SB Friedman Development Advisors

City of Bloomington Illinois

Downtown Hotel, Conference and Restaurant Proposal

FINANCIAL DEAL REVIEW

February 16, 2016

Our Approach

- Understand Project Details and Context
- Analyze the Project's Need for Public Financing Assistance by Reviewing:
  - Development Costs
  - Pro Forma Analysis
  - Sources of Financing
  - Financial Returns Analysis
- Estimate City's Financing Capacity Based on:
  - Projections of Hotel, Sales, Food & Beverage, and TIF Revenues
  - Financing Assumptions
- Structure Financial Assistance to Minimize City Risk
- Develop Conclusions and Next Steps

Project Overview

- **$53 Million Project:** Includes historic renovation of Front “N” Center and Commerce Bank
- **Development Program**
  - 129-key full-service upscale hotel including a restaurant operated as part of the hotel
  - 12,000-SF conference center/ meeting space
  - 10,000 SF of space for three restaurants that will be leased out to operators separate from the hotel
  - 250-space parking garage
  - Skybridge connecting the hotel with the conference center
- **BDRP Role: Development Facilitator**
- **Assistance Request: $13 Million + Contribution of City-Owned Butler Parking Lot for $0**
  - Based on TIF, food and beverage tax, sales tax and hotel taxes generated from the Project

Project Context

- Potential to be a pioneering development in Downtown Bloomington
- Potential to create a new dining destination in southwest part of Downtown
- Synergy with U.S. Cellular Coliseum and rest of Downtown

Development Costs

Review of Key Budget Categories

- BDRP budget adjusted downward by $2.5 million
  - Removal of $1.0 million for construction of a rooftop bar/restaurant from Hard Costs
  - Developer Management & Overhead reduced to market-typical levels
  - Financing costs recalculated and adjusted downward
  - Soft Costs and Pre-opening and Marketing Costs adjusted higher to market-typical levels

Uses	Total	% of Total Cost	Adjusted by SB Friedman	% of Total Cost
Land Acquisition	$5,400,000	10.0%	$5,400,000	10.5%
Hard Costs **	$38,244,769	71.1%	$37,125,417	72.5%
Soft Costs **	$2,515,358	4.7%	$2,569,627	5.0%
Financing Costs **	$2,894,835	5.4%	$2,533,661	4.9%
Pre-Opening & Marketing [1]**	$140,000	0.3%	$1,190,851	2.3%
Development Management & Overhead **	$3,824,477	7.1%	$1,670,644	3.3%
Other [2]	$741,762	1.4%	$741,762	1.4%
TOTAL PROJECT COST	**$53,761,201**	**100.0%**	**$51,231,962**	**100%**

Sources: BDRP, *SB Friedman*, HVS.
** Items adjusted by *SB Friedman*.
1. Pre-Opening and Marketing was moved to a separate category outside Soft Costs per HVS standards.
2. Other includes Tenant Coordination, Franchise Fee, and Working Capital.

Pro Forma Analysis

Income and Expense Assumptions

- Average Daily Rate (ADR) and Occupancy assumptions are key drivers of financing gap
- BDRP estimate of ADR is 20% lower than 2014 HVS study projection of $160 (2018)
- *SB Friedman* assumed an ADR range from $129-$150 and the HVS Occupancy of 69% at stabilization

Cash Flow Summary for Year 1-3 with ADR = $129

	Year 1	Year 2	Stabilized Year 3
Keys	129	129	129
Occupancy	62%	65%	69%
ADR	$129	$133	$137
Hotel Revenue	$3,765,858	$4,066,520	$4,446,270
Food/Beverage Revenue	$2,500,000	$2,675,000	$2,768,625
Conference Revenue	$390,000	$520,000	$535,600
Restaurant Rent	$150,000	$231,750	$318,270
Parking Revenue	$501,072	$516,104	$527,458
Total Revenue	**$7,306,930**	**$8,009,374**	**$8,596,223**
Total Expenses	**$4,565,164**	**$5,223,637**	**$5,660,723**
Net Operating Income	**$2,741,766**	**$2,785,737**	**$2,935,500**

Cash Flow Summary for Year 1-3 with ADR = $150

	Year 1	Year 2	Stabilized Year 3
Keys	129	129	129
Occupancy	62%	65%	69%
ADR	$150	$155	$159
Hotel Room Revenue	$4,378,905	$4,728,511	$5,170,081
Food/Beverage Revenue	$2,500,000	$2,675,000	$2,768,625
Conference Revenue	$390,000	$520,000	$535,600
Restaurant Rent	$150,000	$231,750	$318,270
Parking Revenue	$501,072	$516,104	$527,458
Total Revenue	**$7,919,977**	**$8,671,365**	**$9,320,035**
Total Expenses	**$4,957,514**	**$5,653,931**	**$6,138,438**
Net Operating Income	**$2,962,463**	**$3,017,434**	**$3,181,596**

Note: Revenues (other than parking) and expenses inflated at 3% after stabilization.

Sources: *SB Friedman*; BDRP.

Estimate of Project Gap and City Financing Capacity Based on $129-$150 ADR Range

Sources of Financing

- Financing commitments and documentation not yet available
- Federal Historic Tax Credits
  - $1.00/credit
  - $5 million based on 20% of eligible costs
- Equity contribution and permanent loan adjusted to market-typical levels (e.g., lenders require a 1.6 Debt Coverage Ratio on permanent loan upon stabilization)
- City assistance based on returns analysis

			SB Friedman Adjusted Budget		SB Friedman Adjusted Budget	
Sources at Takeout	**BDRP Budget**	**% of Total Sources**	**ADR = $129**	**% of Total Sources**	**ADR = $150**	**% of Total Sources**
Historic Tax Credits	$4,986,715	9%	$4,947,663	10%	$4,947,663	10%
Permanent Loan	$33,869,556	63%	$25,685,629	50%	$27,838,968	54%
Cash Equity	$1,904,929	3%	$9,426,681	18%	$10,246,392	20%
City Assistance (TIF, Hotel Tax, Sales Tax)	$13,000,000	24%	$11,171,989	22%	$8,198,939	16%
Total Sources	**$53,761,201**	**100%**	**$51,231,962**	**100%**	**$51,231,962**	**100%**

Sources: *SB Friedman*; BDRP.

Returns Analysis and Need for City Assistance

Projected Developer Returns

- Analysis based on target return of 18% on equity and Debt Coverage Ratio (DCR) of 1.6
- Project is not financially feasible without assistance
  - Internal Rate of Return (IRR) of 8.4% on equity
- City assistance of **$8.2MM to $11.2MM** needed to achieve target return and DCR threshold

	SB Friedman Estimates			With BDRP's Requested $13MM Assistance ADR=$150	Benchmark Returns
	No Assistance ADR=$150	With $11.2MM Assistance ADR=$129	With $8.2MM Assistance ADR=$150		
IRR on Cash Equity	**8.4%**	**17.9%**	**17.9%**	**30.6%**	**18.0%[2]**
Cash Equity Contribution as a % of Total Financing Sources to Maintain 1.6 DCR on Permanent Loan	37%	18%	20%	10.6%[1]	20%[3]

Sources: *SB Friedman.*

1. *SB Friedman* adjusted the equity contribution upward from the original 3.4% to reflect a 70% LTV Permanent loan and 1.6 debt coverage, while also maintaining BDRP's assumed $13 million in assistance.
2. HVS 2014 Hotel & Conference Center Feasibility Study.
3. HVS 2015 Hotel Cap Rates Report.

Drivers of City Tax Revenues from Project

- Project generates hotel, food and beverage, sales and real estate tax revenues
- Revenue generation based on equalized assessed values (EAVs) and sales revenue assumptions
- SB Friedman adjusted BDRP assumptions on EAV and sales:
  - EAV projection of property reduced by over 50% based on comparable properties in Bloomington-Normal
  - Food and beverage revenue projections reduced, based on 2010 National Restaurant Association Report
  - Conference food and beverage revenue reduced to reflect 2 events/week
  - Hotel revenues reflect ADR range of $129-$150

	BDRP		**SB Friedman**	
EAV Assumptions	**EAV**	**EAV/Unit**	**EAV**	**EAV/Unit** [1]
Hotel and Conference	$5,945,000	$46,085/Room	$2,415,468	$18,725/Room
Restaurant	$650,000	$43/SF	$750,000	$50/SF
Parking	$1,666,667	$6,667/Space	$750,000	$3,000/Space
Total EAV	**$8,261,667**		**$3,915,468**	

1. Based on comparable properties in Bloomington

	BDRP		**SB Friedman**	
Sales Revenue Assumptions [1]	**Total Sales**	**FB Sales/SF**	**Total Sales**	**FB Sales/SF**
Food & Beverage Revenue: Hotel Restaurant	$2,500,000	$554	$2,500,000	$554
Food & Beverage Revenue: Non-Hotel Affiliated Restaurants[2]	$5,500,000	$520	$4,232,800	$400
Conference Food & Beverage Revenue [3]	$1,040,000		$520,000	
Hotel Revenue [4]	$3,948,077		$3,765,858 - $4,378,905	

1. Table does not include additional $250,000 of retail sales from hotel.
2. Sales tax revenue was adjusted to assume an average across restaurants of $400/SF per 2010 National Restaurant Association Report.
3. Conference Revenue was based on two events per week at $20/ticket
4. Based on an ADR range of $129-$150

Tax Revenue Projections

- Tax Increment Financing (TIF) and Business District (BD) with 1% tax rate assumed to encompass Project site
- City local share and home rule sales tax/hotel tax from Project assumed to be pledged to generate needed City assistance

Tax Revenue Projections at Project Stabilization

	Tax Rate	BDRP Projection	SBF Projection
Sales & Food/Bev. Tax Revenue [1]	6.5%	$598,850	$482,682
Hotel Tax Revenue [2]	7.0%	$276,365	$263,610 - $306,523
TIF Revenue [3]	8.1142%	$968,428	$247,910

Sources: *SB Friedman*; BDRP.

1. 1% of State Sales Tax, 2% of City F/B Tax, 2.5% Home Rule Sales Tax, 1% New BD Tax. Includes $11,250 of Sales Tax revenue (at 4.5%) in addition to Food & Beverage Tax revenue. The 2.5% home rule sales tax includes a new 1% tax effective January 2016. Negotiations are still underway on the use of this new 1% sales tax revenue, therefore the potential to pledge this additional 1% is subject to further discussions.
2. 6% Hotel Tax + 1% BD Tax. Hotel Revenue based on an ADR range of $129-$150.
3. Revenue above the 2014 Base based on assessed value.

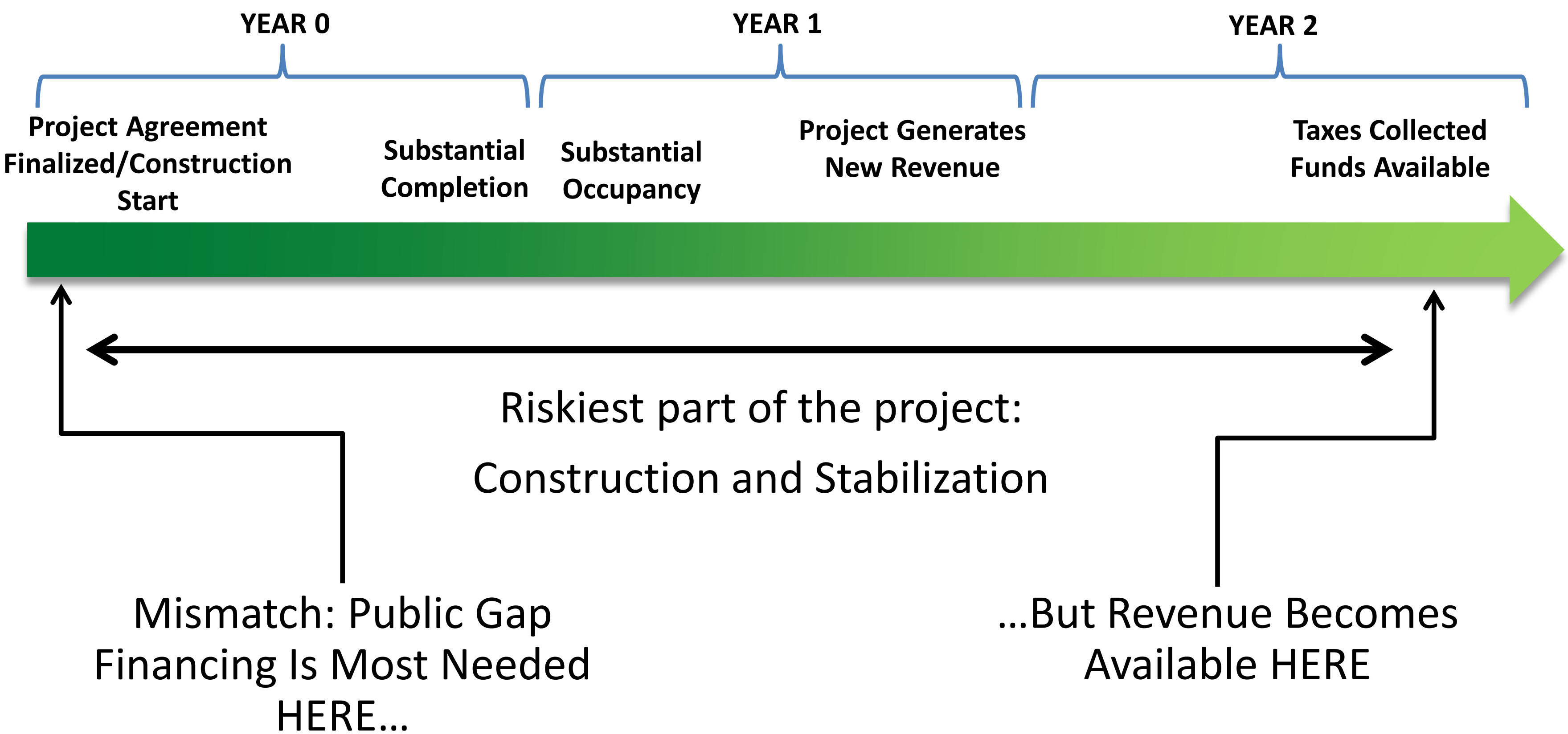
City Financing Capacity

- Financing capacity range from **$8.8MM to $13.2MM** could be adequate to cover financing gap of $8.2MM to $11.2MM
- Range based on:
  - ADR $129 to $150
  - 4.5%-7% discount rate depending on financing mechanism/instrument used
  - 1.25 DCR

	ADR= $129		**ADR= $150**	
	Direct Project Revenue (20-Years)	Direct Project Revenue (25-Years)	Direct Project Revenue (20-Years)	Direct Project Revenue (25-Years)
20/25-Year Revenue PV (@ 4.5%-7%)	$11,198,488	$16,086,987	$11,751,441	$16,874,796
Supportable Debt at 1.25 Debt Coverage	$8,958,790	$12,869,590	$9,401,153	$13,499,837
Financing Capacity (Less 2% Issuance Fee)	**$8,779,615**	**$12,612,198**	**$9,213,129**	**$13,229,840**

Source: *SB Friedman.*

Fundamental Timing Problem



Municipal Risk Spectrum: Financing Mechanisms

Lesser Risk → **Greater Risk**

Developer Note	Revenue Bond	Alternate Revenue Bond with Special Tax Backing	Alternate Revenue Bond with GO Backing
Revenues from Project itself; only to the extent they can be financed & materialize	Other Special Revenue Pledges (e.g., Special Assessment; Area-Wide Pledge)	Other Municipal Revenue Sources Affecting General Fund (e.g., sales tax, hotel tax)	Full Municipal Faith and Credit

Higher Financing Costs ← **Lower Financing Costs**

Mixing approaches can balance risk and cost

Conclusions

- **$8.2MM to $11.2MM** in assistance appears to be required to make project financially feasible
- City financing capacity of **$8.8MM to $13.2MM** from project revenue could be adequate to cover financing gap
- City has potential to obtain a direct fiscal benefit after financial assistance

Estimate of Direct Fiscal Benefit to City (2015 $s)

	ADR=$129	ADR=$150
Present Value (PV) of 25-Year Tax Revenue PV	$16,086,987	$16,874,796
Potential City Financial Assistance	$11,171,989	$8,198,939
PV of 25-Year City Benefit	**$4,914,998**	**$8,675,857**

- Unique, pioneering project has potential to generate indirect catalytic benefits on Downtown Bloomington
- However, Project is still in preliminary stage; a complete development team and program must be obtained prior to committing City assistance
- Form of assistance can be structured to further mitigate risk to the City

Potential Next Steps to Advance Project

BDRP to Obtain:

- Commitment from an appropriately experienced and acceptable hotel developer
- Evidence of site control
- Financing commitments from acceptable lenders, tax credit buyers and equity investors
- Lease or other commitments from appropriate other tenants
- Franchising agreement for an acceptable hotel brand
- Detailed plans and specifications for the development acceptable to the City administration
- Construction and development costs prepared in sufficient detail by a general contractor or professional cost estimator
- Revised, final financial projections of net operating income, tax generation and other factors

Recommended Near Term City Actions

- Endorse BDRP's efforts to advance the Project
- Initiate creation of the TIF District and Business District
- Obtain appraisals for Project site

Discussion

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