McDowell GROUP

Date: October 24, 2016

To: Katherine Heumann, New Juneau Arts and Culture Center

From: Bob Koenitzer and Susan Bell, McDowell Group

RE: Revised Financial Projections

McDowell Group developed a revised Financial Feasibility Assessment for the New Juneau Arts and Culture Center, based on updated building program and conceptual floor plans developed by Hacker and NorthWind Architects.

The Design Committee Meeting #3 materials, dated September 14, 2016, reflect the following changes:

- Demolition of the existing building and entirely new construction.
- An overall facility size increase of nearly 3,500 square feet.
- Increased size and appeal of the lobby/foyer area, which will likely enhance facility rentals.
- Small reduction in the Large Meeting Hall. However, overall facility appeal and usage is expected to increase.
- Increased Exhibit Gallery space, likely enhancing facility usage and potential for sales.

Revised financial projections are summarized on the following pages.

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Revised New JACC Feasibility

Plans for the New JACC call for demolition of the existing building and construction of a new facility. McDowell Group was asked to revise the feasibility analysis conducted in November 2015. Overall, the size of the facility has increased by about 3,500 sq. ft. The revenue-generating areas are similar to the previous plan, with some changes in size and layout. Our revised revenue and expense estimates are summarized below. The first column reflects figures from the 2015 WAC study. The second column provides our updated estimates for the New JACC in Year 3, when revenues have normalized. Categories that have changed are highlighted in light blue. Discussion of these changes is provided on the following two pages.

Cash Flow Estimate, Year 3 and Beyond

	WAC (2015)	New JACC
Earned Revenue	Estimate	Estimate
Community theater rental	$100,000	$100,000
Ticketing	$12,000	$12,000
Facility rental	$115,000	$122,000
Rental equipment and services	$28,000	$30,000
Warming kitchen rental	$16,000	$17,500
Office leases	$56,000	$52,000
Retail space net	$27,000	$29,000
Gallery space net	$5,000	$6,000
Café lease	$15,000	$15,000
Concessions/alcohol sales net	$15,000	$20,000
Fundraising	$40,000	$40,000
Total Earned Revenue	$429,000	$443,500
Expenses	Estimate	Estimate
Payroll/benefits	$160,000	$160,000
Heat	105,000	90,000
Electric	25,000	28,200
Sewer/water	4,000	4,000
Trash	9,000	9,500
Telephone	7,000	7,000
Shipping/postage	1,000	1,000
Supplies	20,000	20,000
Repairs/maintenance	18,000	10,000
Insurance	20,000	24,000
Equipment	12,000	12,000
Technicians	10,000	10,000
Janitorial	10,000	10,000
Marketing/advertising	10,000	10,000
Capital replacement	20,000	20,000
Miscellaneous	27,000	27,000
Total Estimated Expenses	$458,000	$442,700
Net Income/Loss	($29,000)	$800

Following is a brief discussion of revised revenue and expense estimates. As in our prior study, financial estimates are conservative and incorporate an analysis of existing operations.

Facility Rental Revenue

Our assumption is that facilities rental revenue will rise modestly with an entirely new facility. While heavily used now, the old hall is not optimal for some users. Having a new facility (even with a reduction of 630 sq. ft.) will likely be attractive to a wider audience and lead to additional hall rentals. Increasing the size of the lobby/foyer by about 4,000 sq. ft. will make the space more attractive and likely increase rentals. We also anticipate increased full-facility rentals. All things considered, we estimate an increase in revenue from $115,000 to $122,000.

Rental Equipment and Services Revenue

Commensurate with increased facility rentals, there should be a slight increase in equipment rentals and other services from $28,000 to $30,000.

Warming Kitchen Revenue

Based on increased facility use, kitchen rental revenue is increased slightly from $16,000 to $17,500.

Leased Office Space Revenue

Two changes affected our estimate of office lease revenue. In the WAC plan, revenue from the Jazz and Classic office was counted in addition to the eight new rental spaces, resulting in an overstatement of revenue for this category. The New JACC will have a new sound studio and rent could be increased. The combination of increasing the sound studio rent from $500 to $650 a month, and the reduction of the double-counted Jazz and Classic rent resulted in a decrease in revenue from $56,000 to $52,000.

Retail Space Net Revenue

Locating the retail shop in an alcove could result in less visibility and lower sales than the current location. However, increased use of the facility should result in a modest increase in sales and revenue. Given recent activity, there is a definite need for a secure space. The retail area could expand its footprint by adding rolling displays that could be moved into the lobby during open hours and moved back into the secure area when closed. Estimated net retail revenue is increased from $27,000 to $29,000.

Gallery Space Net Revenue

Gallery space has increased from 575 sq. ft. to 800 sq. ft. This change should enhance visibility and sales. The space should be dividable so the JACC can host more than one show at a time. Net gallery sales are estimated to increase from $5,000 to $6,000.

Concessions and Alcohol Net Revenue

The current plan is for the New JACC to manage alcohol sales. This decision will increase net revenue and increase staff time and cost. We conservatively estimate an increase in net revenue from $15,000 to $20,000. No additional revenue was added for concessions sales.

Heating and Electric Expense

Discussions are ongoing regarding the heat and electric systems for the facility. Options include oil heat, electric resistance heat, heat pumps, and connecting to the potential Willoughby District heating system. Each system has unique characteristics, energy requirements, and capital costs. New facility construction, new utility systems, and high potential for LEED certification will reduce energy costs. Increasing electricity costs by $3,200 to reflect the additional 3,500 sq. ft. coupled with a 15 percent reduction in estimated oil heat expense results in an overall reduction from $130,000 to $118,000. If the facility installs a system that is more efficient than oil, costs could be reduced even further.

Trash Expense

Trash expense may increase slightly from $9,000 to $9,500 based on an increase in facility rentals.

Repairs and Maintenance Expense

An entirely new facility will likely have lower maintenance costs in the early years. Maintenance expense is estimated to decreased from $18,000 to $10,000 for the first 5 years.

Insurance Expense

Insuring the new, slightly larger facility will cost somewhat more. Estimated insurance costs have increased from $20,000 to $24,000.

Revised Five-Year Pro Forma Cash Flow Analysis

This revised analysis indicates the New JACC will have an operating deficit of approximately $110,000 in the initial year of operations, a deficit of $65,000 in Year 2, improving to basically breakeven by the third year of operations. Assumptions factored into the cash flow analysis for the initial five years include:

- Year 1 revenues are projected to be 75 percent of fully normalized revenues; Year 2 at 85 percent, and fully normalized in Year 3.
- Projections do not reflect loan or interest payments.
- Revenues and expenses are not adjusted for inflation.

Pro Forma Cash Flow Analysis

	Year 1	Year 2	Year 3	Year 4	Year 5
Net profit/loss	($110,000)	($65,000)	$1,000	$1,000	$1,000

Note: Estimates are rounded to the closest $1,000.

Business Plan Considerations

The Business Plan section of the 2015 WAC study included numerous opportunities to enhance cash flow that remain valid today.