PIONEER DEVELOPMENT COMPANY

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656 Kattell Street Gap Funding Analysis

Town of Erie

December 23, 2024

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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 operators are Dio Mio and Redeemer Pizza. The existing building is currently 1,500 square feet. The restaurant, which will act as owner, developer and operator, will redevelop the building, paying their own tenant improvements to make it function as a restaurant. Also, the building's footprint will be expanded 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.

The Town of Erie URA and the developer provided project information, marketing information, budgets, and proformas that were reviewed and evaluated by this Gap Funding Report.

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. 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

656 Kattell Street Gap Funding Analysis:

This report evaluates the proposed 656 Kattell Street 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, and double as a pizzeria. The brands associated with this restaurant concept include Dio Mio in Denver's Rhino District, and Redeemer Pizza on Larimer Street, Denver. This location represents the restaurant's first foray into owning and operating their own establishment. They plan on redeveloping the existing 1,500 square foot building and adding an additional 900 square feet of patio space.

Redeemer Pizza LLC (The Developer) is seeking a public private partnership with the Town of Erie Urban Renewal Authority (TOEURA) and has submitted a Tax Increment Financing (TIF) request to the Town's economic development and urban renewal staff. This request included a narrative explaining their businesses situation as well as a development proforma, LOI, and renderings of their redevelopment. The developer is requesting a TIF reimbursement agreement with TOEURA, but has not specified the amount needed to make their project viable. The developer maintains that ***but for*** TOEURA's assistance, this project could not proceed as envisioned. This Report's purpose is to evaluate the proposed development's feasibility and estimate the amount of TIF necessary to close potential funding gaps.

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 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 656 Kattel Street Redevelopment 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:

[1] Town of Erie's Unified Development Code 10-2-4

ROI Indicator	Description	Market Target
Return-on-Cost	Net Operating Income at Stabilization before debt service as % of Project Cost	7.0% to 8.0%
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]		
Estimated Gap (Stabilized Year)		***$350,000***	***$375,000***	***$400,000***
Return-on-Cost	**7.0% to 8.0%**	**6.94%**	**7.10%**	**7.27%**
IRR, Unlevered	**8.25% to 9.25%**	**8.05%**	**8.33%**	**8.62%**
NPV	**> $0**	**-$22,960**	**$2,040**	**$27,040**

Tax Increment Financing Projections

The development as proposed requires approximately $375,000 in gap funding to achieve financial feasibility based on 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 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 $70,700 in property taxes and $870,000 in sales taxes over the Historic Old Town Urban Renewal Plan's remaining 13 years. When discounted back at a current 10-year commercial mortgage rate average for retail use[3], this amount equates to a Net Present Value of $40,800 in property tax increment and $508,000 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

[2] Gap Funding is applied to Construction Equity in this analysis. Gap Funding is assumed to be Present Value.
[3] 6.70% as of December 22, 2024 per select lenders.

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. 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 ~$375,000 funding gap. This can be achieved in a variety of ways, such as sharing only a percentage of incremental sales taxes generated by the project or a percentage of incremental property taxes, or providing a total (gross) incremental tax cap limit over a set period of time.

However, after discussion with staff, it is recommended that TOEURA pursue a revenue sharing agreement where incremental sales tax is shared back with the project for 10 years. This sharing agreement will also have a cap limit on gross sales tax increment revenue. **This TIF revenue sharing agreement over the next 10 years (2025-2034) would need to be capped at $566,000 of gross sales tax increment to equate to the project's estimated funding gap today.**

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

656 Kattell Street Redevelopment Project – Tax Revenue Estimates Through 2038[4]

Estimated Base Taxable Value	**$93,470**
Total New Taxable Real Property Value	**$147,853**
Total Net Taxable Value	**$54,383**

TIF Estimates (*Rounded)*	Gross	Net Present Value	Annual Average	Town of Erie Only
Total	**$940,700**	**$548,800**	**$67,000**	**$62,600**
Property Tax (100% Share)	$70,700	$40,800	$5,000	$600
Sales Tax (100% of Town's 3.5% Rate)	$870,000	$508,000	$62,000	$62,000

656 Kattell Street

URA Project Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Sales Tax TIF Projection	$0	$0	$68,300	$68,983	$69,673	$70,370	$71,074	$71,784	$72,502	$73,227

Revenue Sharing Period	10 Yrs
Gross Sales Tax Increment	$ 565,915
Discount Rate	6.70%
NPV Sales Tax Increment	**$ 374,111**

[4] Includes 2039 Property Tax Increment Collections, sales tax collections end in 2038.

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.

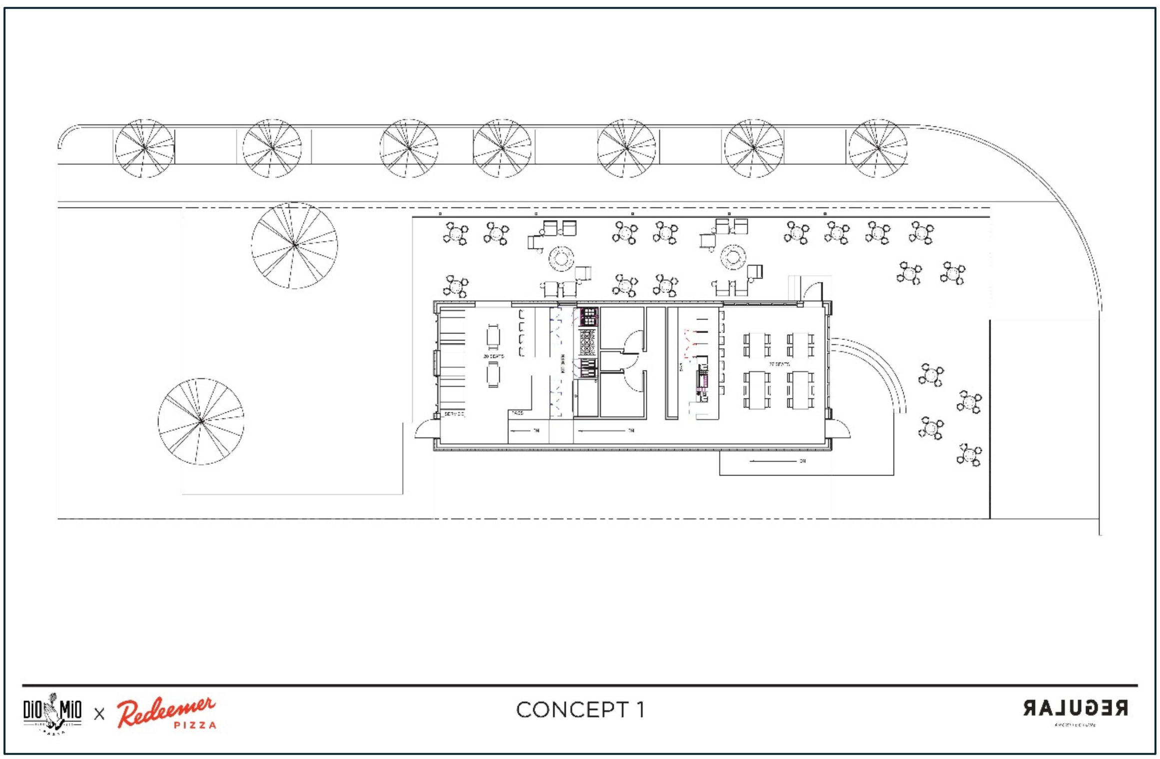

Figure 1 – Proposed Development Architectural Plans.

DIO MIO × Redeemer PIZZA

CONCEPT 1

REGULAR

DIO MIO × Redeemer PIZZA

CONCEPT 1

REGULAR

Current Economic Environment

The Town of Erie straddles two distinct submarket areas within Colorado, the Boulder submarket and Greely submarket. These submarkets are robust and growing. The Boulder submarket is home to several fortune 500 companies, has historically attracted tech companies, and is home to the University of Colorado main campus. In terms of retail commercial development, Boulder's asking rents are beginning to grow after suffering downturns triggered by e-commerce and the covid pandemic. Last year, boulder's retail asking rents grew by 1.8%, which is more aligned with the national benchmark of 2.0%. There is roughly 220,000 SF of retail development in the boulder submarket pipeline, although these projects take longer to realize due to strict zoning and planning standards. Overall, the boulder submarket enjoys higher asking rents than the Greely submarket, indicating increased demand as well as higher costs to doing business.

The Greely retail submarket poised for rapid growth, driven largely by the explosive population growth seen over the past decade. The Greely submarket is also more business friendly than the Boulder Submarket and has 100,000 SF of retail space currently under construction. Vacancy rates in the Greely Submarket have remained 3% over the past decade, indicating that supply is struggling to keep up with the region's demand. Market rents, however, are roughly $10 per square foot (NNN) less than in the Boulder Submarket. These rates only grew at 1.6% last year, highlighting the dynamic race between a growing population and new commercial retail development.

The Town of Erie is located within both submarkets, making it challenging to identify comparable retail businesses and market benchmarks. While both submarkets enjoy healthy growth and demand, their respective asking rents and expenses are very different. The town of Erie also lacks a significant number of restaurants or retail establishments, currently. While commercial development is in the Town's construction pipeline, these establishments are years away from being completed. The town has experienced explosive residential growth since 2010, increasing its population by over 22,000 residents between the 2010 and 2020 census. These factors indicate strong demand for increased retail establishments within the Town, but uncertainty around where asking rents and other market benchmarks will land.

Additionally, the Town of Erie's growth has increased the value of its property, both in land prices and existing structures. Erie is now faced with a growing discrepancy between the cost to build or redevelop property, and the commercial rents that can be achieved by that type of real estate development. The proposed development finds itself within this grey area, facing high costs for acquisition and development, and low market averages for retail lease rents. Erie's market is entering a phase where new retail development will have to prove market benchmarks, as the reviewers believe that data on Erie's current asking rents (NNN) are below current demand.

In general, looking beyond Erie and its respective submarkets, Colorado's retail sector economic troubles that pre-dated the pandemic years appear to be fading. This is especially true of retail tenants focused on restaurants, bars and grocery stores. These retail establishments are expected to show strong demand in the coming years. The U.S. Census bureau reported 4.9% retail and food service sales gains through October 2023. Eating and drinking establishments, which are being proposed for this development, reported 11.5% growth during the same period. This growth indicates strong demand for specific restaurant services in the coming years, and ongoing growth throughout the holding period.

This report analyzed a variety of real estate databases to develop a market baseline for Erie. RERC, CoStar, CBRE, and Integra Realty Resources were utilized throughout this report. Although these report's aggregate data around primary market centers, their findings are telling for Erie's market growth. IRR categorized the Denver Metro area retail market as in a "recovery" mode, meaning that vacancy rates are decreasing, absorption is stabilizing, and rents will see some moderate growth. Cap rates in this market are among the lowest in the nation, almost 50 basis points lower than the fast-growing southern US Region.

One economic headwind that risks curbing growth is housing affordability. When households become cost-burdened (monthly housing costs exceed 30% or more of monthly income), retail expenditures decline. Given the area's decreasing housing affordability, this could impact future retail spending. Despite Erie's rising housing costs, CoStar's retail market summary for the Denver Metro area, as well as the Boulder and Greely submarkets, claims that retail demand remains in a position of strength. Vacancy rates remain low and new construction is modest. These factors will help new retail development remain competitive in the coming years.

To account for current economic conditions over a 10-year proforma, the Reviewers have estimated growth in rental/leasing rates and operating expenses to be 3% annually. The Reviewers also assume that this development's asking rents (NNN) will be above the Boulder submarket average. This assumption reflects the property location, the restaurant brand's success in Denver, and the developer's optimism that rental growth at this property will exceed market averages during their ownership.

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			The Reviewers growth rate is based on interviews with the Developer. Reviewers assume 3% annualized growth rates for revenue and expenses.
Revenue	3%	3%	
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 Greely 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	7.0% to 8.0%	
Net Present Value	n/a	> 0	
Development Cost			
Development Cost	**$1,874,938**	**$1,473,238**	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.

ROI Indicator	Description	Market Target
Return-on-Cost	Net Operating Income at Stabilization before debt service as % of Project Cost	7.0% to 8.0%
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

The following Gap Funding range analysis illustrates the application of total GAP funding against construction cost during the first year of construction.

ROI Indicator	Market Target	GAP Funding Range[5]		
Estimated Gap (Stabilized Year)		*$350,000*	*$375,000*	*$400,000*
Return-on-Cost	**7.0% to 8.0%**	**6.94%**	**7.10%**	**7.27%**
IRR, Unlevered	**8.25% to 9.25%**	**8.5%**	**8.33%**	**8.62%**
NPV	**> $0**	**-$22,960**	**$2,040**	**$27,040**

The development project as proposed indicates a **financial gap of approximately $375,000.** 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 **$375,000 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 $375,000. This review estimates that the project will achieve target market hurdle rates at this level of public funding.**

Because the developer is proposing a TIF reimbursement agreement, this agreement should be structured so that its future tax increment cash flows, when discounted back at current lending rates, equates to at least $375,000 in present value.

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

Feasibility Gap Analysis

The proposed development has unique challenges that were considered in this analysis. This section will provide an explanation of these challenges and how they were considered by the analysis when estimating potential funding gaps.

Retail Component

The project's commercial retail component features an existing 1,500 square foot restaurant and a proposed 900 square foot heated and enclosed patio expansion. There will also be outdoor seating areas during the summer months. The Developer's pro forma indicates that this space will generate anywhere from $2.6 million to $1.6 million in sales annually (the developer and future business operator provided high and low forecasts). Because the developer is also the owner-operator, there is no lease expenses associated with the pro-forma. For this reason, the Reviewers had to estimate the value of the lease that the developer would charge their own establishment and use this value to estimate the funding gap associated with the development costs and market benchmarks.

The reviewers determined that this location, when redeveloped into an Italian eatery and pizzeria, could command a higher rent than is currently demonstrated in the Erie market. The Reviewers assume that this location, once developed according to the proposed renderings and site plan, could command rents equal to $31.50 per square foot NNN. This rent assumes that the project's total square footage includes the patio enclosure, bringing its gross square feet to 2,400. This lease rate is justified by the location, adjacent to the Town's new Coal Creek Park area, and the fact that the restaurant could generate anywhere from 20%-40% of its sales via take-out and delivery. This lease rate is higher than the Town's average retail asking rent of $24 per square foot. It is also higher than Boulder submarket's $28 per square foot average. However, these restaurants are currently successful in the Denver metro market, paying NNN leases between $40-$45 psf.

The Reviewers elected to assume this development, both new and existing, was treated as leasable restaurant space. Being both the property owner and tenant, it was necessary to assume a lease rate indicative that could be justified by the restaurant's projected sales. Given this assumption, the reviewers used $31.50 per square foot as the asking rent. This assumes that the lease is triple net (NNN). Expenses, including CAM, Insurance and Taxes, are $11.00 per Square Foot. Rents and expenses are assumed to escalate by 3% annually.

It should be noted that Erie's commercial retail market is at a crossroads based on the data analysis. Erie's property values continue to escalate for all real estate types, despite the majority of its development being residential. This increase in property value, coupled with perennially high construction costs in Colorado, causes Erie to be an expensive location for new development and redevelopment. However, Erie's market data lags these cost increases. Lease rates and capitalization rates remain historically "backwards", meaning that the market's true demand is not reflected by market analysis. This in turn suppresses potential real estate investment yields in Erie. When combined with the Town's property values and high construction costs, this gap in market data makes it difficult to justify commercial retail investments, as the returns appear low. Erie requires catalytic developments, such as the one proposed, to help shift this narrative and "update" its commercial retail data.

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.

Tax Increment Financing Projections

This Gap Funding analysis also analyzed the proposed development's tax projections. These projections were then used to estimate the amount of tax increment financing (TIF) that is likely to be generated by this project. This TIF forecast considers Weld County assessments, the property's overlapping millage rate, and the Town of Erie's existing tax rate.

The Reviewers estimated TIF by assuming that 656 Kattell Street is a singular Urban Renewal Plan area. This isolated the development's existing base value and forecast future property and sales tax increment based only on new development and activity at this site.

The Reviewer's estimate the Project's taxable value at $147,853. This taxable value does not represent the cost to develop the project or its market value. Instead, this taxable represents the equalized commercial assessments. In general, property assessments run about 70%-80% of market value. The property's current taxable value is $93,470. This is essentially the base value, making the Project's incremental taxable value $54,383. The Reviewers used this incremental taxable value to project future tax revenues and TIF.

The Historic Old Town Urban Renewal Plan is set to expire in 2038, meaning that 2038 is final year the Project can generate incremental revenue[6]. The reviewers also assume that 100% of the property's overlapping millage rate is eligible for TIF (currently 103.086 mills). Sales tax was also forecast using the Town of Erie's 3.5% sales tax rate. The project's retail space is assumed to generate a weighted average (including the enclosed patio space) of $795 per square foot in annual sales.

The Reviewers modeled property and sales tax increment based on these assumptions. The model was adjusted for inflation and biennial reassessments. The Project is expected to generate ~$70,700 in

[6] Property tax increment will be collected in 2039, since property taxes are one year in arrears.

property tax increment and $870,000 in sales tax increment over the next 14 years, until the Plan area sunsets in 2038. When discounted at a 6.70% rate, this forecast equates to $40,800 in property tax TIF (present value), and $508,000 in sales tax TIF (present value).

These present value TIF estimates are instructive when compared to the Project's estimated Gap Funding. The Reviewers estimate that the Project has a $375,000 funding gap, which is a present value estimate. These TIF forecasts can be compared with the funding gap to strategize a revenue sharing strategy that makes the project feasible.

TOEURA's position on revenue sharing is to share a percent of a project's sales tax increment, generated by the project, with that project. This traditionally has been structured as a revenue sharing agreement where a percentage of the project's TIF is reimbursed to the developer, which is also capped at a not-to-exceed amount. This report recommends that TOEURA pursue a revenue sharing agreement where incremental sales tax is shared back with the project for 10 years (2025 to 2034). This sharing agreement will also have a cap limit on gross sales tax increment revenue. **This TIF revenue sharing agreement over the next 10 years (2025-2034) would need to be capped at $566,000 of gross sales tax increment to equate to the project's estimated funding gap today.**

These recommendations are purely financial, and do not consider the political feasibility of this project and its revenue sharing strategies.

Conclusion

The Reviewer's conclusion is that the developer's request for Gap Funding assistance is reasonable, given current market conditions and the project's costs. The Erie market is particularly challenging from a commercial retail investment standpoint. The reason is that property values and construction costs are high, yet data on lease rates and yields remains low. It will take catalytic developments, such as the one being proposed, to shift this historic-looking investment narrative to better underscore the commercial retail opportunities in Erie.

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.

In conclusion, it is the reviewer's opinion that a feasibility gap does exist for the development as proposed, that is approximately **$375,000.** The reviewers recommend that TOEURA work with the developer on a unique revenue sharing agreement to overcome this funding gap.

Appendix

Gap Funding Summary

Scenario:
656 Kattell Redevelopment Scenario

PROJECT SUMMARY

Property Summary		**Construction Loan Summary**	
Residential Units	0	Loan : Cost Ratio	[redacted]
Rentable SF	2,400	Contruction Loan Term (mos)	
Total Development Cost	$1,473,238	Construction Interest Rate	
Development Cost per Rentable Square Foot	$614	Construction Loan Amount	
Construction Equity	$662,957	Construct Loan Per RSF	
ConstructionDebt	$810,281		
		Perm Loan Summary	
		Perm Loan : Value Ratio	
Proforma		Perm Loan Amount	
Year Stabilized	2	Perm Loan Ammortization (yrs)	
Stabilized NOI	$78,002	Perm Interest Rate	
Stabilized Cap Rate	6.75%	Perm Loan Yearly Payment	
Stabilized Proforma Value	$1,155,579	Perm Term	
Stabilized Value Per RSF	$481	Perm Loan Balance	
Reversion Value	$1,356,996	Loan Fees/Closing Costs	
Reversion Cap Rate	7.50%	DSCR	
Growth Rate	3.00%	DSCR Loan Amount	

GAP FUNDING - applied to contruction equity	**$375,000**

Feasibility Indicators (10 yr hold)		Market Target Rate
Cost/Value*	127.5%	
Return on Cost*	**7.10%**	**7.00% to 8.00%**
IRR on Project (unleveraged)	**8.33%**	**8.25% to 9.25%**
NPV	**$ 2,040**	
*Stabilized Year 3		

OPERATING PROFORMA

Proforma Year	**CONSTRUCT**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Investment												
Construction Equity	(662,957)											
Construction Debt	(810,281)											
Construction Cost	**(1,473,238)**											
Operating Income												
Net Income from Property Operations	$0	$0	$78,002	$80,342	$82,752	$85,234	$87,792	$90,425	$93,138	$95,932	$98,810	$101,775
GAP Funding	*$375,000*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*	*$0*
NOI	**$375,000**	**$0**	**$78,002**	**$80,342**	**$82,752**	**$85,234**	**$87,792**	**$90,425**	**$93,138**	**$95,932**	**$98,810**	**$101,775**
Unleveraged Cash Flow (NET OF CONST GAP FUNDING)	**($1,098,238)**	**$0**	**$78,002**	**$80,342**	**$82,752**	**$85,234**	**$87,792**	**$90,425**	**$93,138**	**$95,932**	**$98,810**	**$1,458,771**
Rates of Return Analysis												
IRR on Project (unleveraged)	**8.33%**											
Return on Cost		0.00%	**7.10%**	7.32%	7.53%	7.76%	7.99%	8.23%	8.48%	8.74%	9.00%	9.27%
xNet Present Value	**$2,040**											

656 Kattell Street														End of URA Timeframe	Last Year of Increment
Combined Annual Proforma		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Absorption Schedule																
Residential		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial		-	-	1,500	-	-	-	-	-	-	-	-	-	-	-	-
Total Residential Units		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Commercial SF		-	-	1,500	-	-	-	-	-	-	-	-	-	-	-	-
Project Total Value																
Residential		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial		$ -	$ -	$ 591,411	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Residential Actual Value		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Commercial Actual Value		$ -	$ -	$ **591,411**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Project Taxable Value																
Residential Ratio	6.90%															
Commercial Ratio	25.0%															
Assessor % Reduction	100%															
Residential Taxable Value		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Taxable Value		$ -	$ -	$ 147,853	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Project Assessed Value (Taxable Value)		$ -	$ -	$ **147,853**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Estimated Increment																
Annual NET AV (Assessed Value)		$ -	$ -	$ **147,853**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Inflation Factor	1%															
Total NET AV (Inflation Adjusted)		$ -	$ -	$ 149,331	$ 149,331	$ 150,825	$ 150,825	$ 152,333	$ 152,333	$ 153,856	$ 153,856	$ 155,395	$ 155,395	$ 156,949	$ 156,949	$ 158,518
Estimated Base																
Existing Taxable Value		$ 93,470	$ 93,470	$ 95,339	$ 95,339	$ 97,246	$ 97,246	$ 99,191	$ 99,191	$ 101,175	$ 101,175	$ 103,198	$ 103,198	$ 105,262	$ 105,262	$ 107,368
Base Inflation Factor	2%															
Incremental Taxable Value		$ -	$ -	$ 53,992	$ 53,992	$ 53,578	$ 53,578	$ 53,142	$ 53,142	$ 52,681	$ 52,681	$ 52,196	$ 52,196	$ 51,686	$ 51,686	$ 51,151
Project Sales Tax																
Sales Tax Rate	3.50%															
Retail SALES		$ -	$ -	$ 1,894,050	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sales Tax %																
Total Retail Sales		$ -	$ -	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050	$ 1,894,050
Estimated Annual Sales Tax		$ -	$ -	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292
Property Tax TIF Estimates	*Plan Yr -->*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Property Tax																
Total Incremental Taxable Value		$ -	$ -	$ 53,992	$ 53,992	$ 53,578	$ 53,578	$ 53,142	$ 53,142	$ 52,681	$ 52,681	$ 52,196	$ 52,196	$ 51,686	$ 51,686	$ 51,151
Mill Levy	103.086															
Annual Incremental Estimate		$ -	$ -	$ **5,566**	$ **5,566**	$ **5,523**	$ **5,523**	$ **5,478**	$ **5,478**	$ **5,431**	$ **5,431**	$ **5,381**	$ **5,381**	$ **5,328**	$ **5,328**	$ **5,273**
Discount Rate	6.70%															
NPV	**$40,764**															
Sales Tax TIF Estimate		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Estimated Annual Retail Sales		-	-	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	1,894,050	
Estimated Annual Sales Tax		$ -	$ -	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	
Sales Tax Sharing %	100%															
Estimated Sales Tax Increment		$ -	$ -	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	$ 66,292	
Inflation Adjustment	1%															
Inflation Adjusted Sales		$ -	$ -	$ **68,300**	$ **68,983**	$ **69,673**	$ **70,370**	$ **71,074**	$ **71,784**	$ **72,502**	$ **73,227**	$ **73,960**	$ **74,699**	$ **75,446**	$ **76,201**	
Rolling Inflation																
Discount Rate	6.70%															
NPV /No Inflation	**$469,971**															
NPV w/ Inflation	**$507,862**															