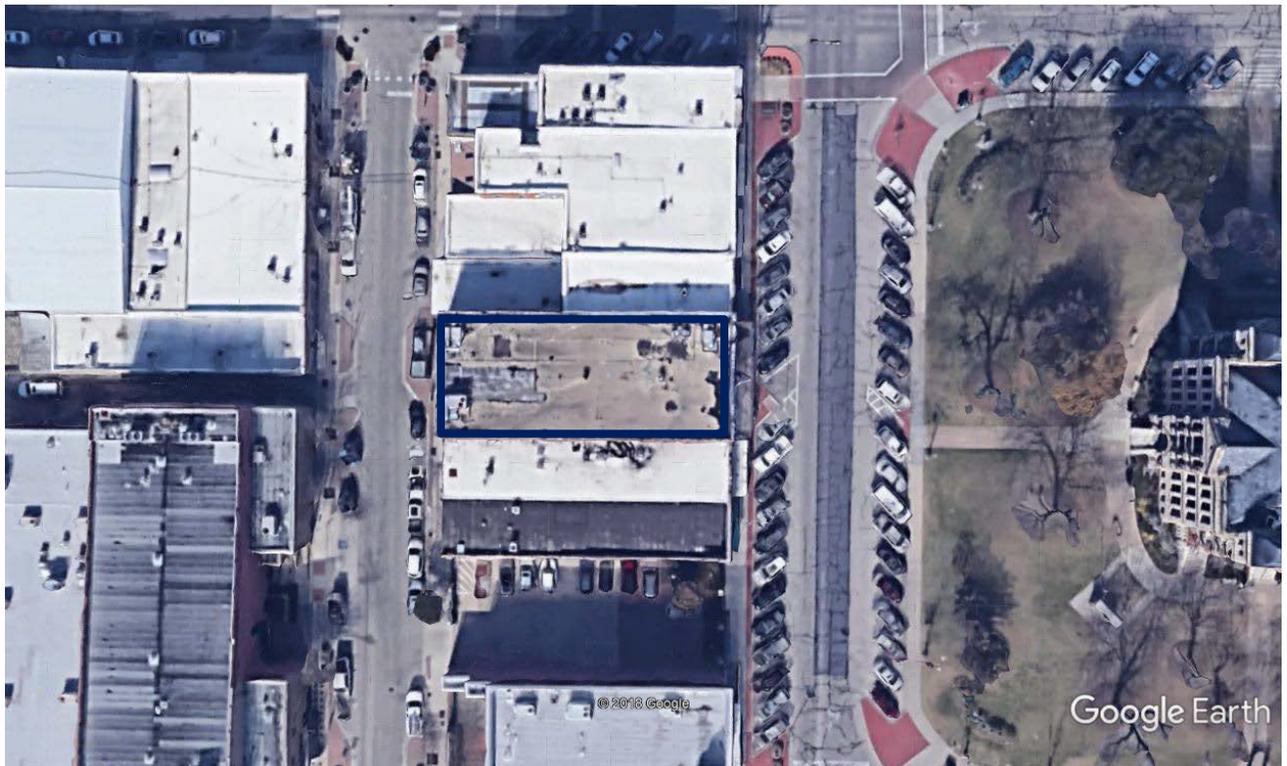
- the Developer must get the written consent of the City
- Non-voting Member ACI North LLC will assist the Developer in the operations/management of the Project. City review and approval of the consulting/operating agreement must be a preliminary condition of approval of any incentive award.
- The transactional costs of using HTCs must be identified by the Developer in their estimate of possible net HTC equity available to the Project (as collateral for the construction loan and as post completion equity to pay down the construction loan). The minimum net HTC equity must be at least \$2,694,918. The Developer must be required to inject cash to “top up” any short fall in HTC net equity to reach the \$2,694,918 amount. In addition, the Developer must identify potential buyers of the HTC’s. Furthermore, the Developer must agree to inject any excess HTC equity (should the net HTC equity exceed \$2,694,918) into a replacement reserve account for the Project. These must be preliminary conditions of approval of any incentive award.
- The underwriter did not check for bankruptcies, lawsuits, judgements, liens or tax delinquencies for the Developer and the Project. The City should conduct further diligence prior to finalizing any incentive package.

Note:

A preliminary underwriting report was provided Developer and City 7/28/23. No additional documents and information were recommended. Analyst requested comments on the report from Developer 8/8/23. No comments have been provided to date. The City issued a Term Sheet to the Developer 8/14/23.



Exterior View: Front



Location



Interior View

