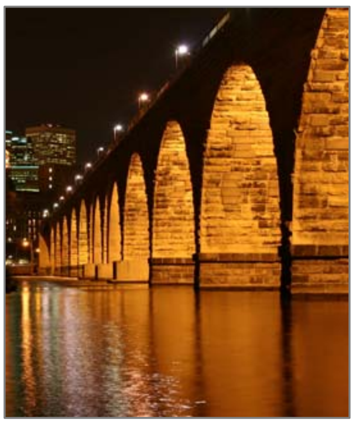

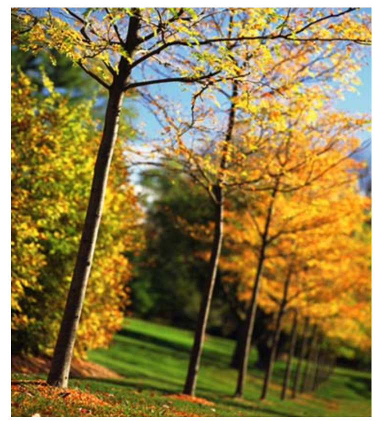

Highway 50 & Main TIF Project

City of Sedalia, Missouri

But For Determination Report

September 22, 2015

Table of Contents

Mission Statement

Springsted provides high quality, independent financial and management advisory services to public and non-profit organizations, and works with them in the long-term process of building their communities on a fiscally sound and well-managed basis.

1. Executive Summary

The City of Sedalia retained Springsted to review the need for assistance for a proposed development, Highway 50 and Main Street, to determine if the proposed project would reasonably be anticipated to be developed without the adoption of the requested financial assistance. The proposed Project contemplates five (5) pad sites being developed that total approximately 21,800 square feet that will consist of retail, restaurant, and/or commercial uses along with infrastructure improvements, landscaping, parking, and other amenities (the “Project”). The proposed development consists of two areas of land that are a total of approximately 5.1 acres that are connected by Highway 50 right of way. The proposed development includes land that is generally located north of Highway 50, east of Oak Grove Lane, and south of W. Main Street and land that is generally located south of Highway 50, east of Westwood Avenue, and west of Winchester Road, all in the City of Sedalia, Missouri. The developer is Star Acquisitions, Inc., (the “Developer”).

The measurement index to determine the need for assistance is the return on investment given similar developments, termed the internal rate of return, (the “IRR”). Springsted reviewed Project costs, operating revenue and expense information, and the requested assistance revenues to determine the Project’s need for assistance. Springsted reviewed ten-year cash flow projections provided by the Developer, and tested the revenue and cost assumptions prepared by the Developer. The testing compared the Developer’s representations to industry benchmarks. We determined the following:

- The projected IRR without assistance to the Developer falls below the current range expected within the marketplace, and the Developer’s own return expectation. Based on the projected level of return without assistance we conclude the Project is unlikely to be undertaken without the requested public assistance.
- The development would have to realize either savings in project costs, increases in project revenue, or a combination of the two for the Project to be undertaken without the requested assistance.
- The base return without assistance is illustrated in Table A below, along with the rate at which assumptions would have to change for the Project to be considered feasible without assistance.

Table A

Internal Rate of Return (IRR) – Return Analysis

Analysis	Change Necessary to be Feasible*	Return without Subsidy
Base Developer Return	N/A	-5.00%
Decreased Costs	39% Decrease	6.61%
Increased Project Revenue	62% Increase	6.33%
Combined Cost Savings & Increased Project Prices	24% Decreased Costs 24% Increased Revenue	6.51%

*The feasibility threshold for purposes of our sensitivity analysis was defined as an internal rate of return of 6.28% per our modification to the Developer's return as discussed in the return calculation portion of this report.

- For purposes of performing our sensitivity analysis we have utilized an unleveraged return of 6.28%. The 6.28% unleveraged return was based on the Developer's base pro forma with our adjustments to calculate the return on an unleveraged basis, and to account for 100% of the net present value of the remaining TIF revenue stream in the reversion value calculated in the pro forma.
- The *Korpacz/Price Waterhouse Cooper Real Estate Investor Survey* identifies the range of returns for a project of this nature as: 6.00% to 10.75%, with an average return target of 7.86%.

2. Purpose

The City of Sedalia has retained Springsted to review the application for a redevelopment project generally located at Highway 50 & Main Street. The proposed project would provide for five (5) pad sites that total approximately 21,800 square feet to be developed for retail, restaurant and/or commercial uses. As part of the redevelopment of the site, the Developer will undertake all necessary infrastructure improvements; such as, street, sanitary sewer, storm water and utility improvements, along with other necessary site work as part of the development. The Developer is requesting assistance in the form of Tax Increment Financing ("TIF") and a Community Improvement District ("CID") sales tax.

The City has requested this analysis determine the Project's need for the requested TIF and CID assistance, based on the Project cost and operating pro forma information provided by the Developer. The analysis that follows will examine whether the proposed Project would reasonably be anticipated to be developed without the 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 Project within the proposed TIF Redevelopment Plan would reasonably be anticipated to be developed without the adoption of the Plan.

We have approached this determination based on the proposed Project's plans regarding development 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 project 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 market place: this analysis is termed the internal rate of return. The final determination is based on whether or not the potential return is reasonable without the requested assistance, within the current marketplace and at the present time.

The Developer is requesting the following assistance:

- Statutory TIF - Revenues in the form of available ad valorem property tax revenues, Payment in Lieu of Taxes, ("PILOTS") along with Economic Activity Taxes ("EATS") where it is anticipated 50% of the growth in sales tax revenues will be captured and re-directed to pay for eligible reimbursable redevelopment project costs; and
- Community Improvement District ("CID") - A CID would be created that will impose a one percent (1%) sales and use tax applicable to taxable retail sales within the redevelopment project area with 50% of the receipts being captured under TIF and re-directed to pay for eligible reimbursable redevelopment project costs. It is anticipated that the CID will dedicate the uncaptured 50% of CID sales tax receipts toward repayment of costs associated with the project.

3. The Project

The proposed Project contemplates five pad sites being developed that total approximately 21,800 square feet that will consist of retail, restaurant, and/or commercial uses along with infrastructure improvements, landscaping, parking, and other amenities. The Developer anticipates constructing all necessary site improvements and two pad sites for inline retail that are approximately 5,400 square foot each. The three remaining pads sites, anticipated for potential restaurant uses, consist of two (2) 3,000 square foot pad sites and one (1) 5,000 square foot pad site, which will be sold to third parties to be developed. The Developer anticipates construction of the Project will commence in December of 2015 with completion estimated by December 2016.

In addition to the commercial component of the development, the Developer also intends to undertake all necessary improvements to develop the site such as street, sanitary sewer, storm water and utility improvements in addition to other on-site improvements.

The Developer has provided an estimated redevelopment project budget, shown below in Table B, broken down into the following categories: land acquisition, site work/infrastructure, building improvements, soft costs, financing costs and miscellaneous costs.

Table B

Project Costs Category	Total Project Cost	% of Total Costs	Developer Costs*	TIF Reimbursable Costs	CID (Non-TIF Portion)
Land Acquisition	$1,180,000	10.60%	25,000	$1,155,000	-
Site Work /Infrastructure	2,048,451	18.41%	1,008,275	903,464	136,712
Building Improvements	5,506,200	49.47%	5,506,200	-	-
Soft Costs	945,000	8.49%	540,000	230,000	175,000
Financing Costs	325,000	2.92%	325,000	-	-
Miscellaneous Costs	1,124,965	10.11%	1,124,965	-	-
Total Redevelopment Project Costs	$11,129,616	100%	$8,529,440	$2,288,464	$311,712

**Under Table B, the Developer Costs column also includes estimated costs to be incurred by third parties to develop the three (3) other pad sites. The Developer included estimated cost to be incurred by third parties in the following project costs categories: building improvements, soft costs and miscellaneous costs, which are identified and discussed in this section of the report.*

Land Acquisition

The Developer's land acquisition costs are $1,180,000 which is approximately 10.60% of the redevelopment project budget. A portion of the redevelopment project site was purchased by the Developer in 2015, with the remaining portion currently under contract. The land acquisition cost is based on information provided by the Developer; purchase contracts were not provided and have not been reviewed as a part of the evaluation of this project. The land acquisition cost indicated by the Developer equates to a $231,373 per square acre cost. The Developer anticipates requesting reimbursable costs in the amount of $1,155,000 related to the land acquisition.

Site Work/Infrastructure Costs

The Developer identified several costs under the site work/infrastructure portion of the redevelopment project budget. Table C provides additional detail of the costs the Developer intends to undertake as part of this development which equate to 18.41% of the redevelopment budget. The basis for the site work/infrastructure costs are based on engineer estimates.

Table C

Site Work/Infrastructure Costs	Total Project Costs	% of Total Project Costs	Developer Costs	TIF Reimbursable Costs	CID (Non-TIF Portion)
Excavation/Erosion Control/Embankment	$211,400	1.90%	$86,400	$125,000	$0
Paving/Curbs/Gutters/Sidewalk	723,684	6.50%	390,220	333,464	-
Stormwater/Detention	473,095	4.25%	248,095	225,000	-
Water/Sanitary/Sanitary Sewer Liftstation	120,820	1.09%	25,000	-	95,820
Turf/Landscaping	124,980	1.12%	49,980	75,000	-
Lighting/Enclosure/Site Signage	93,400	0.84%	48,400	45,000	-
MoDOT Declaration Lane	72,061	0.65%	31,169	-	40,892
Electrical/Gas/Phone	95,000	0.85%	45,000	50,000	-
Project Management & Administration	134,011	1.20%	84,011	50,000	-
Total Costs	$2,048,451	18.41%	$1,008,275	$903,464	$136,712

Building Improvement Costs

Table D provides a breaks down of the anticipated redevelopment project costs the Developer will incur for the building improvements along with the estimated costs third parties would incur to develop the other three pad sites; one of which is approximately 5,000 square feet and the other two pad sites which are approximately 3,000 square feet each. The building improvements costs are based on engineer estimates obtained by the Developer.
The building improvements are approximately 49.47% of the total redevelopment project costs.

Table D

To analyze the building improvements line-item assumptions, we compared the

Building Improvements Costs	Total Project Costs	% of Total Project Costs	Developer Cost	Third Party Development Costs	TIF Reimbursable Costs	CID (Non-TIF Portion)
Building Shell Costs by Developer	$1,944,000	17.47%	$1,944,000	$0	$0	$0
Project Management& Administration (Developer)	97,200	0.87%	97,200	-	-	-
Improvements by Third Parties	3,300,000	29.65%		3,300,000	-	-
Project Management & Administration (Third Parties)	165,000	1.48%		165,000	-	-
Total Building Costs	$5,506,200	49.47%	$2,041,200	$3,465,000	$0	$0

cost estimates to the RSMeans Quickcost cost estimator for estimated construction costs for the proposed building types in Sedalia. The RSMeans data provides a range of cost estimates from low, medium, and high for the construction of vertical building improvements.

The Developer's cost assumption for the two (2) 5,400 square foot inline retail buildings is approximately $180 per square foot. The RSMeans estimate for this type of space is $156 for the high estimate. The Developer's assumption is greater than the RSMeans estimates for inline retail buildings. However, if the buildings are intended to house sit-down restaurants the medium RSMeans estimate for a sit-down restaurant of this size is $185 per square foot.

It should be noted, the Developer is only responsible for costs related to two of the five pad site developments along with other necessary sitework and infrastructure improvements. Any cost savings related to the building improvements the Developer is undertaking could have a positive effect on the rate of return realized by the Developer, while the higher than estimated costs would have a 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 if there is a decrease in project costs.

Soft Costs

Table E shows an itemized list the Developer has indicated are estimated soft costs for the redevelopment project.

Table E

Soft Costs	Total Project Costs	% of Total Project Costs	Developer Costs	Third Party Development Costs	TIF Reimbursable	CID (Non-TIF Portion)
Legal (including City legal/Consulting/Accounting)	$125,000	1.12%	$50,000	$0	$75,000	$0
Blight Study	10,000	0.09%	5,000	-	5,000	-
Architectural/Engineering/Surveying	350,000	3.14%	75,000	175,000	100,000	-
Geotechnical Studies/Soils Report/Environment	85,000	0.76%	35,000	-	50,000	-
Bonds/Permits/Fees	125,000	1.12%	50,000	75,000	-	
Commissions on pad sales/leases	250,000	2.25%	75,000	-	-	175,000
Total Soft Costs	$945,000	8.49%	$290,000	$250,000	$230,000	$175,000

Line items categorized as soft costs total $945,000 which equates to approximately 8.49% of the total redevelopment project costs.

The architecture/engineering/surveying is the largest soft cost line item which is 3.14%. The commissions on pad sales/leases costs are approximately $250,000 or 2.25% of the budget. Two soft cost line items, Legal and other associated expenses and bonds/permits/fees are both approximately 1.12% of the redevelopment project costs. The remaining two line-items in the soft cost category which are under 1% percent of the redevelopment project costs include: geotechnical studies/soils report/environment expenses estimated to be $85,000 which equates to 0.76% of the budget and the blight study which is 0.09% or $10,000 of the project costs.

Among the soft costs indicated above, the Developer has also provided estimated soft costs that may be incurred by third parties developing the three pad sites. The Developer has estimated the soft costs for the three pad sites to be approximately $175,000 of the $350,000 line item associated with architectural/engineering/surveying costs and approximately $75,000 of the $125,000 bonds/permits/fees cost line item.

Financing Costs

Table F shows an itemized list of estimated financing costs for the redevelopment project. These costs account for 2.92% of the overall total project costs and include construction interest along with bank charges and financing fees.

Table F

Financing Costs	Total Project Costs	% of Total Project Costs	Developer Costs	TIF Reimbursable	CID (Non-TIF Portion)
Bank charges and financing fees	75,000	0.67%	75,000	$0	$0
Construction interest	250,000	2.25%	250,000	-	-
Total Costs	$325,000	2.92%	$325,000	$0	$0

Miscellaneous Costs

Table G shows an itemized list of estimated costs the Developer has categorized as miscellaneous costs associated with the redevelopment project. These costs include the Developer’s fee and contingency which are approximately 10.11% of the total project costs. Of the $849,965 estimated by the Developer under the contingency line item, the Developer has estimated approximately $150,000 in contingency costs related to development of the three pad sites to be undertaken by third parties.

Table G

Miscellaneous Costs	Total Project Costs	% of Total Project Costs	Developer Costs	Third Party Development Costs	TIF Reimbursable	CID (Non-TIF Portion)
Developer’s fee	$275,000	2.47%	$275,000	$0	$0	$0
Contingency	849,965	7.64%	699,965	150,000	-	-
Total Costs	$1,124,965	10.11%	$974,965	$150,000	$0	$0

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.

4. Assistance Request

The Developer is seeking assistance in the form of statutorily available TIF revenues, PILOTS and EATS, which will be captured and re-directed to pay for eligible redevelopment project costs. Additionally, the Developer intends to create a CID which will impose a one percent (1%) sales and use tax applicable to all taxable retail sales within the redevelopment project area and 50% of the receipts in this sales tax will be captured under TIF and re-directed to pay for eligible reimbursable redevelopment project costs. It is anticipated that the CID will dedicate the uncaptured 50% of the CID sales tax receipts toward repayment of costs associated with the project.

The requested TIF 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 with TIF and CID revenues for redevelopment project costs plus interest in an amount of approximately $2,288,464.

The net present value of the TIF revenue stream when calculated at a 6.0% discount rate is approximately $843,746 in PILOTS and $1,207,886 in EATS revenues along with approximately $311,712 in CID revenues being captured and re-directed under TIF; the total of TIF and CID revenues estimated to be available over the life of the TIF Redevelopment Project Area is approximately $2,363,344, which is able to be used to reimburse the eligible redevelopment project costs of $2,288,464.

It is also anticipated the other 50% of the CID revenues will be available to pay for certain eligible project costs in the amount of approximately $311,712. This report is reflective of the Developer's proposed use of non-captured CID sales tax proceeds; the report does not include an opinion regarding the legal eligibility of the proposed uses.

The Developer will be funding their portion of the Project costs through a mix of Developer equity and private debt. The Developer pro forma estimated an equity contribution of 25% of project costs with the remaining 75% of redevelopment project costs to be financed by permanent debt. As previously noted, the Developer intends to construct all site improvements along with two inline retail pad sites that total approximately 10,800 square feet. It is anticipated that third parties will develop the three additional pad sites, financing the pad sites through a combination of equity and/or private debt. The Developer projected private financing terms of 6.0% interest over a term of 20-years. The Developer will be responsible for initially privately financing the $2,288,464, of redevelopment project costs that are anticipated to be reimbursed through TIF and $311,712 through CID revenues.

Table H 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, revenue received would be used to offset the private equity and debt of the Developer to pay for eligible redevelopment project costs.

Table H

Sources:	
Developer Equity	$ 1,532,923
Developer Private Debt	$ 5,731,693
Third Party Equity/Debt	$3,865,000
Total Sources	$11,129,616

5. Return Analysis

Utilizing the operating pro forma prepared by the Developer we evaluated the need for assistance for the proposed development as a whole by comparing the potential return with and without assistance. The Developer provided a 10-year operating pro forma for the development, which included the build-out, and operating revenue and expense assumptions. The Developer demonstrated the potential return through a leveraged internal rate of return (IRR) calculation, to illustrate the potential return with and without 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.

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 sensitivity analysis below we examine the impact of cost savings on the projected rate of return without assistance.

The second step in calculating the return to the Developer is to determine if the operating revenues and expenses are reasonable.

- The Developer has assumed a lease rate of $16 per square foot for the inline retail with the lease rate to escalate 5% in year 7.
- In year 3, the Developer has projected a 50% vacancy/credit loss factor that will decrease to 10% in years 4-10.
- It is anticipated third parties will construct the three other pads sites. The following are the estimated sale prices the Developer anticipates for the sites: the one (1) 5,000 sf building pad site for an estimated $1,000,000 and the two (2) 3,000 sf building pad sites, to be sold separately, for an estimated $750,000 each.

We examined various retail lease rate listings in the Sedalia market, as well as the eastern Kansas City area market for comparison. Our conclusion is that the projected lease rates, pad sale prices, and vacancy assumption are generally reasonable, though it is difficult to pinpoint due to the lack of comparable properties. In the sensitivity analysis we examine the impact of increased lease rates and pad sale amounts, on the projected rate of return without assistance.

The third step in analyzing the return to the Developer is to determine if the assumptions for a sale of the asset are reasonable. The return analysis to the Developer should factor in a hypothetical sale of the asset at the end of ten years of operations. A 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 8.0% for the project to calculate the hypothetical sale value. In reviewing historical cap rate trends for commercial retail developments, we feel 8.0% is a reasonable assumption.

Table I illustrates the Developer's base pro forma with the rate of return with and without assistance, on a leveraged basis.

Table I

Base Developer Pro Forma	Without Assistance	With Assistance
Leveraged	N/A	10.51%

To provide a comparison of the Developer's return without assistance to an industry benchmark the Developer's submitted pro forma was modified to include the IRR analysis on an unleveraged basis. An unleveraged IRR calculation is performed in order to compare the potential return to the Developer based on the *Price Waterhouse Cooper (PWC)/Korpacz Real Estate Investor Survey, Second Quarter 2015*, which provides a market comparison against which project feasibility can be considered. Additionally, we modified the Developer's pro forma to remove the 20% risk discount applied to the net present value calculation of the remaining TIF revenue stream that was included in the year ten hypothetical sale. The modification of the pro forma to remove this reduction resulted in an illustration of the return with assistance based on the highest possible valuing of the TIF and CID revenue streams. In actuality the potential valuation of the TIF and CID revenue streams at a hypothetical point in the future might be closer to the Developer's assumption, than ours.

Table J shows our modified pro forma with the rate of return with and without assistance, on an unleveraged basis.

Table J

SI Modified Pro Forma	Without Assistance	With Assistance
Unleveraged	-5.00%	6.28%

To evaluate the rate of return a project of this nature would require to be considered "feasible" we consulted the *Korpacz/Price Waterhouse Cooper Real Estate Investor Survey* prepared for the second quarter of 2015. This survey provides a resource for comparing the Developer's rate of return to a market benchmark to help determine feasibility. According to the developers surveyed, the typical unleveraged market return necessary to pursue a project of this nature falls in a range from 6.00% to 10.75%; with an average return of 7.86%.

In order to answer the question "is the development likely to occur without public assistance" we analyzed the without incentive scenarios, using the base developer pro forma without assistance as the basis of the assumption. We performed a sensitivity analysis 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 6.28% return with assistance from our modified pro forma as a benchmark for performing our sensitivity analysis.

To understand the impact of the project cost assumptions, we performed a cost sensitivity analysis to determine the rate at which costs would have to be reduced for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table K illustrates the development would need to realize a 39% reduction in project costs in order to be feasible without assistance. Given a 39% reduction in costs the project would have a rate of return of 6.61%. However, the City may choose to verify the final actual project cost before reimbursement.

Table K

Project Costs Sensitivity	Reduction in Project Costs	Rate of Return without assistance
	39%	6.61%

To understand the impact of projected lease rates and pad sale assumptions, we have performed a sensitivity analysis to determine the rate at which project revenues would have to increase for the projected rate of return to be in excess of our feasibility benchmark without assistance. Table L illustrates the development would need to realize a 62% increase in project revenues in order for the project to be feasible without assistance. Given a 62% increase in project revenues, the project would have a rate of return of 6.33% which falls into the reasonable range.

Table L

Project Revenue Sensitivity	Increase in Project Revenue	Rate of Return without assistance
	62%	6.33%

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 M illustrates the development would need to realize a combined 24% decrease in project costs and a 24% 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 6.51%.

Table M

Combined Sensitivity	Reduction in Project Costs	Increased Project Revenues	Rate of Return without assistance
	24%	24%	6.51%

The three tables above (Tables K, L, and M) 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 6.28% feasibility benchmark used in the sensitivity analysis. Absent changes of the magnitude outlined above, the project would not have a sufficient enough 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.

6. Conclusions

The proposed Project contemplates five (5) pad sites being developed that total approximately 21,800 square feet that will consist of retail, restaurant, and/or commercial uses along with infrastructure improvements, landscaping, parking, and other amenities. 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 demands a positive return with a comparable national market range of 6.00% to 10.75%, with an average of 7.86% as indicated in the *PWC/Korpacz* study.

As detailed above, the projected IRR to the Developer without assistance, falls below the current range expected within the marketplace and in comparison to the return with assistance.

A Blight Study prepared by the Polsinelli PC, Development Analysis Department and an affidavit signed by the Developer dated July 13, 2015 states 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 the adoption of tax increment financing. Based upon the Blight Study, Developer affidavit, and upon our analysis, Springsted concludes that the proposed Project, without assistance would not likely be undertaken at this time without the requested assistance.