

# **Resolution 25-001: Approving a Reimbursement Agreement with SpenAlu LLC**

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**TOEURA Board of Commissioners**

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# Presentation Overview

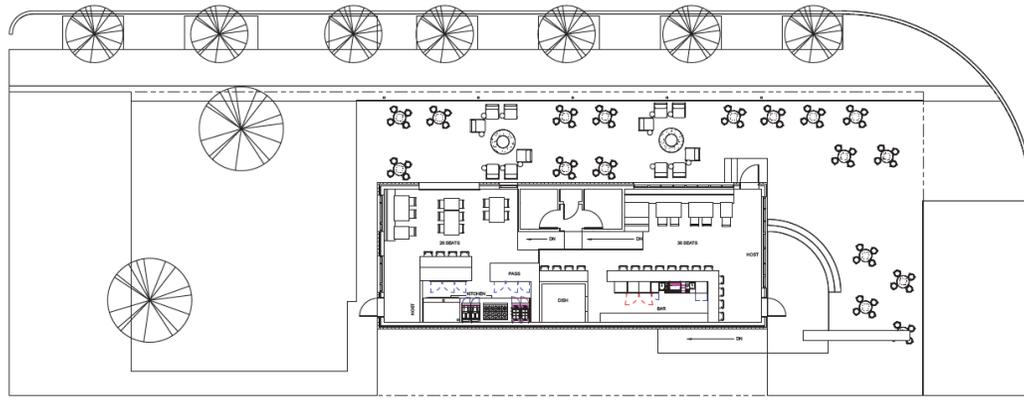
- Request
- Gap Funding Analysis
- Recommendation



## Request

- Owners propose to improve the existing restaurant building at 656 Kattell Street.
- The owners are requesting additional funding resources to assist the revitalization of this vacant building in Old Town.

# Request





## Gap Funding Analysis

- Determine if a feasibility gap exists with the project and if financial support is necessary to achieve market returns.
- Analyze project assumptions benchmarked to the market. Perform a gap funding range analysis on various levels of financial assistance and examines the effect on return indicators.
- Estimate tax increment financing (TIF) revenue generated by the project, compared to the funding gap to determine the revenue sharing range necessary for ensuring financial feasibility per market benchmarks.

# Gap Funding Analysis



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 <sup>2</sup>		
<i>Estimated Gap (Stabilized Year)</i>		<b>\$350,000</b>	<b>\$375,000</b>	<b>\$400,000</b>
Return-on-Cost	7.0% to 8.0%	<b>6.94%</b>	<b>7.10%</b>	<b>7.27%</b>
IRR, Unlevered	8.25% to 9.25%	<b>8.05%</b>	<b>8.33%</b>	<b>8.62%</b>
NPV	> \$0	<b>-\$22,960</b>	<b>\$2,040</b>	<b>\$27,040</b>

- The development as proposed requires approximately **\$375,000** in gap funding to achieve financial feasibility based on market benchmarks and current investment metrics.

# Gap Funding Analysis



656 Kattell Street Redevelopment Project – Tax Revenue Estimates Through 2038 <sup>4</sup>										
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

- Recommend a TIF revenue sharing agreement capped at **\$566,000 gross sales tax increment** to achieve the project's **\$375,000** estimated funding gap today.



## Recommendation

- Approve Resolution 25-001, fully executing a Reimbursement Agreement with SpenAlu LLC:
  - Validates \$375,000 funding gap in project financing
  - Reimburses up to \$566,000 in gross increment generated by project for period of 10 years to achieve \$375,000 funding gap, expiring on Dec. 31, 2034, whichever first occurs:
    - 100% of sales tax increment (est. \$70,000/year)

# Questions & Discussion

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