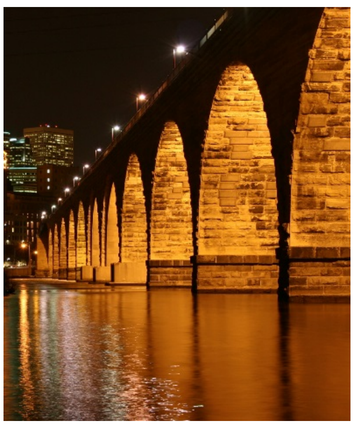

But-For Determination Report

City of Joplin, Missouri

Proposed South Main Tax Increment Finance Redevelopment Plan

May 26, 2015

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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. Purpose

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 not reasonably be anticipated to be developed without adoption of the Redevelopment Plan.

We have approached this determination based on the proposed Projects' plans regarding redevelopment 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 undertaken and investments are made to create pad ready lots to be sold a price appropriate in the market place, a measure of return on the initial investment can be calculated. The measure of return on the initial investment is used to make a determination based on whether or not a potential return is reasonable without the requested subsidy, within the current marketplace and at the present time. The anticipated total captured revenue includes TIF (100% of PILOTS & 50% of EATS), and CID Sales Tax (1.0% sales tax, 50% captured as EATS). The Developer is seeking private subsidy assistance based on the captured TIF and CID revenue as defined above.

2. Executive Summary

The calculated Profit/Loss realized by the Developer with and without the subsidy request, based on the project costs and market value of the proposed project are shown in the tables below. Determining if a project would occur without subsidy requires the testing of various assumptions which have a material affect on the calculated return on investment. We have tested the sensitivity of the return without assistance by varying the cost and the revenue assumptions, each independently and then collectively. The reason for testing sensitivity is to illustrate the magnitude with which project assumptions would have to change in order for the project to *break-even* without assistance. Table A below, details the significant findings of the sensitivity analysis:

Table A

Without Assistance Sensitivity Analysis	Change Necessary to Break Even
Decreased Costs	45% Decrease
Increased Sale Value	81% Increase
Combined Cost and Sale Value	29% Decreased Costs 29% Increase Sale Value

The table above indicates the magnitude at which all project assumptions would have to change for the project to *break-even* without assistance. Absent the changes outlined above, the project would not result in a profit, and would require changes greater than the amount outlined above to attract a market return sufficient enough to warrant investment. We believe changes of these magnitudes are an unlikely realization which indicates the proposed project would not likely be completed through private enterprise alone.

Table B, below, illustrates the Developer's return on investment with and without assistance based on their assumed costs and our modifications to the return calculation:

Table B

Developer Return on Investment	With Assistance	Without Assistance
	14.05%	(44.75%)

3. The Project

The proposed South Main Tax Increment Finance (TIF) Redevelopment Plan proposes the creation of the South Main Redevelopment Area, which will contain an estimated 83 acres of property lying generally on both sides of Main Street, South of 32nd Street and North of I-44. The TIF Redevelopment Plan proposes the creation of six distinct Redevelopment Project Areas (RPA's 1-6). The individual project areas are proposed to be activated at varying times, depending on market conditions. Preliminarily, the Developer anticipates activating RPAs 2&6 in 2015, 3&5 in 2017, and 1&4 in 2018. The activation of all project areas will be subject to market considerations. The adoption of the TIF Redevelopment Plan requires the finding that the development of the Redevelopment Area as a whole would not be feasible but for the requested TIF assistance. Therefore, for purposes of this review we are evaluating the financial feasibility of the development of all six project areas as a whole. However, individual verification of the need for and amount of assistance for each individual project area may need to be undertaken by the City at the time activation is being requested.

The Developer of the South Main Redevelopment Area is RKS Development, LLC, who anticipates undertaking the development of all RPA's. The development pro forma analyzed in this review is from the perspective of RKS Development, LLC as a land developer, who will be undertaking the acquisition of the project areas, the installation of public improvements, the clearing and redevelopment of the individual development sites, and the sale of the redeveloped pad sites in a greenfield state to potential third-party investors. The but-for determination is based on the likelihood of the Developer undertaking the redevelopment of the project area, and the creation of greenfield development ready land, without the requested assistance.

The Developer is proposing to undertake the redevelopment to create approximately 24 greenfield pad building sites. The proposed end uses of the developed pad sites within the RPA's include; 132,500 square feet of commercial office building; 327,133 square feet of retail buildings, convenience stores, and a car wash; and a 96-unit apartment building. The redevelopment plan, and the but-for analysis, contemplates that the greenfield building sites will be sold to third-party building developers. The final determination on the project build-out will be determined by the purchasers of the pad-ready sites. It is acknowledged that some portion of the build-out will be undertaken by the Developer, but the exact mix of building projects undertaken by the Developer as opposed to third parties is unknown at this point in time. The Developer is also proposing to undertake necessary improvements to the site in order to bring it to a greenfield state. These necessary improvements include costs associated with: demolition and utility removal, extraordinary site costs and importing of fill, utility installation, street improvements, relocation of a school parking lot, wetland mitigation, storm water control, related soft costs, and contingency costs.

4. Redevelopment Costs

The total cost of the project is detailed in Table C below.

Table C

Total Project Cost	Total Cost	Developer	Third Party	TIF Reimbursable	CID Reimbursable
Land Acquisition Costs	$19,886,713	$16,686,713	$-	$3,200,000	-
Building Construction Costs & Site Improvement*	$108,768,168	-	$108,768,168	-	-
Marketing Cost – Commissions – Advertising*	$14,588,032	$1,645,568	$12,942,464	-	-
Utility Relocation-Extension Cost	$2,949,512	-	-	$2,949,512	-
Street Improvements	$7,553,294	-	-	$7,553,294	-
Demolition Cost	$759,100	-	-	$759,100	-
Site Excavation and Preparation	$9,462,479	-	-	$9,462,479	-
Wetland Mitigation Cost	$3,860,000	-	-	$3,860,000	-
Storm Water Control	$700,000	-	-	$700,000	-
School Parking Lot Relocation	$770,500	-	-	$770,500	-
Professional Fees	$1,075,000	-	-	$1,075,000	-
Contingency	$3,757,634	-	-	$537,610	-
Grand Total	$174,130,432	$18,332,281	$121,710,632	$30,867,495	$-
Percentages of Total Cost by Category	100%	10.553%	69.90%	17.73%	0.0%
Financing Costs	$56,199,621	$14,500,000	25,398,573	$7,151,579	$9,149,469
Grand Total with Financing Costs	$230,330,053	$32,832,281	$147,109,205	$38,019,074	$9,149,469

*These are line-items that are not largely associated with the development of the pad-ready sites and will be borne by third parties; therefore they are not being analyzed in this review.

Land Acquisition Cost

The Developer has estimated a total land acquisition cost of $19,886,713. Included in this amount is a request for approximately $3,200,000 of TIF reimbursement to offset land acquisition costs. Included within this line-item is $500,000 for costs associated with relocation. The net cost for the actual acquisition of property is $19,386,713, which the Developer has identified is for the purchase of 77.077 acres in total, which equates to 3,357,474 total square feet.

The Developer has indicated that the estimated cost for acquiring the property is based on a combination of factors including the actual cost for properties acquired to-date, existing County appraised market values, and additional costs due to the nature of the remaining properties to be acquired (mainly small lots and single family homes). The estimated cost assumes acquisition of all of the properties in the Redevelopment Area. However, the TIF Plan does not provide for the use of eminent domain by the City to acquire any properties for development. It is possible that not all property owners will be willing to sell and that some may be willing to sell but not at a price that is financially feasible for the Developer to pay. As a result, all of the properties in the Redevelopment

Area may not be acquired by the Developer which could result in a reduction of the total estimated land acquisition cost.

The Developer will be undertaking the construction of internal road ways, storm water control, wetland mitigation, and walking paths, which will result in a loss of property available to be sold. Utilizing information detailed in Exhibit 9 it appears they anticipate approximately 60.54 acres of property will be available to be sold following the redevelopment.

The land acquisition is the largest of the cost categories being carried by the Developer, and not being fully reimbursed from TIF Assistance. Therefore the actual land acquisition cost will significantly impact the rate of return with assistance, as an actual cost lower than illustrated will result in a return higher than projected; while conversely a cost higher than projected will result in a lower return.

TIF Reimbursable Expenses

The Developer has provided an estimate of TIF reimbursable costs totaling $27,667,495 (net of land acquisition reimbursement) for costs associated with utility relocations, street improvements, demolition costs, site excavation and preparation, wetland mitigation, storm water control, school parking lot relocation, professional fees, and contingency. The Redevelopment Plan details the nature of these costs.

The Developer is seeking reimbursement for these costs from TIF resources in an amount equal to the cost of $27,667,495 on a pay-as-you-go basis. Additionally, because these costs are being incurred by the Developer up-front and the reimbursement is being received over time, the Developer is seeking additional reimbursement for the anticipated 5.5% interest carrying cost incurred on these expenses of $16,301,048 from a mix of TIF and CID revenues.

In the return analysis section we illustrate the impact on project feasibility if these costs were to be borne solely by the Developer and not reimbursed from TIF.

Marketing

The Developer has projected they will incur a cost of $1,645,568 related to the cost of marketing the property, including potential real estate commissions. This cost is equivalent to approximately $0.62 per square foot of property available to be sold post redevelopment.

In the “Return Analysis” section of the report we discuss the sensitivity of project feasibility, without assistance, to changes in project costs, and to illustrate the rate at which these cost assumptions would have to change for the project to be feasible. Additionally, we performed a sensitivity analysis to indicate the potential change on the return on investment with assistance in the event land acquisition costs are lower than currently projected.

5. Assistance Request

The preliminary financing plan for the development, which this review is based on, is shown in Table D below:

Table D

Project Financing	Sources
Reimbursed by TIF:	$30,867,495
Third-Party Sources:	$121,710,632
Developer Debt/Equity:	$18,332,281
Total Sources	$174,130,432

The net cost to the Developer is related to their portion of the land acquisition and marketing costs, which total $18,332,281. However, because the TIF and CID assistance will be received on a pay-as-you-go basis the Developer will be responsible for funding a total of $49,199,776 in up front project costs in order to undertake the development.

Since the Developer is incurring the TIF reimbursable costs out of pocket and receiving reimbursement from TIF and CID revenues over the life of the project, the budget includes the reimbursement of interest incurred by the Developer on carrying the reimbursable costs at a rate of 5.5%. The total amount of interest carrying expense to be reimbursed is $16,301,048, with $7,151,579 of this amount reimbursed from TIF and $9,149,469 reimbursed from CID revenues. The projected term of the TIF District is 16-years from activation, while the CID is projected to be in place a total of 23-years.

The total TIF and CID revenue projected to be generated over the total life of the project is $34,633,329. The Net Present Value (NPV) of this revenue stream at an interest rate of 5.5% is $30,867,495 which is equivalent to the amount of reimbursable expenses being funded by the TIF and CID.

6. Return Analysis

Utilizing information prepared by the Developer we evaluated the need for assistance for the proposed development by comparing the potential return on investment with and without assistance. If the potential return without investment is insufficient to warrant the significant investment necessary to redevelop the site, then we can conclude the project would be unlikely to occur but-for the requested TIF and CID assistance. Additionally, we can also analyze the project with assistance to illustrate the potential return realized by the Developer.

For the purpose of making this but-for determination we have evaluated feasibility as a land development project. The Developer intends to acquire the property, make investments in the required infrastructure, and sell greenfield development ready pad sites. At this point in time it is unknown what percentage of the pad sites will be developed by third-parties and what portion will be undertaken by the Developer. To account for this unknown in this analysis, we have treated all lots as if they are being sold to third-parties at a fair market value. This allows us to isolate and analyze the specific return potentially realized by the Developer from the redevelopment of the site and the creation of development ready pad sites. The evaluation of the potential return realized from a land development perspective allows us to specifically isolate the impact of the redevelopment costs, and determine if they are a barrier to the redevelopment of the project area from a financial feasibility perspective.

Since the project is being evaluated on a land development basis, the return calculation is based simply on the cumulative basis for which potential revenues exceed project costs. The potential return is simply the percentage at which revenues exceed costs. This return calculation does not account for the time value of money and treats all costs and revenues as if they were incurred simultaneously. By not accounting for the time value of money within the return calculation the return illustrated is actually being slightly overstated. The TIF Redevelopment Plan anticipates the individual project areas will be developed over an approximately 5-year period.

The pro forma outlined in Table E below illustrates the potential return realized by the Developer if the project were undertaken without the requested assistance. Modifications to the Developer’s assumptions are noted where applicable.

Table E

Return Calculation	Without Assistance
Land Acquisition Cost	$19,886,713
Land Interest Carry Cost[1]	$3,300,000
Marketing	$1,645,568
Redevelopment Costs[2]	$27,667,495
Total Development Cost:	$52,499,776
Sale Proceeds[3]	$29,008,342
Net Profit/Loss	($23,491,434)
Return on Investment	(44.75%)

Modifications to Developer Assumptions:

1. The interest cost of carrying the land acquisition expense over the 5-year development period was added as a potential cost realized by the Developer. This assumption was calculated using a 5.5% interest rate assumption and assumed level principal repayment over the 5-year development period.
2. The Redevelopment costs were reduced to net out the $3,200,000 associated with Land Acquisition, as that amount is included in the $19.8M listed for Land Acquisition Costs.
3. The Developer return calculation indicates 63 acres available to be sold to third-parties; however the detailed information illustrated in Exhibit 9 indicates 60.54 acres which we have used here. The Developer's sale assumption of $11 per square foot has been maintained.

The potential return realized by the Developer is a result of two sets of assumptions: (1) the development cost assumptions, and (2) the anticipated post-development market value assumption. In the Redevelopment Cost section of the report we discussed the assumptions used in determining the development costs. In regards to the anticipated post-development market value assumption the Developer has indicated they are assuming an average sale value of $11 per square foot. This value is an average, as specific pad sites will be able to command higher prices due to prime location, while others will be lower, but as an average the Developer has assumed $11. The post-development market value is also a function of the amount of land available to be sold for development. Due to the need to construct streets, wetland mitigation, storm water ponding, and walking paths a significant portion of land will be occupied by improvements and unavailable to be sold. We utilized information detailed in Exhibit 9 of the TIF Redevelopment plan to assume 60.54 acres of property will be available to be sold.

As illustrated above the project without assistance would need to realize either significant decrease in project costs, and/or increases in post development sale value. In order to understand the rate at which these assumptions would have to change in order for the project to *break-even* we conducted the sensitivity analysis below. The purpose of this analysis is to point out the rate at which assumptions would have to change for the project to cover its costs. The reality is the Developer would need to realize a profit to undertake the development, so the magnitude at which assumptions would need to change for the project to be feasible is even greater than what is shown in the sensitivity analysis.

As Table F illustrates below, the project would need to realize significant changes in assumptions to be feasible without assistance.

Table F

Sensitivity Analysis	Rate of Change Necessary to Break-Even
Decreased Costs	45%
Increased Sale Value	81%
Combined Cost Savings & Increased Revenue	29%

The table above indicates the magnitude at which project assumptions, for all line items including the redevelopment costs, would have to change for the project to reach a *break-even* point. Absent changes even greater than the magnitude of these outlined above, the project would not have a sufficient enough profit to draw market investment. Only by assuming either significant increases in projected sales values, decreases in development costs, or a combined change of the two does the development project *break-even* without public assistance. However, given our review of these assumptions we project changes of the magnitude outlined above are unlikely to be realized, which indicates the proposed project would not likely be completed through private enterprise alone.

The Developer has requested assistance from the City in the amount of $30,867,495, which is based on anticipated revenues generated from TIF and CID funds that will be received on a pay-as-you-go basis over the proposed life of the TIF and CID terms. The Developer will be responsible for funding the reimbursable costs of $30,867,495 up front and will receive reimbursement as the TIF/CID revenue is generated. As a result of the Developer incurring the costs up front they will also receive reimbursement for interest costs incurred on these expenses at a rate of 5.5%. The total amount of interest to be reimbursed is $16,301,048, with $7,151,579 reimbursed from TIF revenue and $9,149,469 reimbursed from CID revenue.

Table G below illustrates the potential return to the Developer based on the project cost assumptions used in our modified without assistance scenario above, and the receipt of the upfront assistance amount of $30,867,495. It is appropriate to only use the up-front value of the assistance as this equates to the Net Present Value (NPV) of the TIF/CID revenue stream, and the return analysis is being based on the up-front cost of developing the project area.

Table G

Return Calculation	Without Assistance
Land Acquisition Cost	$19,886,713
Land Interest Carry Cost	$3,300,000
Marketing	$1,645,568
Redevelopment Costs	$27,667,495
Total Development Cost:	$52,499,776
Sale Proceeds	$29,008,342
NPV of TIF Reimbursement[1]	$30,867,495
Net Profit/Loss	$7,376,061
Return on Investment	14.05%

1. The Net Present Value of the TIF/CID revenue stream of $30,867,495. This amount is equal to the $27,667,495 of redevelopment costs, plus the $3,200,000 used to reimburse for eligible land acquisition costs. The TIF and CID revenue used to reimburse the developer for interest carrying cost is not included, as this portion of the TIF/CID assistance is provided to offset the Developer's interest carrying expense incurred on financing the $30,867,495 in eligible expenses in advance of reimbursement.

As illustrated above, the addition of the $30,867,061 in assistance significantly increases the potential return on investment realized by the Developer, bringing it from a significantly negative amount to a positive return of approximately 14%, resulting in a project with a feasible rate of return with assistance.

The potential return by the Developer will be a factor of the remaining land acquisition costs incurred by the Developer, and the actual land sale price for the development ready pads. In particular, the assumption for the remaining land acquisition price is based on the Developer acquiring the remaining property at a price significantly greater than the amount currently set by the County as the appraised value. In the event the Developer is able to acquire the remaining property for an amount lower than what is included in this analysis there will be a corresponding increase on the rate of return. A similar impact on the return would be realized in the event the land is sold for a greater amount. Table H below illustrates the impact on the potential return of either savings in land acquisition costs, or increases in land sale prices.

Table H

Land Cost Savings	Return on Investment		Land Sale Increase	Return on Investment
None	14.05%		None	14.05%
10%	18.85%		10%	19.58%
20%	22.56%		20%	25.10%
30%	27.31%		30%	30.63%
40%	32.44%		40%	36.15%
50%	38.00%		50%	41.68%

While the order of magnitude necessary for the project to be feasible without assistance is significant enough to not be realized, allowing for the but-for determination to be made, the potential return realized by the Developer with assistance will be determined by remaining land acquisition costs and sale prices that are not yet known. As illustrated in the sensitivity analysis above, significant changes to either of those assumptions has a resulting increase on the rate of return realized with assistance. The variability of the assumptions regarding remaining land acquisition cost and land sale prices, may potentially impact the amount of assistance necessary for the project to achieve a feasible rate of return, and is something that should be considered in future development agreements adopted with the activation of the individual project areas. However, if the remaining land acquisition costs and sale proceeds are realized at the amounts currently projected by the Developer the rate of return with assistance is not in excess of current market rates.

7. "But For" Conclusion

This TIF project involves the redevelopment of a blighted site. The Developer will bear all the risk until project completion and the sale of all development ready greenfield sites. This level of risk demands a positive return.

A Blight Study prepared by Darrel E. Gross and an affidavit signed by the Developer dated November 24, 2014, state that the redevelopment area is blighted 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, we conclude that the proposed project would not occur on this site at this time without a public subsidy.