



City of Joplin
Boomtown Central Shopping
Tax Increment Financing Plan
But-For Determination Report
July 31, 2019

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1. Purpose

The City of Joplin has retained Baker Tilly Municipal Advisors to review the proposed Boomtown Central Shopping Tax Increment Financing Plan. The Redevelopment Area is an approximately 64.46-acre area of land generally located south of E. 32nd Street, east of S. Range Line Boulevard and west of the Kansas City Southern Line. The Plan proposes the construction of a new shopping center containing an approximately 202,209 sf home improvement store, along with a 50,300 sf movie theater complex, a new 4,400 sf fuel station, a 55,980 sf grocery store, and approximately 124,480 sf of additional retail and commercial space.

The City has requested this analysis to determine the need for the requested assistance, based on the cost and operating pro forma information provided by the Developer. The analysis that follows examines whether the proposed redevelopment scenario would reasonably be anticipated to be developed without adoption of the requested financial assistance. The report that follows is pursuant to Missouri Statutes 99.800 et seq. relative to a determination that the proposed TIF Redevelopment Plan would not reasonably be anticipated to be developed without adoption of the TIF Redevelopment Plan.

We have approached this determination based on the proposed plans regarding redevelopment costs, outcomes, financing sources, and timing to develop a measure of the Developer's expected return when compared to the amount of risk. If a development is owned and operated as an investment, a measure of return is calculated considering the time value of money and involves an assumed sale of the property at a price appropriate in the marketplace. This analysis is termed the Internal Rate of Return ("IRR"). The final determination is based on whether or not a potential IRR is reasonable without the requested subsidy, within the current marketplace and at the present time.

The Developer (Denali Summit, LLC) has requested assistance in the following forms:

-Statutory TIF – Seventy-Five percent of the incremental increase in ad valorem property tax revenues ("PILOTS") along with 50% of the incremental increase in economic activity tax revenues ("EATS") which will be captured and re-directed to pay for new eligible reimbursable project costs incurred by the Developer.

-Community Improvement District (CID) Sales Tax – The Developer is proposing the creation of a 1% Community Improvement Sales Tax. For the CID sales tax, the first 50% of the receipts under this sales tax will be captured as TIF revenue and redirected to reimburse TIF eligible improvements. The remaining 50% of the CID sales tax revenue will be used to reimburse the CID budget costs.

2. Executive summary

Determining if a project would occur without subsidy requires the testing of various assumptions which have a material effect on a project's feasibility. We have tested the sensitivity of the return without assistance by varying the cost and the revenue assumptions, each independently and then collectively. The reason for testing sensitivity is to illustrate the magnitude with which project assumptions would have to change in order for the project to be considered feasible without assistance. Table A, below, details the significant findings of the sensitivity analysis:

Table A

Without Assistance Sensitivity Analysis	Change Necessary to be Feasible	Rate of Return without Assistance
Decreased Costs	28% Decrease	7.77%
Increased Revenue	32% Increase	7.67%
Combined Cost and Revenue Changes	15% Decreased Costs 15% Increase Rev	7.74%

The table above indicates the magnitude at which project assumptions would have to change for the project to have a feasible rate of return without assistance. Based on the *Price Waterhouse Cooper Real Estate Investor Survey* the current range of unleveraged market returns for new development projects of this nature is 6.00% to 11.00%, with an average of 7.65% which we used as our feasibility benchmark. Absent the changes outlined above, the projects would not attract a return sufficient to exceed the Developer's threshold for investment and would not likely be completed through private enterprise alone.

Table B, below, illustrates the Developer's projected rates of return with and without assistance, as calculated by Baker Tilly:

Table B

Pro Forma	With Assistance	Without Assistance
Unleveraged	7.71%	2.54%

3. The project

The Developer is proposing the redevelopment of the Redevelopment Area into a commercial shopping center. The Redevelopment Area is an approximately 64.46-acre area of land generally located south of E. 32nd Street, east of S. Range Line Boulevard, and west of the Kansas City Southern Rail Line. The Developer of the project is Denali Summit, LLC who anticipates commencing construction in 2020 with project completion in 2021.

The development will be undertaken in part by the Developer and in part by a third party. The Developer is anticipated to own and operate a 50,300 sf movie theater complex, a new 4,400 sf fuel station, a 55,980 sf grocery store, and approximately 124,480 sf of additional retail and commercial space. A third-party is proposed to purchase a pad ready site from the Developer and will own and operate a 206,209 sf home improvement store including a 40,000 sf lumbar barn.

4. Redevelopment Costs

The total cost of the project is detailed in Table C below.

Table C

Cost Category	Total Cost	% of Total Project Costs	Developer Costs	Third-Party Costs	TIF Reimbursable Costs	CID Reimbursable Costs
Land Acquisition	\$7,860,000	9.00%	\$4,860,000	-	\$3,000,000	-
Demolition	450,000	0.52%	-	-	400,000	\$50,000
Relocation of Existing Business	500,000	0.57%	250,000	-	250,000	-
Sitework (Menards)	2,000,000	2.29%	1,000,000	-	1,000,000	-
Sitework (Total Site)	6,494,955	7.44%	-	-	5,494,955	1,000,000
Public Street & Traffic Light Improvements	1,384,560	1.59%	-	-	1,129,560	255,000
Hammonds Blvd Improvements	164,694	0.19%	-	-	164,694	-
Buildings (Phase 1)	20,943,900	23.99%	6,943,900	\$14,000,000	-	-
Buildings (Phase 2)	21,614,760	24.76%	21,614,760	-	-	-
Soft Costs (Engineering, Professional Fees)	800,000	0.92%	200,000	-	500,000	100,000
Pad Prep/Development (Phase 1)	3,000,000	3.44%	1,500,000	-	1,500,000	-
Pad Prep/Development (Phase 2)	8,500,000	9.74%	7,000,000	-	1,500,000	-
Construction Management	2,532,000	2.90%	1,766,000	-	766,000	-
Project Administration	633,000	0.73%	316,500	-	316,500	-
Leasing Commissions	850,000	0.97%	850,000	-	-	-
Financing Fees/Interest	9,557,492	10.95%	9,557,492	-	-	-
Total Project Costs	\$87,285,361	100%	\$55,858,652	\$14,000,000	\$16,021,709	\$1,405,000
Percentage of Total Costs	100%		64.00%	16.04%	18.36%	1.61%

Acquisition

The Developer provided a cost estimate of \$7,860,000 for the acquisition of the property comprising the development site. The development site is comprised of 6 unique parcels of property that total 64.46 acres of land. The Developer has purchased one of the parcels, has option contracts secured on four of the other properties, and is renegotiating the option on the sixth parcel. The Developer's cost of \$7,860,000 reflects their agreed upon amounts within their current contract. The Developer is seeking reimbursement of \$3,000,000 for their cost of acquiring the property. On average the Developer's

acquisition cost equates to a per acre cost of \$121,936 and represents 9% of the total development cost.

Hard Costs

The total cost grouped together as hard costs are detailed in Table D below.

Table D

Hard Costs	Total Cost	% of Total Project Costs	Developer Costs	Third-Party Costs	TIF Reimbursable Costs	CID Reimbursable Costs
Demolition	450,000	0.52%	-	-	400,000	\$50,000
Relocation of Existing Business	500,000	0.57%	250,000	-	250,000	-
Sitework (Menards)	2,000,000	2.29%	1,000,000	-	1,000,000	-
Sitework (Total Site)	6,494,955	7.44%	-	-	5,494,955	1,000,000
Public Streets & Traffic Light Improvements	1,384,560	1.59%	-	-	1,129,560	255,000
Hammond Blvd Improvements	164,694	0.19%	-	-	164,694	-
Buildings (Phase 1)	20,943,900	23.99%	6,943,900	\$14,000,000	-	-
Buildings (Phase 2)	21,614,760	24.76%	21,614,760	-	-	-
Pad Prep/Development (Phase 1)	3,000,000	3.44%	1,500,000	-	1,500,000	-
Pad Prep/Development (Phase 2)	8,500,000	9.74%	7,000,000	-	1,500,000	-
Total Hard Costs	\$65,052,869	74.53%	\$38,308,660	\$14,000,000	\$11,439,209	\$1,305,000

The Developer provided an estimate for the total costs we have grouped as hard costs of \$65,052,869 which accounts for 74.53% of the total cost of the project. The Developer will be responsible for \$38,308,660 of these total costs, while a third-party will be responsible for \$14,000,000. The Developer is seeking TIF reimbursement for costs totaling \$11,439,209 and CID reimbursement for \$1,305,000.

The largest of the cost categories are expenses related to the construction of Buildings with the Developer anticipated to incur costs of \$6,943,900 for Phase 1 and \$21,614,760. In total the Developer will be constructing 240,160 sf of vertical building improvements, including the grocery store, gas station, movie theatre, and retail buildings. The Developer's per square foot (psf) cost assumption range from \$66.76 psf to \$160.00 depending on building type. In total their average cost psf amongst all types of buildings is \$118.92. The Developer did not provide a separate breakout of costs for tenant improvements, furniture fixtures & equipment (FFE), contingency, or architecture, which we assume are included within their total building cost assumption outlined above.

To provide a comparison, we compared the cost estimates to the Marshall and Swift Swiftestimator for estimated construction costs for similar types of retail buildings within the City of Joplin. In reviewing each of the Developer's building cost assumptions by building type, we found them to be within the range identified by the Switestimator. Based on this the Developer's building cost estimate appears reasonable. The Developer is not seeking reimbursement for any vertical building costs.

The majority of the remaining hard costs are expenses associated with the development of the site. These costs total \$21,994,209 and the Developer is seeking TIF reimbursement for certain line-items of \$11,189,209 and CID reimbursement of \$1,305,000. Costs included within this category included the following line-items: demolition, sitework (Menards), sitework (total site), public streets & traffic light improvements, Hammond Blvd improvements, pad prep/development (phase 1) and pad prep/development (phase 2).

In response to a request for more detailed information regarding the basis for these site costs, the Developer provided a preliminary site construction budgets from Cochran Engineering. The budgets were broken down into three groups, public improvements, project 1, and project 2. These budgets included specific site development line items related to general conditions, demolition, grading, utilities, parking lot/streets, landscaping and engineering fees. Additionally, these budgets included a 15% contingency factor. The total budget within the TIF plan included total costs for these categories of \$21,594,209. In comparison the detailed construction cost budget provided by the Developer identified total costs of \$21,524,974. Based on this the Developer's site development costs appear reasonable.

The hard cost category is the largest segment of the development costs, accounting for 74.53% of the total project costs. Consequently, this is a segment where project costs savings could have a positive effect on the rate of return realized by the Developer, while higher than estimated costs would have the converse effect. In the return analysis section of the report, we discuss the sensitivity of the rate of return to changes in the project costs, and the effect on the return without assistance of a decrease in project costs.

Soft Costs

The total cost grouped together as hard costs are detailed in Table E below.

Table E

Soft Costs	Total Cost	% of Total Project Costs	Developer Costs	Third-Party Costs	TIF Reimbursable Costs	CID Reimbursable Costs
Soft Costs (Engineering, Professional Fees)	800,000	0.92%	200,000	-	500,000	100,000
Construction Management	2,532,000	2.90%	1,766,000	-	766,000	-
Project Administration	633,000	0.73%	316,500	-	316,500	-
Leasing Commissions	850,000	0.97%	850,000	-	-	-
Financing Fees/Interest	9,557,492	10.95%	9,557,492	-	-	-
Total Soft Costs	\$14,372,492	16.47%	\$12,689,992	\$0	\$1,582,500	\$100,000

The total amount of the cost categories grouped under the soft cost heading is \$14,372,492 which equates to approximately 16.47% of the total development cost. The Developer is seeking TIF reimbursement for costs of \$1,582,500 and CID reimbursement of \$100,000.

Reviewing the soft costs for largest percentage of the total project costs to smallest, the largest portion of the soft costs is the Financing Fees/Interest line-item of \$9,557,492 which is approximately 10.95% of the total project cost. The Developer based this cost estimate on an average construction loan balance of \$34,754,515 with a 5.5% interest rate for 5-years. In reviewing the basis on which this cost estimate was made it is difficult to comment on the reasonableness of it. The Developer indicated the cost was based on their approximate total for site development costs, assumes the entire amount of the construction loan is drawn in year 1 as opposed to over a period of time, and does not seem to factor in an equity contribution. However, the construction loan interest also does not factor in costs incurred on the construction of vertical improvements. If the actual amount of this line-item were to be different it could potentially impact the ratio of assistance to private costs. Importantly for this analysis, is this cost is not included within the construction costs included by the Developer in their pro forma and was not included in our unleveraged IRR analysis and therefore variability in this expense would not impact our rate of return analysis.

The other significant soft cost line-item is the Construction Management cost of \$2,532,000 for which the Developer is seeking reimbursement from TIF of \$766,000. This line-item represents 2.90% of the total project cost. As a percentage of the total hard costs to be included by the Developer this appears to be a reasonable estimate.

The other remaining soft cost line-items, all of which represent 1% or less of the total project costs, and in total are \$2,283,000 and cumulatively represent 2.62% of the total



project cost. Included within these are line-items related to engineering and professional fees, project administration, and leasing commissions. The Developer is seeking reimbursement for engineering and professional fees of \$500,000 from TIF and \$100,000 from CID.

In the “Return Analysis” section of the report we discuss the sensitivity of the rate of return to changes in the project costs, and the effect on the return of a decrease in project costs.

5. Assistance request

The Developer is requesting assistance from the following sources related to the development of the commercial/retail portion of the development:

-Statutory TIF – seventy five percent of the incremental increase in ad valorem property tax revenues (“PILOTS”) along with 50% of the incremental increase in economic activity tax revenues (“EATS”) which will be captured and re-directed to pay for new eligible reimbursable project costs incurred by the Developer.

-Community Improvement District (CID) Sales Tax – The Developer is proposing the creation of a 1% Community Improvement Sales Tax. For the CID sales tax, the first 50% of the receipts under this sales tax will be captured as TIF revenue and redirected to reimburse TIF eligible improvements. The remaining 50% of the CID sales tax revenue will be used to reimburse the CID budget costs.

The requested assistance will be on a pay-as-you-go basis with the Developer initially funding all redevelopment project costs and receiving reimbursement for eligible redevelopment project costs as the TIF and CID revenues are captured and re-directed. The Developer is seeking reimbursement from TIF and CID revenues of \$17,426,709, plus interest at an estimate rate of 5.0%. Based on the TIF and CID revenues projections prepared by the Developer, they are projecting if TIF and CID revenues are realized as projected that it will take approximately 11-years to reimburse the eligible TIF and CID project costs.

The Developer will be funding their portion of the Project costs through a mix of Developer equity and private debt. The Developer’s pro forma did not identify the split between debt and equity. The Developer will be responsible for initially privately financing the \$17,426,709 of TIF/CID redevelopment project costs that are anticipated to be reimbursed through future TIF/CID revenues.

Table F provides the anticipated sources that will be utilized to fund the redevelopment project. The TIF and CID revenues will be provided on a pay-as-you-go basis, with revenues received used to offset the private equity and debt of the Developer

Table F

Sources	Amount
Developer Equity and Private Debt	\$67,785,361
Third Party Project Costs	\$14,000,000
Pad Sale Proceeds	\$5,500,000
Total Sources	\$87,285,361

6. Return analysis

Utilizing the operating pro forma prepared by the Developer we evaluated the need for assistance for the proposed development by comparing the potential return with and without assistance. The Developer provided a 10-year operating pro forma for the development based on construction costs, including vertical building costs, being incurred over a period of four-years, with full occupancy occurring over five-years. Utilizing the information provided by the Developer's pro forma we calculated an unleveraged internal rate of return (IRR) calculation after the 10-years of the pro forma. We utilized this IRR analysis to illustrate the potential return with and without the requested TIF and CID assistance. The return realized by the Developer is a result of the assumptions used in the creation of the operating pro forma, therefore a number of steps must be performed to analyze the reasonableness of the assumptions used.

Step One – Evaluate Project Costs:

The first step in analyzing the return to the Developer is to determine if the costs presented are reasonable. We have discussed a portion of the costs above and have commented on the mechanics whereby cost savings on the private side could occur. If cost savings for the Developer's share occur absent any other changes, the Developer would realize a greater return than projected. In the following sensitivity analysis we examine the impact of cost savings on the projected rate of return without assistance.

Step Two – Evaluate Operating Pro Forma Assumptions:

The second step in calculating the return to the Developer is to determine if the operating revenues and expenses of the proposed development are reasonable. The Developer projected average lease rates for the retail components that will be constructed, and a pad sale price for the pad that will be sold.

- The Developer has assumed lease rates ranging from \$10.50 to \$22.000 depending on the type of product. Their average lease rate was \$16.22.
- The Developer assumed a 5% vacancy assumption for a portion of their leased retail space.
- The Developer has estimated a pad sale price of \$5,500,000.

We reviewed third-party market information to evaluate the projected lease rate and found them to be in accordance with currently available market comps. The Developer's pad sale assumption is somewhat difficult in that there are not readily available sales comparisons, however we do feel this is adequately addressed within the sensitivity analysis.

Step Three – Evaluate Hypothetical Sale Assumptions:

The third step in analyzing the return to the Developer is to determine if the assumptions for the hypothetical sale of the asset are reasonable. The calculation of an internal rate of return requires the assumption of a hypothetical sale of the asset in the final year of the operating pro forma. The inclusion of this hypothetical sale is used purely for purposes of evaluating the return on the Developer's investment. The determination of the potential market value of the project through a hypothetical sale is necessary as it allows for inclusion of the value of the asset into the rate of return calculation. The calculation of an IRR without the hypothetical sale would result in an understated return, as the return would not take into account the value of the real estate asset. The use of a hypothetical sale assumption is not indicative of the Developer's intention to sell the development in the final year.

The critical assumption when valuing the asset at the time of the hypothetical sale is the capitalization rate. The available net operating income divided by the capitalization rate results in the assumed fair market value of the asset. The Developer has used a capitalization rate of 7.00% for the project to calculate the hypothetical sale value. In reviewing historical cap rate trends for retail developments, we feel that 7.00% is a reasonable assumption.

Baker Tilly – Adjusted Unleveraged Return Analysis:

Table G below, shows our calculated Unleveraged Internal Rate of Return (IRR) calculation for the project with and without the requested assistance.

Table G

Baker Tilly Pro Forma	Unleveraged IRR
Without assistance	2.54%
With assistance	7.71%

Market Return Benchmark:

The Developer's return was modified to be measured on an unleveraged IRR calculation in order to compare the potential return to the Developer to a third-party market source in the *Price Waterhouse Cooper Real Estate Investor Survey* prepared for the second quarter of 2019. The *PWC Real Estate Investor Survey* provides a market comparison on which project feasibility can be judged.

To evaluate the rate of return a project of this nature would require to be considered "feasible" we consulted this survey as a resource to compare the Developer's rate of return to a market benchmark to help determine feasibility. According to the developers surveyed, undertaking the development of a retail development, the typical unleveraged

market return necessary to pursue a project of this nature falls in a range from 6.00% to 11.00%; with an average return of 7.65%.

Sensitivity analysis

In order to answer the question “is the development likely to occur without public assistance” we analyzed the without incentive scenarios, using the Baker Tilly Unleveraged Return Analysis Pro Forma without assistance as the basis for the sensitivity analysis. The sensitivity analysis is performed in order to understand the magnitude at which project costs would have to decrease, or conversely project revenues would have to increase, for the project to be considered feasible. For this sensitivity analysis we used the *PWC Real Estate Investor Survey* average return of 7.65%

To understand the impact of the project cost assumptions, we performed a cost sensitivity analysis to determine the rate at which the Developer incurred project costs would have to be reduced for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table H illustrates the development would need to realize a 28% reduction in project costs in order to be feasible without assistance. Given a 28% reduction in costs the project would have a rate of return of 7.77%.

Table H

Project Costs Sensitivity	Reduction in Project Costs	Rate of Return without assistance
	28%	7.77%

To understand the impact of increased lease revenues and pad sales, we have performed a sensitivity analysis to determine the rate at which both of these assumptions would need to increase for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table I illustrates the development would need to realize an 32% increase in both projected lease rates and pad sales for the project to be feasible without assistance. Given a 32% increase in project revenues, the project would have a rate of return of 7.67% which falls into the reasonable range.

Table I

Project Lease Revenue and Pad Sale Sensitivity	Increase in Project Revenue	Rate of Return without assistance
	32%	7.67%

As a final step in the sensitivity analysis, and to understand the impact of a combined change in project costs and project revenues, we have performed a sensitivity analysis to determine the rate at which these areas would have to change for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table J illustrates the development would need to realize a combined 15% decrease in project costs and a 15% increase in project revenues for the project to be feasible without assistance. Given these changes in assumptions the project would have a rate of return of 7.74%.

Table J

Combined Sensitivity	Reduction in Project Costs	Increased Project Revenues	Rate of Return without assistance
	15%	15%	7.74%

The three tables above (Tables H, I, and J) indicate the magnitude at which project assumptions would have to change for the project as a whole to have a rate of return in excess of the 7.65% feasibility benchmark used in the sensitivity analysis. Absent changes of the magnitude outlined above; the project would not have a sufficient return to draw market investment. Only by assuming either increases in project revenues, decreases in project costs, or a combination of the two does the return increase to a feasible level without public assistance. However, we project changes of the magnitude outlined above are unlikely to be realized, which indicates the proposed project, when viewed as a whole, would not likely be completed through private enterprise alone.

7. “But-For” conclusion

The proposed development contemplates the construction of shopping center. In addition, the Developer will undertake necessary site construction costs necessary to redevelop the site. The Developer will bear all the risk until project completion and permanent financing is in place and continued operating risk thereafter. This level of risk typically demands a positive return with a range between 6.00% and 11.00% based on the *Price Waterhouse Cooper Real Estate Investor Survey*, with an average return of 7.65%. The unleveraged rate of return with assistance is 7.71% and without is 2.54%. As detailed above, the projected IRR to the Developer without assistance falls outside of this low-end of the range expected within the marketplace and significantly below the average return used as our feasibility benchmark. In comparison, the return with assistance is consistent with the average return used in our analysis.

A blight Study prepared by Sterrett Urban LLC, dated March 18, 2019, and an affidavit signed by the Developer dated April 3, 2019 state that the redevelopment area is a blighted area and has not been subject to growth and development through investment by private enterprise and would not reasonably be anticipated to be developed without adoption of tax increment financing. Based upon the Blight Study, Developer Affidavit, and upon our analysis, Baker Tilly Municipal Advisors concludes that the proposed project, without assistance, would not likely be undertaken at this time without the requested assistance.