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Johnny Bechamels Gap Funding Analysis

Town of Erie

February 13, 2026



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Town of Erie Urban Renewal Authority
Town of Erie, Colorado

Dear Julian,

Pioneer Development Company (PDC) has been engaged by the Town of Erie Urban Renewal Authority (TOEURA) to review a redevelopment project requesting financial assistance within the Historic Old Town Urban Renewal Plan. This assistance would be provided by a public private partnership between TOEURA and the developer and would leverage Tax Increment Financing (TIF).

The proposed redevelopment would expand and improve an existing property located at 656 Kattell Street. The applicant is under contract to purchase the property, and after significant redevelopment, open as a Restaurant featuring Italian cuisine and pizza. The restaurant is called Johnny Bechamels, and the owner/operator is an experienced restaurateur. The existing building's footprint is 1,500 square feet. The restaurant, which will act as owner, developer and operator, will redevelop this building, paying their own tenant improvements to make it function as a restaurant. This finished development will expand the existing structure by 900 square feet using an enclosed outdoor patio space. The redevelopment is in alignment with the Historic Old Town Urban Renewal Plan, especially the Plan's #7,9,10,19,20 and 21 Objectives.

The applicant is requesting additional funding resources from TOEURA to assist with the site's redevelopment and help make this restaurant concept feasible at this location. This report has been updated based on recent construction bids that have increased the project's overall costs. The operator's FF&E and Working Capital requirements have also increased since the last analysis. To achieve feasibility, the applicant is requesting two forms of an incentive agreement:

- 1. A 100% sales tax reimbursement agreement with TOEURA for 10 years (2026 to 2035).**
- 2. A \$200,000 forgivable loan from TOEURA to help offset capital deficits and early operational expenses.**

This development review is intended to provide a third-party, objective evaluation of market assumptions and development and operating proformas to inform public investment decision-making. This review also evaluates (TIF) projections and compares this future tax revenue to the funding gap evaluated and proposed incentive agreement. This memorandum summarizes PDC's review and findings.

Andrew Arnold
Founder | Principal
Pioneer Development Company
Durango, Colorado

CC: Jack Hill

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Executive Summary

Johnny Bechamels LLC Gap Funding Analysis:

This report evaluates the proposed Johnny Bechamels redevelopment in Erie, Colorado and the public funding that may be required to make this project feasible. 656 Kattell Street is currently an underutilized property within the Town of Erie’s Historic Old Town Urban Renewal Plan. It is located within the Town’s Downtown District, a mixed-use zoning district that is “intended to encourage redevelopment of underutilized parcels and infill development of vacant parcels”¹. After being on the market for nearly a year, the existing owner and current applicant are under contract to sell the property. The new owner, who will act as developer and operator, is proposing a restaurant at this location. The restaurant will feature Italian inspired cuisine. The restaurant is to be branded as “Johnny Bechamels” and will be operated by experienced restaurateur’s that own similar-styled restaurants, like Redeemer Pizza on Larimer Street, Denver. The 656 Kattell Street location represents the restaurant’s first foray into owning and operating their own establishment within the Town of Erie. They plan on redeveloping the existing 1,500 square foot building and adding an additional 900 square feet of patio space.

Johnny Bechamels LLC (The Developer) is seeking a public private partnership with the Town of Erie Urban Renewal Authority (TOEURA) and has submitted a forgivable loan and Tax Increment Financing (TIF) request to the Town’s economic development and urban renewal staff. The project’s feasibility was originally analyzed in December, 2024 – that analysis found a \$375,000 feasibility gap at time. TOEURA approved a sales tax revenue sharing agreement based on the analysis. However, market fluctuations, construction cost increases, and capital requirements for the business have challenged the project’s viability. That is why the developer is seeking a new incentive package with TOEURA and the Town. This new request requires an updated feasibility analysis.

The feasibility analysis considers two perspectives:

1. Real Estate Feasibility – What incentive is required to make the real estate development feasible, regardless of the tenant.
2. Business (Restaurant) Feasibility – What incentive is required to make the business operation feasible.

The developer’s re-submitted application reveals that construction costs have increased since the last analysis. In addition, FF&E and Working Capital requirements are complicating the restaurant’s feasibility. The Developer is proposing that TOEURA and the Town address these two feasibility concerns with an updated Sales Tax Increment revenue sharing agreement, and also a forgivable loan to specifically support the business feasibility.

This Report’s purpose is to evaluate the Real Estate Feasibility and estimate the amount of TIF necessary to close both feasibility gaps. This Report independently validates only the real estate feasibility gap. The \$200,000 forgivable loan request is evaluated solely in terms of available incremental revenue capacity and not underwritten against independent restaurant operating benchmarks. Ultimately, this report will demonstrate how the project’s TIF revenue will equate to the developer’s combined funding request.

¹ Town of Erie’s Unified Development Code 10-2-4

The development proposal would redevelop the underutilized parcel located at 656 Kattell Street into a new restaurant building with a four-season, enclosed patio area. The redeveloped restaurant’s total estimated square footage is ~2,400. The restaurant would offer an Italian-inspired dine-in experience, but will also serve pizza for dine-in, take-out and delivery.

PDC evaluated this development on behalf of TOEURA to determine if a feasibility gap exists with the proposed project and if financial support is necessary to achieve market returns. This report provides a detailed analysis of the project’s assumptions benchmarked to the market. The analysis also performs a gap funding range analysis on various levels of financial assistance and examines the effect on return indicators. Finally, the report estimates TIF generated by the project as proposed. These estimates are compared with the funding gap and the forgivable loan request to determine the revenue sharing range necessary for ensuring the Project’s financial feasibility per market benchmarks.

After completing the analysis, **the Reviewers find that Johnny Bechamels project will require funding assistance to become financially feasible.** The Gap Funding assistance range and its associated target market indicators are included in the tables below:

ROI Indicator	Description	Market Target		
Return-on-Cost	Net Operating Income at Stabilization before debt service as % of Project Cost	7.25%		
Internal Rate of Return (IRR, unleveraged, Pre-Tax Yield)	Annual revenue and asset sale over 10 years as return on development costs.	8.25% to 9.25%		
Net Present Value (NPV)	Sum of Present Value Future Cash Flows, discounted at the appropriate Market Rate, less the initial Cash Outlay.	> \$0		
ROI Indicator	Market Target	GAP Funding Range ²		
<i>Estimated Gap (Stabilized Year)</i>		\$475,000	\$500,000	\$525,000
Return-on-Cost	7.25%	7.14%	7.31%	7.48%
IRR, Unlevered	8.25% to 9.25%	8.40%	8.69%	8.99%
NPV	> \$0	\$8,144	\$33,144	\$58,144

Tax Increment Financing Projections

The development as proposed requires approximately \$500,000 in gap funding to achieve financial feasibility based on all three market benchmarks and current investment metrics. The developer has proposed a TIF sharing agreement with TOEURA to overcome this funding gap. This Report evaluated the Project’s taxable value to determine its future property and sales tax generation.

TOEURA’s Historic Old Town Urban Renewal Plan was formed in 2013 and is set to expire in 2038. This leaves only 13 years to date when incremental revenues can be generated, plus one additional year of

² Gap Funding is applied to Construction Equity in this analysis. Gap Funding is assumed to be Present Value.

property tax increment revenues. This Report’s TIF projection isolates the proposed project and only estimates incremental tax revenues generated by the new development. Incremental revenues generated outside this specific development but contained within the Historic Old Town Urban Renewal Plan area, are not included in these estimates.

The proposed project is estimated to generate \$109,800 in property taxes and \$940,000 in sales taxes over the Historic Old Town Urban Renewal Plan’s remaining 13 years. When discounted back at a rate TOEURA recently received on a debt issuance³, this amount equates to a Net Present Value of \$73,600 in property tax increment and \$644,000 in sales tax increment.

The large amount of sales tax generated by this project should be noted. The proposed development is essentially two restaurant concepts, a sit-down Italian eatery and a pizzeria. The 1,500 SF of existing retail space also benefits from added tables located within the heated and enclosed four-season patio. This additional 900 square feet of space should be treated as an extension of the restaurant space, bringing the total restaurant footprint to 2,400 square feet. The pizzeria is also expected to generate between 20% and 40% of annual sales via take-out and delivery. This further increases sales, despite the restaurant’s relatively small footprint. Overall, this report estimates the restaurant’s sales per square foot to average \$795. This is on the higher end of the retail sales per square foot spectrum. This sales forecast is optimistic and may present a feasibility risk if sales fall below this average.

This report recommends that TOEURA and the developer negotiate a TIF sharing agreement where shared incremental revenue (Present Value) meets or exceeds the estimated funding gap and forgivable loan amount. Because the project as proposed will generate more revenue than is necessary to close the funding gap, **the report recommends TOEURA and the developer negotiate a TIF revenue sharing agreement where the net present value of future incremental cash flows equates to the ~\$500,000 funding gap in addition to the \$200,000 forgivable loan amount.**

After discussion with staff, the incentive recommendation is listed below:

- TOEURA pursue a revenue sharing agreement where 100% of incremental sales tax is shared back with the project for 10 years (2026 to 2035). If a Cap Limit is required, this report recommends the Cap be set at \$686,232.
- TOEURA issues a \$200,000 forgivable loan to support the business’s feasibility. This report estimates that the project’s property tax increment and remaining sales tax increment equate to ~\$200,000 when discounted back at the rate used for NPV calculations. The \$200,000 is not independently validated, but is evaluated only in terms of whether remaining increment can support it.

The development’s TIF forecasts are illustrated in the table below:

Johnny B's Gap Analysis

URA Project Year	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039 ⁴
Sales Tax TIF Projection	\$0	\$70,349	\$71,756	\$73,191	\$74,655	\$76,148	\$77,671	\$79,225	\$80,809	\$82,425	\$84,074	\$85,755	\$87,471	\$0
Property Tax TIF Projection	\$0	\$7,992	\$7,992	\$8,152	\$8,152	\$8,315	\$8,315	\$8,481	\$8,481	\$8,651	\$8,651	\$8,824	\$8,824	\$9,000
Sales Tax Incentive Revenue														

³ 5.28% was estimated cost of capital for Erie Town Center bonds issued by TOEURA.

⁴ Final Year of Property Tax Collections

Reimbursement Package Estimates		
Sales Tax Revenue Sharing Period	10 Years	2026 to 2035
Gross Sales Tax Increment Estimate	\$686,232	
Discount Rate	5.28%	
NPV Sales Tax Increment	\$504,983	
Real Estate Feasibility Gap Funding Required	\$500,000	

Forgivable Loan Estimates		
NPV of Property Tax Increment	\$73,602	
NPV of Remaining Sale Tax Increment	\$131,835	
NPV of Remaining Increment	\$205,437	
Business Feasibility Gap Funding Request	\$200,000	

In conclusion, the Tax Increment Revenue forecast is sufficient to make both the Real Estate development and Business feasible through a sales tax increment revenue sharing agreement and a forgivable loan. This incentive will effectively use all of the project’s tax increment generated over the Historic Old Town Urban Renewal Plan’s remaining years.

Background

Scope of the Review

To benchmark the proposed project to the market, PDC reviewed and provided independent research regarding the following assumptions:

- Independent verification for market assumptions presented in the development proposal,
- Construction costs estimates verification,
- Financial gap analysis,
- Market verification on commercial mortgage loan rates and terms,
- Comparison with market rate investment criteria and yield indicators,
- Assessed Value appraisal and tax increment estimates,
- Potential impacts from current economic uncertainty.

Methodology

The Developer provided a detailed TIF application, architectural plans, and development and operating proformas. The Developer also allowed PDC to interview the development team and interrogate assumptions within their pro forma. This information helped inform this Report’s analysis.

The Reviewers conducted independent research into market conditions and development costs to establish a market baseline for evaluating this Project’s feasibility. The development’s costs were independently verified to determine their reasonableness. Projected revenues, including commercial leases, were contrasted with comparable properties throughout the local and regional market. The same method was used to compare the project’s expenses, including commercial operating expenses, absorption, lease-turnover, vacancy, and financial terms to local market realities. Once these assumptions were evaluated, the Reviewers performed a sensitivity analysis on a range of gap funding scenarios. These potential financial gaps were estimated by the Reviewers through an independent rate of return analysis targeting market-based investment expectations. The Reviewers then estimated the development’s future property and sales tax revenue using similar assumptions. This TIF estimate was then compared to the Gap Funding Analysis to identify the optimal range for revenue sharing.

Project Basis

Proposed Redevelopment Project (656 Kattell Street)	
Weld County PIN	146718401010
Weld County Account Number	R5787186
Property Owner (Per Assessor)	MEXICAN EXPRESS GRILLE INC
Street Address	656 KATTELL ST ERIE CO

- The site is ~0.17 acres located along Kattell Street. The site is within TOEURA's Historic Old Town Urban Renewal Plan area and the Town of Erie's municipal limits.
- The proposed project will redevelop an existing single-story building. The building improvement square footage is estimated at ~1,500 Square Feet, featuring dining space, a commercial kitchen, and restrooms. The developer is also proposing a year-round, heated and enclosed outdoor patio estimated at ~900 Square feet.
- The existing structure is estimated at ~1,500 square feet and is assumed to undergo capital improvements once the new building is completed.
- The proposed new restaurant will feature dine-in space as well as take-out. It will operate year-round, including the outdoor patio area. Take-out sales are assumed to represent ~30% of total sales. The restaurant is assumed to generate retail sales equating to \$795 per square foot.
- The developer has not indicated whether this development will be self-financed or will require debt financing. This report assumes that the developer will self-finance the project and does not compare loan terms with current market benchmarks.

Project Assumptions

Development Program

The Reviewers have evaluated this proposed development from the perspective of an open market. This analysis assumes that the proposed restaurant expansion is being developed as a for-lease product.

The following chart compares the as-proposed development proforma assumptions with PDC’s market-derived assumptions.

Assumptions	As Proposed	Market Estimate	Comments
Use Type			
Residential Units	0	-	No Residential is being proposed.
Commercial Retail	1,500 SF	-	The Reviewers assume that commercial space will be leased to maximize NOI. Commercial leases are assumed NNN. Additional \$900 SF assumed for patio.
Commercial Component			
Commercial Retail Leasing Rates Per Square Foot	N/A	\$31.50 psf	The restaurant owner is also the operator. Currently, this restaurant concept has two leases within Denver. Lease rates range between \$40-\$45 PSF NNN. In Erie, a lack of new restaurant development, and a bifurcated market, make comparable asking rents difficult to assess. However, this property will be positioned at a profitable corner near the developing Coal Creek Park and will also provide Pizza for take-out delivery. The proposed restaurant brands are also already highly successful in competitive areas of the Denver market and are now selecting Erie for their first owner-occupied establishment. Given these factors, the reviewers estimate that an asking rent which outperforms the Boulder Submarket’s \$28 PSF retail average is more in line with this proposed development’s space. Reviewer’s estimate based on a comparison of commercial retail space leases and expenses in the market area and within comparable mixed-use properties. Assumes NNN leases.
Commercial Retail Operating Expenses	\$11.00 psf	\$11.00 psf	Operating expenses based on comparable properties and estimated taxes. Developer is also owner and did provide operating expenses that were translated in a PSF basis.
Growth Rate			
Revenue	3%	3%	The Reviewers growth rate is based on interviews with the Developer. Reviewers assume 3% annualized growth rates for revenue and expenses.
Expenses	3%	3%	
Financing Component			

Debt			
Loan: Value Ratio	N/A	60% - 70%	The developer did not provide financing terms as part of their pro forma. Reviewers assume that developers are self-financing development.
Interest Rate	N/A	6.75%	
Amortization	N/A	20-30 Years	
Capitalization Rates			
Stabilized – Retail	N/A	6.75%	Economic and market conditions in Denver Metro, Boulder, and Greeley submarkets outperform national and west region averages by ~25 basis points. Retail cap rates, especially for food service tenants, are forecast to remain stable in the coming years. The going-in (stabilized) cap rate used in this Review reflects these market expectations. Typically, exit cap rates (at asset liquidation) are 50 to 150 basis points higher than going-in rates. The reviewers used a 75-basis point increase for liquidated capitalization rates.
Liquidated – Retail	N/A	7.50%	
Return on Investment Metrics			
Target Yield			
Yield Rate (IRR Unlevered)	n/a	8.25% to 9.25%	Market-based target yield rates are used to estimate the financial gap. These yield rates represent a blended return based on market surveys for retail commercial property investments. The NPV is calculated using the blended pre-tax yield rate. This is the rate of interest that discounts pre-tax cash flows received on an unlevered investment back to a present value that is exactly equal to the original equity investment.
Return on Cost	n/a	7.25%	
Net Present Value	n/a	> 0	
Development Cost			
Development Cost	\$1,934,134	\$1,567,134	The Reviewer's estimated development cost is based on the project concept as understood by the Reviewer using cost guide approximations. The Developer's estimated development costs include business expenses, which are outside the scope of a Gap Analysis. The Reviewer's cost estimate only includes acquisition and hard costs, expenses deemed TIF eligible. The Reviewer's cost estimate was used in estimating the feasibility gap.

1. Source: CoStar, RERC; Realtyrates.com; RS Means; Zillow; CBRE; DMCAR; NAR, Commercial Real Estate Finance Co. of America, CommercialLoanDirect.com, Integra Realty Resources, Hoyt Advisory Services; NMHC/NAA; U.S. Census Bureau; RealPage, fixr.com, Statista: Denver, Fannie Mae, EV Studio, ARGUS College, Pioneer Development Company.

Estimated Feasibility Gap

Based on investor surveys and market data reviewed by PDC, the following target rates are used to proxy investment hurdle rates of return. In other words, it is assumed the cash flow projections must yield rates within the following ranges to be considered attractive to the market. Return-on-Investment (ROI) estimates are based upon stabilization in 2027, designated as Year 2 of the Proforma. The following Gap Funding range analysis illustrates the application of total GAP funding against construction cost during the first year of construction.

ROI Indicator	Description	Market Target		
Return-on-Cost	Net Operating Income at Stabilization before debt service as % of Project Cost	7.25%		
Internal Rate of Return (IRR, unleveraged, Pre-Tax Yield)	Annual revenue and asset sale over 10 years as return on development costs.	8.25% to 9.25%		
Net Present Value (NPV)	Sum of Present Value Future Cash Flows, discounted at the appropriate Market Rate, less the initial Cash Outlay.	> \$0		
ROI Indicator	Market Target	GAP Funding Range ⁵		
<i>Estimated Gap (Stabilized Year)</i>		<i>\$475,000</i>	<i>\$500,000</i>	<i>\$525,000</i>
Return-on-Cost	7.25%	7.14%	7.31%	7.48%
IRR, Unlevered	8.25% to 9.25%	8.40%	8.69%	8.99%
NPV	> \$0	\$8,144	\$33,144	\$58,144

The development project as proposed indicates a **financial gap of approximately \$500,000**. The gap funding range analysis reveals that the project will begin to achieve market target rates for “return-on-cost”, unleveraged IRR and Net Present Value with **\$500,000 in gap funding**.

To achieve market target rates, this Gap Funding estimate is assumed to be applied to construction equity. The funding, therefore, is estimated as a **net present value of at least \$500,000**. **This review estimates that the real estate project will achieve target market hurdle rates at this level of public funding.**

Because the developer is proposing a TIF reimbursement agreement and a forgivable loan, this agreement should be structured so that its future tax increment cash flows, when discounted back at current lending rates, equates to at least \$500,000 in present value. Property tax and sales tax increment not leveraged towards the reimbursement can instead be used to justify the forgivable loan amount.

⁵ Gap Funding is applied to Construction Equity in this analysis. Gap Funding is assumed to be Present Value.

Development Risk

Project proformas are projections and always carry market and other risks impacting costs, operations, and ROI. In reviewing this project, the following risks are summarized amongst other potential risks:

- Increased competition and prolonged inflation may decrease sales and increase financial risks with both the business and development;
- Retail sales may be overstated. The proposed restaurant is confident that even its lower sales range would exceed \$650 psf (includes enclosed patio). This represents a high performing retail business in the Carbon Valley. If the restaurant fails to generate sales at this level, it will likely be unable to provide the gap funding necessary for market feasibility.
- Capitalization Rates may be lower than can be realized, making the gap higher than expected;
- Potential Rent Concessions as a deduction to asking rents may become more common in the market;
- Public participation by the Town of Erie Urban Renewal Authority and the Town of Erie may be limited; and
- Current economic uncertainty as previously described.

Conclusion

The Reviewers' conclusion is that the developer's request for Gap Funding assistance is reasonable, given current market conditions and the project's costs. The reviewers cannot evaluate the need for the forgivable loan amount, aside from the fact that the business has made clear to staff they are unable to proceed without additional capital.

The incentive package being proposed assumes that the TOEURA desires to make both the real estate development and the business operation (restaurant) feasible. **This feasibility can be achieved through a \$200,000 forgivable loan (per the developer's request) and a 10-Year, 100% sales tax increment reimbursement agreement with a \$690,000 cap limit.**

The report estimates that the project will be able to generate sales tax increment necessary to make the real estate development achieve market rates of return. The Report also estimates that the remaining increment, both the property tax and remaining sales tax increment, is roughly equivalent in value to the proposed \$200,000 forgivable loan.

From a regulatory and Urban Renewal Plan standpoint, the proposed project has been designed to align with TOEURA's vision for this Urban Renewal Plan area and achieve the highest and best use of the site. However, the current proposal is unable to achieve market feasibility without additional funding assistance. The reviewers recommend that TOEURA work with the developer on a unique revenue sharing agreement to overcome this funding gap.