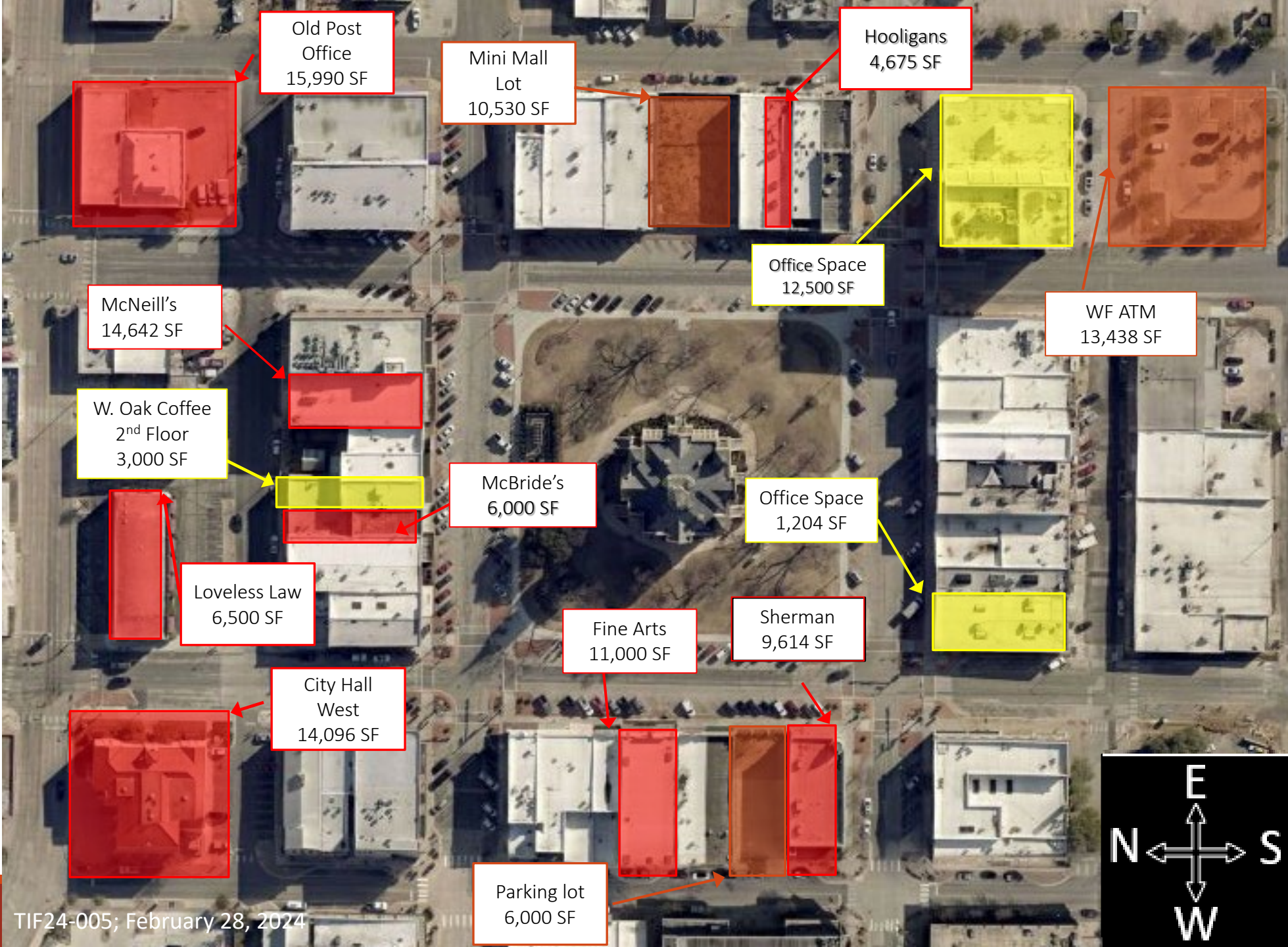


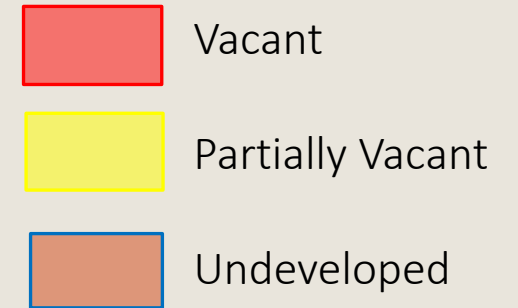
# Economic Development Incentive Fine Arts Theater

Christine Taylor, Assistant City Manager  
Tax Increment Reinvestment Zone Number One  
February 28, 2024





## Downtown Current Conditions



	SF	%
Vacant/ Undeveloped	125,577	26%

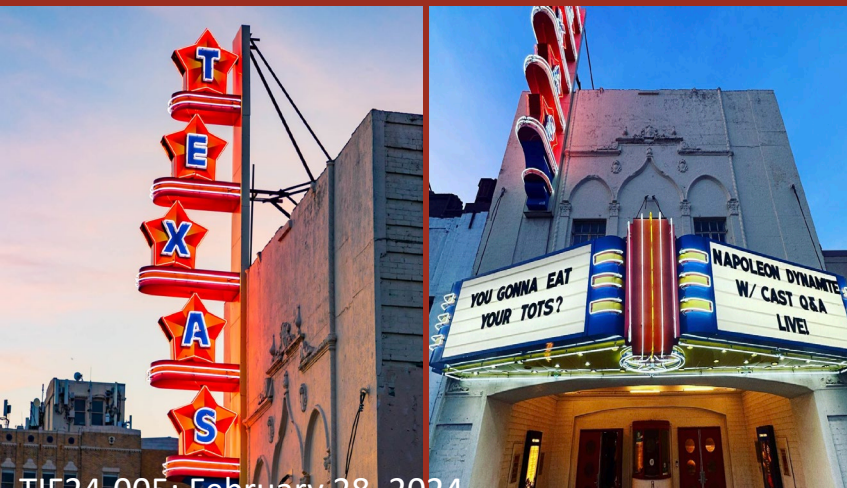




Developer: NorthBridge  
Alex Payne and Brad Andrus



Operator: Texas Theater Group  
Jason Reimer & Barak Epstein



# Proposed Project

## Redevelopment of the Fine Arts Theater

9,900 sq. ft. structure situated in a 6,000 sq. ft. footprint

Multi-Use Theater: live performances, movies, special events, film festivals, concerts, and private rentals

- **First Floor**

Lobby

Bar/Concessions

Main Theater

200 seats

- **Second Floor**

Secondary Theater

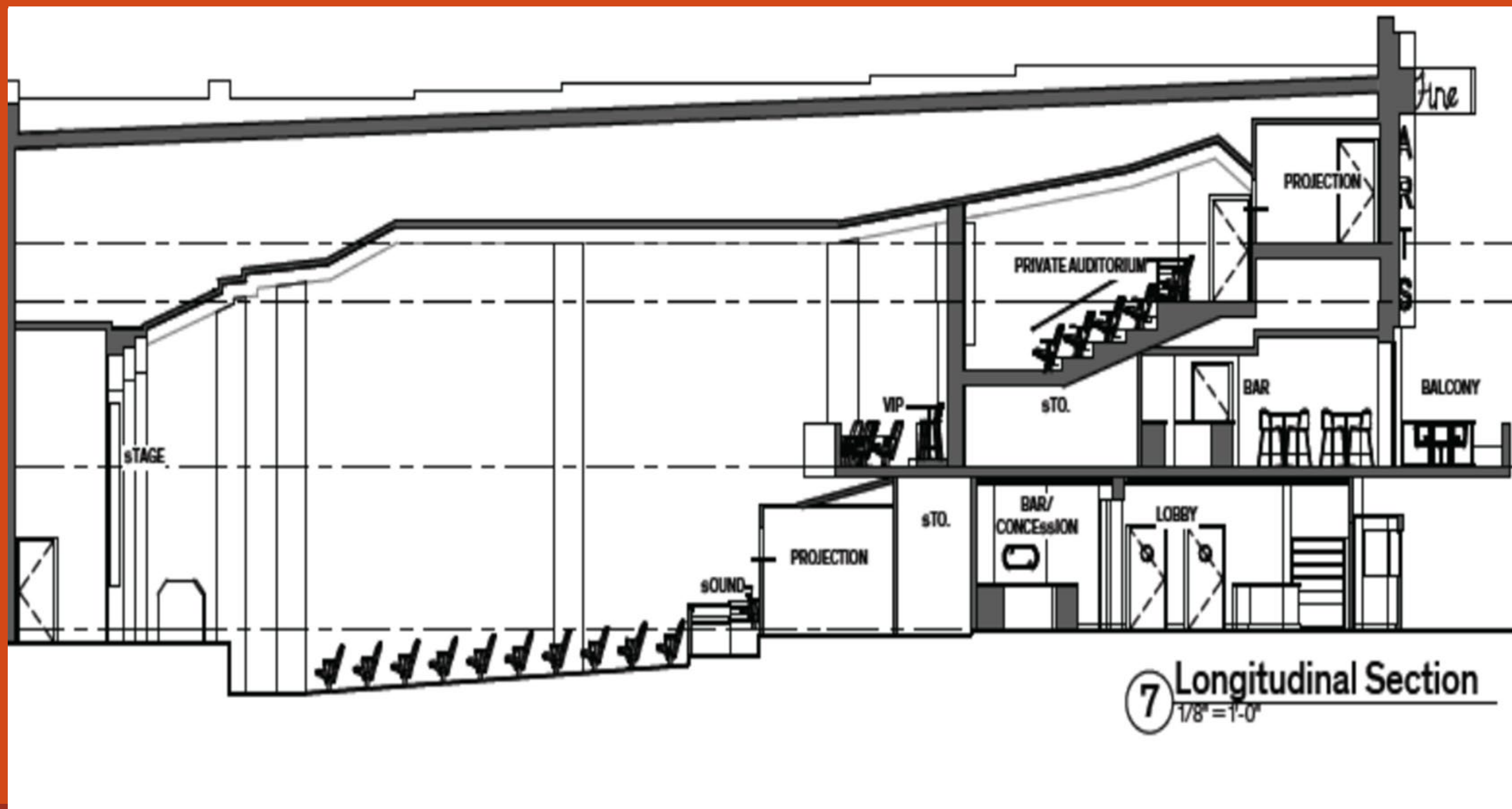
30 seats – mezzanine

Bar (approx. 30 seats) with a balcony overlooking the square

- **Third Floor**

Private Theater

50 seats



# Predevelopment Activities

The property was purchased in 2018 for \$769,442 and \$2.2 Million has been invested in predevelopment activities



Purchase of the property

Engagement of the Architect & Engineer

Interior demolition & remediation

Renovation plans and permits issued

Obtained approval for Historic Tax Credits



# Underwriter Review

- 3<sup>rd</sup> Party Underwriter hired by the City for evaluation of Fine Arts Project proposal in February 2023
- Goals of Underwriter Report:
  - Evaluate developer experience and capacity
  - Financial review of sources and uses, operating proformas, and financial statements
  - Review of appraisals, cost assumptions, capital budgets, operating statements, marketing data, and other funding commitments
  - Identifying potential sources and need for public funding

# Underwriter Review – Capital

## Development Costs

Pre-Development	
Building Purchase	\$ 769,442
Architect, Engineer, Consultant & Legal Fees	\$ 736,386
Asbestos Abatement, Demolition, Roof Replacement	\$ 574,621
Property Taxes & Other	\$ 129,018
Total Pre-Development Costs*	\$ 2,209,467
Rehabilitation	
Rehabilitation Costs & Contingency	\$ 5,186,074
Furnitures & Fixtures	\$ 629,985
Soft Costs	\$ 410,000
Interest & Related Costs	\$ 684,096
Total Projected Rehabilitation Costs	\$ 6,910,155
Total Projected Project Costs	\$ 9,119,622

## Loan, Estimated Funding Sources, and Need

Remaining Pre-Development Loan	\$677,427
Construction Loan	6,910,155
Loan Sub Total	\$7,587,582
Estimated Historic Tax Credits	(2,710,956)
Estimated additional cash paydown from developers	(555,260)
Loan Paydown Sub Total	\$4,321,366
Maximum Loan -Appraised Value as Complete- 75% LTV	\$ 3,195,000
Variance (Estimated Incentive Need)	\$1,126,366

Estimated Capital Incentive Need  
\$1,126,366

\*Predevelopment costs are funded by a combination of 1.5M Cash and 0.7M Remaining Loan Balance



# Underwriter Review – Operating

	Year 1	2	3	4	5	6	7	8	9	10
Total Revenue	1,230,880	1,333,830	1,455,306	1,484,412	1,514,100	1,544,662	1,575,269	1,606,775	1,638,910	1,671,688
Total Expenses (Operating and Goods Sold)	1,068,072	1,143,016	1,209,608	1,223,279	1,237,133	1,251,175	1,265,407	1,279,832	1,294,456	1,309,281
Net Profit/Loss	162,808	190,814	245,698	261,133	276,967	293,487	309,862	326,943	344,454	362,407
Debt Service (p+i) bank	315,210	315,210	315,210	315,210	315,210	315,210	315,210	315,210	315,210	315,210
Bank required DSC Reserve (0.25%)	78,802									
Sub Total	394,012	315,210	315,210	315,210	315,210	315,210	315,210	315,210	315,210	315,210
Variance	-231,204	-124,396	-69,512	-54,077	-38,243	-21,723	-5,348			

Estimated Operating Incentive  
Need \$544,503



# Incentive

- Original Request was \$2.0 Million
- Proposed Incentive \$1.6 Million from the Downtown TIRZ Fund
- \$1,076,366 in a City of Denton Chapter 380 incentive grant at **Certificate of Occupancy** to pay down construction loan principal to the required \$3,195,000.
- \$50,000 reimbursed in a City of Denton Façade Grant
- Up to \$544,503 in a City of Denton Chapter 380 incentive funded **over 7 years**, to cover the projected shortfall between Net Profit and Debt Service, if revenues and expenditures are met.

Term	7 Years
Capital Incentive	\$1,076,366
Façade Grant	\$50,000
Operating Incentive	\$544,503
Tax Rebates	\$0
Total Impact	\$1,670,869

# Comparison & Advantages/Disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Redevelop a vacant property and increase density in the downtown core</li><li>• Adds to the culture of Denton, increases foot traffic, and quality of life Downtown</li><li>• Conforms with the TIRZ Project Plan and other strategic plans</li><li>• Acts as a catalyst to spur new private investment in downtown</li><li>• Initial cash grant is paid only after construction is complete and the certificate of occupancy is in place</li><li>• Developer is investing and leveraging other funding sources (historic tax credits)</li><li>• DISD and UNT educational Art and Film Partnerships. Facilitates community events</li><li>• City retains generated taxes (property, sales, mixed beverage)</li><li>• Performance-based annual rebates that are paid over time, incentivizes Theatre to perform well</li></ul>	<ul style="list-style-type: none"><li>• Jobs are not significant</li><li>• Does not significantly expand the tax base or increase TIRZ No. 1 revenue</li><li>• Initial grant would represent an investment of approximately 25% of the TIRZ fund</li></ul>

# TIRZ Fund

Tax Year	Certified Tax Value	Tax Rate	Incremental Value	Incremental Value Contribution	Annual TIRZ Revenue	Interest Income	Cumulative TIRZ Revenue		Total Expenditures	Fund Balance	
			Certified value less base value	Incremental value times contribution rate	Incremental value times tax rate/100		Cumulative total of year revenues				
2010	79,356,854										
2011	80,331,050	0.68975	80,331,050	974,196	6,720	17	6,737				
2012	93,040,263	0.68975	93,040,263	13,683,409	94,381	297	101,415				
2013	100,452,300	0.68975	100,452,300	21,095,446	145,506	1,084	248,005				
2014	116,769,435	0.68975	116,769,435	37,412,581	258,053	2,821	508,879				
2015	127,204,599	0.68975	127,204,599	47,847,745	330,030	5,855	844,764		76,000		
2016	150,021,979	0.68334	150,021,979	67,131,869	458,739	11,439	1,314,942		76,000		
2017	161,351,215	0.637856	161,351,215	77,894,643	496,856	6,712	1,818,509		1,542,845		
2018	170,678,753	0.620477	170,678,753	86,755,804	538,300	11,589	2,368,398		156,000		
2019	209,626,251	0.590454	209,626,251	123,755,927	730,722	16,930	3,116,050		139,587		
2020	234,054,363	0.590454	234,054,363	146,962,634	867,747	10,870	3,994,667		24,988		
2021	232,894,462	0.565823	232,894,462	138,183,847	781,876	19,667	4,796,210		51,507		
2022	248,740,222	0.560682	248,740,222	152,445,031	854,732	82,138	5,733,080	Actual	115,267	3,550,886	
2023	261,579,433	0.560682	261,579,433	164,000,321	919,520		6,483,181	10-Year Forecast			
2024	274,658,405	0.560682	274,658,405	175,771,396	985,519		7,468,699				
2025	288,391,325	0.560682	288,391,325	188,131,024	1,054,817		8,523,516				
2026	302,810,891	0.560682	302,810,891	201,108,633	1,127,580		9,651,096				
2027	317,951,436	0.560682	317,951,436	214,735,124	1,203,981		10,855,077				
2028	333,849,007	0.565682	333,849,007	229,042,938	1,295,655		12,150,732				
2029	350,541,458	0.565682	350,541,458	244,066,143	1,380,638		13,531,370				
2030	368,068,531	0.565682	368,068,531	259,840,509	1,469,871		15,001,241				
2031	386,471,957	0.565682	386,471,957	261,047,838	1,476,701		16,477,942				
2032	405,795,555	0.565682	405,795,555	277,472,896	1,569,614		18,047,556				

- Last supplement of the year used for the recording of value for the TIRZ
  - Valuation actuals through 2022
  - FY22/23 Fund balance is \$3,500,886
- Growth rate of 5% used for projections
  - Cap of \$24.8 M is estimated in 2036, term completed in 2039
  - Expenditures total to date 2,182,194



# Strategic Plan Alignment

## City of Denton Key Focus Areas

- Key Focus Area 3: Foster Economic Opportunity and Affordability
  - Increase in tourism

## 2040 Comprehensive Plan

- Key Action #69: 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.

## Economic Development Strategic Plan

- 2D.2 Downtown Development: 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.

# Policy Alignment

## Denton Tax Abatement and Chapter 380 Policies

- Strategic Growth Area (SGA): Creative
- NAICS Code: 711310 Promoters of and Similar Events with Facilities

## Incentive Evaluation Matrix Summary

SGA Target: 13 points

Priority Considerations: 35 points

Public Benefit Factors: 37 points

**Total Points:** 85 Excellent (85-175 points)

## Downtown TIRZ No. 1 Project Plan

- Eligible Project Category: Downtown Projects- may include grants, loans and services for public and private development.
- Eligible TIRZ project may also include:
  - Historic preservation
  - Demolition
  - Environmental remediation
  - Economic development grants

# Community Impact

## Job Training

- Partner with the University of North Texas to provide training, and internships for aspiring film, hospitality, and theater arts majors.

## Community and Special Events

- Offer discounted rates to local non-profits to hold fundraisers, celebrations, and event awareness events
- Offering events (low or no cost) related to cultural history screenings including guest speakers
- Partner with local festivals to provide a venue

## Educational

- Coordinate with Denton ISD and neighboring districts to offer field trips to view educational and or historical films
- Present and host educational productions

# Staff Recommendation

- Provide an incentive - total impact (\$1.6 Million) \$1,076,366 in a City Chapter 380 Grant **at Certificate of Occupancy (CO)** to pay down construction loan principal to the required \$3,195,000. Up to an additional maximum amount of \$544,503 via Chapter 380 Grant as needed to cover the projected shortfall between Net Profit and Debt Service if projected revenues and expenses are met. No tax rebates and the City retains the property, sales, and mixed beverage tax.

## Next Steps

- Consideration by City Council – March 2024





# Questions