

CITY OF SEATTLE
PROPOSAL FOR SECTION 108 LOAN
TO FINANCE ALPHA CINE PROJECT
UNDER THE CITY'S \$10 MILLION SECTION 108 LOAN FUND

JULY 15, 2008

I. LOAN SUMMARY

- Borrower:** Lake Dell, Inc. doing business as Alpha Cine (“Borrower”).
- Purpose:** Acquisition, non-construction development costs and refinancing prior private financing
- Loan Amount:** \$3,785,000
- BEDI Amount:** \$757,000
- Term:** Loan Term expires in 2028
- Interest Rate:** HUD Section 108 floating rate based on 20 basis points over 90 day LIBOR (approximately 3% as of June 2008).
- Security:**
- 1) Real estate deed of trust in the Property
 - 2) Lien against Alpha Cine’s machinery and equipment
 - 3) Lien against accounts receivable
 - 4) Real estate deed of trust in owner’s personal residence
- Loan Fee:** \$37,850 (or 1% of the cumulative \$3,785,000 principal amount due at closing).
- Administrative/
Monitoring Fee:** \$3,000 (annual)
- Financial Reports:** Borrower shall provide the City of Seattle, Office of Economic Development with annual financial statements of the Borrower within 120 days of the end of its fiscal year and a rent roll and annual operating statement for the projects certified by the Borrower.
- Environmental:** All required environmental contaminant removal, remediation and disposal shall be undertaken in full compliance with applicable OSHA standards.
- Conditions for
Loan Disbursement:** Disbursement of the loan is conditioned on execution of a lease of 10,000 square feet of warehouse space under terms acceptable to OED.

II. PROJECT DESCRIPTION

Alpha Cine is a motion picture laboratory with more than 40 years of experience providing services ranging from processing motion picture film, producing prints and transferring digital film to 35mm film for display at theaters. It is the only film lab in the Pacific Northwest and has an international reputation for providing services to independent filmmakers.

Alpha Cine’s lease at its current location in the Denny Triangle neighborhood is expiring and the

business desires to acquire property in Southeast Seattle to serve as its new manufacturing facility. Alpha Cine will acquire industrial zoned property in the Rainier Beach neighborhood at 9800 40th Ave S (“Property”), with a lot size of approximately 51,000 square feet and containing a warehouse of approximately 28,000 square feet. Following acquisition, Alpha Cine will rehabilitate the warehouse to include the following work items: 1) new flooring; 2) addition of an acoustic ceiling on the first floor; 3) new doors, windows and cabinetry; 4) new interior paint; and 5) upgraded electrical system. Alpha Cine will use approximately 18,000 square feet of the warehouse for its business and lease the remaining space of approximately 10,000 square feet to a tenant for use as warehouse space.

Although Alpha Cine is a profitable business, it does not have sufficient cash flow to finance acquisition and rehabilitation costs with private debt alone. Moreover, Alpha Cine needs to refinance a prior SBA loan in order to pledge sufficient collateral to lenders of the current project.¹ The 108 Loan will finance acquisition costs, non-construction development costs and refinance the prior private financing. BEDI funds will be used to help refinance the prior private financing. Loan funds will be drawn from proceeds of a City non-recourse note issued under a Contract for Loan Guarantee Assistance with HUD in the amount of \$10 million (“Section 108 Loan Fund”).

III. PUBLIC BENEFITS

The Project is located in Southeast Seattle, an historically underinvested and low-income community. Southeast Seattle has a population of nearly 45,000 with a higher percentage of low- and moderate-income households compared to the citywide percentage (Southeast 61.5%; citywide 43.9%). Similarly, Southeast’s poverty and unemployment rates exceed the citywide rates (Southeast 17% poverty and 8.3% unemployment; citywide 11.8% poverty and 5.1% unemployment).

To help spur investment in the area, the City received HUD approval to designate Southeast Seattle as a Neighborhood Revitalization Strategy Area (“NRSA”) and has directed a significant amount of CDBG resources to Southeast including capitalization of the Rainier Valley Community Development Fund.

Investment of the proposed 108 loan into this Project will help advance objectives/strategies identified in the NRSA to support investment in Southeast Seattle. The Project will provide opportunities for business growth in Southeast (NRSA, p. 93). For example, the Project will result in business growth for Alpha Cine because property improvements in the new manufacturing facility will allow the business to become more efficient and increase revenues. Also, Alpha Cine intends to lease 10,000 square feet of space to a company called Deluxe Digital. Deluxe will use the warehouse space to store film from MGM’s library and will work with Alpha Cine on future film restoration projects. Deluxe will create at least one new job at this location and will experience business growth through the film restoration projects. Moreover, general business activity will increase in Rainier Beach as Alpha Cine and Deluxe employees patronize local restaurants and purchase other retail goods and services in the neighborhood.

¹ Prior debt from a \$1,036,163 SBA loan had been incurred to finance the purchase of the company from the prior owners.

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In addition to the NRSA, the Project will lead to other important public benefits.

- The Section 108 loan will help Alpha Cine stay in Seattle rather than relocate to a more affordable location outside of Seattle, and 31 livable wage jobs will be retained.
- The presence of a film lab like Alpha Cine increases business growth for other companies citywide. As Alpha Cine's business grows, other companies will have increased work on Alpha Cine projects for tasks including sound processing and television commercial post-production.
- Independent film production will continue to grow in Seattle in part due to the convenient presence of a film lab. Seattle's film industry is an important part of the local economy. According to a recent study, the direct economic output of film and video production contributes as much as \$200 million to Seattle (Source: The Economic Impacts of Film & Video Productions on Seattle – 2003).
- The Project will advance the City's priority to make active use of industrial property

IV. CDBG COMPLIANCE

CDBG National Objective

Each project funded under the City's \$10 million Section 108 Loan Fund must meet one of three CDBG national objectives pursuant to 24 CFR 570.200(a)(2) and 570.208:

1. Benefit to low and moderate income families.
2. Aid in the prevention or elimination of slums or blight.
3. Activities meeting community development needs having a particular urgency because existing conditions pose a serious and immediate threat to health or welfare of the community and where other financial resources are not available to meet such needs.

The Project will meet the national objective of benefiting low and moderate income families through the creation of jobs. To qualify as a job creation or retention activity, 24 CFR 570.208(a)(4) requires that the project "create or retain permanent jobs where at least 51 percent of the jobs, computed on a full time equivalent basis, involve the employment of low-and moderate-income persons." The Project is being carried out pursuant to a federally designated Neighborhood Revitalization Strategy Area ("NRSA") and, as such, all jobs created for the Project will be presumed to benefit low- and moderate-income individuals, pursuant to 24 CFR Section 570.208(d)(5) and 570.208(a)(1)(vii). The project will result in the creation of at least 1 new permanent job from Alpha Cine's lease of 10,000 square feet to another tenant.

108 Eligible Activity

In addition to meeting a national objective, projects funded under the Section 108 loan fund must meet an eligible activity. The Project will be eligible under 24 CFR 570.703(i)(2) and 570.203 as an economic development activity.

Public Benefit Standard

The Project is being carried out pursuant to a NRSA and subject to area benefit/public benefit standards under 24 CFR 570.209(b)(3)(i)(federal assistance may not exceed \$1,000 per low- and moderate-income person). Southeast Seattle has 45,000 residents, of which 61.5% or 27,675 residents are low- and moderate-income persons. The combined \$4,542,000 in Section 108/BEDI funds for this project does not exceed the \$27,675,000 total maximum allowed under federal regulations.

V. DEVELOPMENT BUDGET - PROJECT FINANCING

The following represents a summary of the development costs totaling \$5,952,710 and the financing sources that will be used to cover such costs.

	Acquisition	Soft/ Financing Costs	Refinancing Prior Debt	Property Improvements	City Loan Loss Reserve	TOTAL
Owner Equity			100,000			100,000
SBA/Grow America Fund	248,292	62,418		1,000,000		1,310,710
Section 108 Loan						
• 20 year repayment	3,251,708	98,808				3,350,516
• 10 year repayment			434,484			<u>434,484</u>
						3,785,000
BEDI						
• 20 year loan			501,679			501,679
• Grant					255,321	<u>255,321</u>
						757,000
	3,500,000	161,226	1,036,163	1,000,000	255,321	\$5,952,710

Financing Sources

Sources	Amount	Basic Terms	Status	Use of Funds
Owner Equity	100,000		Committed	Repayment of prior debt
Grow America Fund (National Development Council)	1,310,710	25 year term 5% floating interest rate (Prime interest rate adjusted quarterly)	Committed	Acquisition and Related Soft/ Financing costs (\$310,710) Tenant Improvements (\$1,000,000)
Section 108 Loan	3,785,000	Loan term until 2027 3% floating interest rate (90 day LIBOR + 20 basis pts as of July 2008)	Proposed	Acquisition and Related Soft/ Financing costs (\$3,350,516) Repayment of prior debt (\$434,484)
BEDI Funds	757,000	Companion funding source to 108 loan	Proposed; Committed when 108 loan is committed	Repayment of prior debt and 108 loan loss reserve (\$757,000)
TOTAL	5,952,710			

NOTES:

- **Grow America Fund**, a business lending subsidiary of the National Development Council (“NDC”), is providing an SBA loan to finance tenant improvement costs, a portion of acquisition costs and related soft/financing costs. They are providing a lower cost loan at prime interest rate compared to typical SBA loans priced at prime plus 2.5%. It should be noted that NDC, through its Seattle office, also serves as a consultant to OED pursuant to an existing contract with the City. However, NDC is not representing the City on this Project and will not collect any portion of the City’s loan fee.
- **108 Loan Proceeds (\$3,785,000):** The 108 loan proceeds will be used for: 1) financing acquisition and related soft/financing costs in the amount up to \$3,350,516 and 2) refinancing prior private debt held by Alpha Cine in the amount up to \$434,484.
 - **108 Loan Portion for Acquisition and Related Soft/Financing Costs (\$3,350,516):** The 108 portion allocated to acquisition and soft/financing costs will be amortized and repaid over the 20 year term.
 - **108 Loan Portion for Refinancing Prior Alpha Cine Debt (\$434,484):** The 108 portion allocated to refinancing prior SBA debt held by Alpha Cine will help lower debt service payments (thereby increasing cash flow) and release collateral currently held by the prior SBA lender that is needed as security for this Project.

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Because such use of funds could be considered financing business operations, this 108 loan portion will be amortized and repaid over a shorter 10-year period, consistent with customary business lending practices.²

- **BEDI Funds for Refinancing Prior Alpha Cine Debt (\$757,000):** If the 108 loan is approved, BEDI funds in the amount of \$757,000 will be used to cover a portion of the costs to refinance the prior SBA loan. Typically, the City provides BEDI funds as a grant to the project. However, for this project, the City will structure a portion of BEDI funding in the amount of \$501,679 as a loan. The BEDI loan will have a term of 20 years at 0% interest, and annual debt service payments will be contingent on available cash flow of the business. The City will review annual financial statements and will collect debt service on the BEDI loan to the extent that Alpha Cine has a 1.2 debt service coverage ratio.
- **Rainier Valley Community Development Fund (\$250,000):** The Executive Director of the Rainier Valley Community Development Fund (RVCDF) is presenting a proposal to the RVCDF's loan committee and board to participate as a lender in this Project. Under the proposed arrangement, the RVCDF would purchase \$250,000 of the City's Section 108 loan.
 - RVCDF would accept the same terms as the 108 loan and share security position with City. For example, if RVCDF provides \$250,000, they would receive 6.6% [i.e., $250,000/3,785,000$] of foreclosure/liquidation proceeds received by the City.
 - RVCDF loan would reduce the 108 loan to \$3,535,000

² The City intends to enter into a single promissory note with HUD and a single promissory note with Obligor that will consolidate the different 108 payment schedules into one master principal repayment schedule.

VI. OPERATING BUDGET – ABILITY TO REPAY

Primary Source of Repayment

The primary source of repayment for the loan will be revenue from the Borrower's business operations. In business loan underwriting, lenders have an opportunity to review actual income history compared to real estate loan underwriting in which rents are a projection. As a result, strength of the business' cash flow is the number one criteria in underwriting risk more so than in real estate underwriting.

Alpha Cine has a long track record of success, serving filmmakers in the Northwest and nationally for over 40 years. Attached is a list of repeat clients and prominent awards recently won by Alpha Cine projects. One key to Alpha Cine's longevity has been its ability to diversify services to meet market demand. Prior to 2001, the company generated the majority of its revenue from processing film for Mattell's Viewmaster toy and generated a smaller portion of revenue from motion picture film processing. Gradually, the company shifted more focus to film processing, including both traditional motion picture and digital film. Currently, Alpha Cine generates total annual average revenue of approximately \$4 million. Of this amount, the business generates annual average revenue of approximately \$1.5 to 2 million from processing motion picture film. The company has acknowledged that larger processing companies based in Los Angeles serve the major film studios. Instead, Alpha Cine has concentrated its efforts to serve the national independent film market. Also, Alpha Cine generates annual average revenue of approximately \$1 million in processing digital film. Although independent filmmakers have been switching to digital cameras, Alpha Cine's services continue to be in demand in processing the digital film and making prints in 35mm film format for display in movie theaters. Because of its early strategic investments, Alpha Cine is well positioned to meet increased demand for digital film processing. Finally, Alpha Cine has retained a stable source of revenue in the annual average of \$1 million from its work for Mattell Viewmaster. It is OED's understanding that Mattell has already explored and rejected opportunities to outsource work to other countries and has decided to retain Alpha Cine as the exclusive processor for Viewmaster film. OED believes that the Mattell revenue will be an ongoing, reliable source of income.

The company has been able to successfully adapt to changing market conditions in large part due to its strong leadership. Don Jensen has been in control of management operations since 2001 and obtained ownership in 2006. He led the company to increase its film processing work and made the early, strategic decision to increase the digital processing side of the business. During his tenure, Mr. Jensen has retained key members from the prior ownership with experience in traditional film processing, including the Production Manager who has been with the company since 1978. Mr. Jensen has also hired employees with a background in the emerging digital processing market. Both Mr. Jensen and Jannat Gargi, Vice President of Business Development, come from a background in digital film processing. Alpha Cine has a Director of Digital Film Services, who has been with the company since 2001.

OED has reviewed company tax returns going back to 1999 and notes that Alpha Cine has consistently reported positive earnings. Moreover, after reviewing Alpha Cine's financials from 2005-2008, OED has observed that the company consistently achieves healthy operating profits between 12% and 18% (Budget and Financials, p. 4). Alpha Cine's profits after taxes have been positive and increasing, except for 2006 (Budget and Financials, p. 4). After discussions with the company, OED believes that slight decreases in 2006 stemmed from one-time only transactional costs associated with the company's transition from the previous ownership to the

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current owner Don Jensen. The company has returned to positive performance in 2007 and 2008 (partial year financials) (Budget and Financials, p. 4).

This year, Alpha Cine decided to relocate operations due to an expiring lease at its current location in the Denny Triangle neighborhood. The company has expressed a desire to acquire ownership (rather than lease) of a new location, in order to justify the expense of installing specialized electrical and HVAC systems not typically found in general warehouse/industrial space. However, property ownership will bring a variety of new costs in real estate taxes and debt service to finance the acquisition. Rent savings in excess of \$100,000 annually (i.e., not having to pay rent at its Denny Triangle location) and projected rent revenue of \$60,000 annually (i.e., renting 10,000 square feet of warehouse space at the new location) will help to partially offset the added costs (Budget and Financials, p. 1). OED believes that Alpha Cine can support higher ownership costs at the City's required 1.2 debt coverage ratio if it receives low-cost financing (SBA and 108/BEDI) and refinances prior debt (Budget and Financials, p. 1).

Alpha Cine is finalizing its negotiations with Deluxe Digital Media Film and Negative Services to lease the 10,000 square feet of space not needed by Alpha Cine. Deluxe contracts with MGM and other film studios to store motion picture film. The company also restores such film for high definition re-broadcast on television and re-release in movie theaters. At the Property, Deluxe will use the 10,000 square feet as warehouse storage of film from the MGM library. Deluxe may also request Alpha Cine's services in completing film restoration work. The terms of the lease are \$0.50 per square foot rent, an initial 9-year term and a right of first refusal for an additional 10 years. The parties will finalize the lease after negotiating the rate of annual increases on rent. Disbursement of the 108 loan will be specifically conditioned on the execution of the lease, on terms acceptable to OED.

Secondary Source of Repayment

The secondary source of repayment is recourse to the project collateral as discussed in the section below entitled Collateral.

VII. COLLATERAL

The City's Section 108 loans have often financed real estate development, and collateral protection has come primarily from the appraised value of the real estate being developed. However, in this Project, OED is proposing to provide a business loan to Alpha Cine. For business loans, it is customary underwriting practice to examine the strength of several collateral sources held by the business, including real estate, machinery and equipment, accounts receivable and owner personal assets. The following is a description of the various collateral sources that will be pledged to the City, with a table illustrating the loan to discounted value:

Real Estate: the Property being acquired has an appraised, as-completed value of \$3,850,000 (Property Appraisal, p. 1). The City will have a real estate deed of trust in the Property, subordinate to the security interest held by the SBA/Grow America Fund loan.³ Based on a standard 80% discounted valuation, the real estate has a value of \$3,080,000.

Machinery and Equipment: In 2006, Don Jensen, the current owner of Alpha Cine purchased ownership rights to the business, financed through an SBA loan and seller promissory notes.

³ SBA rules prevent Grow America Fund from accepting a junior lien position in the Property (SBA Standard Operating Procedures 50 10(5), Chapter 1, Section 2(e)(3)(ii)(e)).

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The SBA lender, CIT, ordered an appraisal from GoIndustry Michael Fox International. The appraisal firm is recognized in the business lending industry as having expertise in valuing machinery and equipment. The appraiser conducted an item-by-item inspection of Alpha Cine's machinery and equipment and evaluated each item according to quality, useful life and discounted value ("liquidation value"). The appraisal opined that the machinery and equipment is in "fair" to "good condition" with "even the oldest equipment appears to be well maintained" (GoIndustry Appraisal, p. 4). The appraisal stated that the useful life is approximately 10 years, adding that the "film equipment has not changed dramatically in the last 30 years, and in the appraiser's opinion there does not seem to be radical change in the way that motion pictures are finalized for distribution in the near future" (GoIndustry Appraisal, p. 4 and 6). Finally, based on the condition of the machinery and equipment, the appraisal stated that the discounted value ("liquidation value") is 76%. OED notes that this valuation is higher than a 50% discounted value more commonly assigned to general machinery and equipment. However, OED will rely on the appraiser's expertise in this area. In OED's conversation with the appraiser, the appraiser raised three primary factors in support of the 76% discounted value: (a) Alpha Cine's machinery and equipment has a general long life in the film industry and retains its value well because it is not subject to rapidly changing technology; (b) the machinery and equipment is in good condition; and (3) the machinery and equipment is in short supply in the Pacific Northwest and has a higher value compared to the Los Angeles area market, which has a greater supply of similar machinery and equipment. Based on the appraisal's 76% discounted valuation, the machinery and equipment has a value of \$937,180.

Since the 2006 appraisal, Alpha Cine has purchased additional machinery and equipment. An updated appraisal has been prepared on all machinery and equipment, including items purchased after 2006. The updated appraisal has stated that the machinery and equipment has a market value of \$1,825,875 and a discounted value of \$1,373,950. This represents a discounted valuation of approximately 75%.

The City will have a first lien security interest against all machinery and equipment.

Accounts Receivable: as of the end of 2007, Alpha Cine has accounts receivable in the amount of \$261,096. After applying a standard 20% discounted valuation rate, the accounts receivable has a value of \$52,219. The City will have a first lien security interest.

Owner Personal Assets: Alpha Cine's owner Don Jensen has a personal residence with an appraised value of \$715,000, lowered to \$572,000 after applying a standard 80% discounted valuation rate. The property is subject to a prior lien in the amount of \$480,000. The City will have a subordinate security interest in the deed of trust. Although the residential real estate does not have much residual value after other liens, it is an indication of the owner's good character to commit all resources for this project. We acknowledge that the owner does not have a significant amount of unencumbered assets to support a guaranty. Aside from his personal residence, the owner has stock holdings valued in the amount of approximately \$100,000. We are not aware of any other assets owned by Don Jensen. Company owned real estate and machinery and equipment are the main collateral sources for the City. However, business lenders find that the psychological value of pledging personal real estate is an important factor in keeping business owners motivated to stay current and in compliance on their loans.

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Loan to Discounted Value (maximum 1:1)

Collateral or Other Security Sources	Value	Discount Rate	Discounted Value	Less Senior Liens	Net Value	Loan to Discounted Value
Real Estate Deed of Trust	\$3,850,000	.80	\$3,080,000	\$1,310,710	\$1,769,290	
Machinery & Equipment	\$1,825,875	.75	\$1,373,950	0	\$1,373,950	
Accounts Receivable	\$261,096	.20	\$52,219	0	\$52,219	
Owner Personal Assets / Residential Real Estate	\$715,000	.80	\$572,000	\$480,883	\$91,117	
BEDI	\$255,321	1.0	\$255,321	0	\$255,321	
TOTAL:					\$3,541,897	1:1.07

As the table above indicates, the loan to discounted value ratio at 1:1.07 slightly exceeds the maximum 1:1 ratio. In real estate loan underwriting, financing decisions typically occur prior to construction and rents are a projection. Because rents are projections, real estate lenders generally rely more heavily on collateral in underwriting decisions. However, in business loan underwriting analysis, lenders have an opportunity to review actual income history and are willing to accept minor deficiencies in collateral if the business has a solid financial record. This Project involves a business loan, and OED believes that the minor deficiency in collateral is adequately mitigated by Alpha Cine's solid operating history of over 40 years. Moreover, the company has a strong cash position with a 1.2 debt coverage against all debt.

Also, the period of time in exceeding a 1:1 loan to discounted value ratio is short-term. Within 2 years, the 108 loan will be lower than a loan to discounted value of 1:1, through a combination of principal repayment and increase in value.

- 108 principal reduced: in two years, the 108 loan will be reduced to \$3,365,000, as the 108 principal reduces by \$210,000 each year.
- Value increased: in two years, the total discounted value of all collateral sources will be increased to \$3,597,897. Grow America Fund's loan will be reduced by \$28,000 each year, and this reduction will allow more collateral coverage in the Property for the 108 loan.
- Loan to Discounted Value = \$3,365,000 loan amount/\$3,597,897 discounted value = 1:0.94

OED has also structured the 108 loan to minimize reliance on Alpha Cine's long term operations. Out of the total \$3,785,000 Section 108 loan, \$3,350,516 has been allocated to acquisition and related soft/financing costs, while only \$434,484 has been allocated to business operations (refinancing prior debt). The \$434,484 will be amortized and repaid over a 10-year period. At

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the end of the 10 year period, the total remaining 108 principal balance will be \$1,680,516 (Budget and Financials, p. 12). For the SBA/Grow America Fund loan, the principal balance will be \$966,609 (Budget and Financials, p. 12). As a result, after year 10, the City's loan to value against the Property alone will be below 80% ($\$2,647,125$ combined debt / $\$3,850,000$ Property value = 0.688). OED proposes that the City's lien in machinery and equipment be released after the \$434,484 has been fully repaid, thereby providing Alpha Cine with flexibility to pledge such assets for financing working capital needs. Such release of collateral in machinery and equipment will be subject to documentation that the City's loan to value ratio is below 80% and debt coverage remains at least 1.2 (confirmed through Property re-appraisal and current financials).

Finally, OED notes that the City will have the protection of an additional loan loss reserve created from other projects in the \$10 million loan fund. In the previously disbursed 17th and Jackson loan, the City set aside \$59,950 in BEDI funds as a loan loss reserve for the fund. This loan loss reserve of \$59,950 will be available as an additional back-up reserve in the unlikely event that it is needed for the Alpha Cine project.

VIII. DEVELOPMENT TEAM AND EXPERIENCE

Stock and Associates will serve as the project architect and BN Builders will serve as the general contractor. As indicated in the attached background materials, both Stock and Associates and BN Builders have a broad range of experience in commercial projects. Projects include life science/R&D facilities with specialized needs for load capacity and extensive electrical and HVAC systems. OED believes the development team has the necessary experience to complete Alpha Cine's desired tenant improvements.

IX. OWNER COMMITMENT

Don Jensen, the owner of Alpha Cine, has committed a significant amount of time and resources to the Project. Mr. Jensen has already committed \$100,000 in equity to the Project, will grant the City a lien in his personal residence and will provide an unconditional guaranty for the 108 loan.

X. CHARACTER

For the past 40 years, Alpha Cine has developed a national reputation for excellence in providing film processing services. Such longevity can be attributed to its year-to-year success in controlling costs and maintaining profitability. Moreover, the company has demonstrated long-term foresight in anticipating changing market conditions. For example, Alpha Cine made early investments to build up its capacity to handle digital film processing and is now well positioned to meet the increasing demand for such services. OED believes that the company is well-managed and a good investment for the City's Section 108/BEDI funds.

XI. PROPOSED COSTS

Cost estimates for the tenant improvements have already been prepared by Alpha Cine's

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architect Stock and Associates and its general contractor BN Builders. Based on the experience of the development team, OED believes that the cost estimates are reliable.

XII. COMMITMENT OF FUNDS

All of the financing sources have been committed except for the City’s Section 108 loan.

XIII. NEED FOR PUBLIC ASSISTANCE

While Alpha Cine has solid cash flow, the financials show that low-cost financing from Section 108/BEDI funds are necessary to make the project feasible. Property ownership will bring added costs that cannot be covered solely through rent savings (from their current location), projected rent revenue (from their leasing of 10,000 square feet of the Property) and conventional private debt. The 108/BEDI funds will help keep Alpha Cine profitable through low cost acquisition financing and refinancing prior, higher-cost debt. The following chart illustrates that Alpha Cine’s cash flow does not support private financing of the Project but does support 108 financing at a healthy debt coverage ratio of 1.2.

Private Financing		108 Financing	
	<u>2007</u>		<u>2007</u>
<u>REVENUE</u>		<u>REVENUE</u>	
Earnings Before Taxes	115,347	Earnings Before Taxes	115,347
+ Depreciation	188,390	+ Depreciation	188,390
+ Cash for Interest Payments	196,403	+ Cash for Interest Payments	196,403
+ Rent Savings	109,120	+ Rent Savings	109,120
+ Rent -- Warehouse lease	0	+ Rent – Warehouse lease	60,000
+ Other - Previous Owner Note	<u>42,000</u>	+ Other - Previous Owner Note	<u>42,000</u>
Total Revenue	651,260	Total Revenue	\$711,260
<u>EXPENSES</u>		<u>EXPENSES</u>	
Private Financing Debt Service	390,793	108 Loan Debt Service	374,896
Existing SBA Loan Debt Service	196,403	Previous Owner Notes	47,280
Other Debt Service (Line of Credit)	13,682	Grow America Fund Debt Service	92,893
Real Estate Taxes	<u>56,250</u>	Other Debt Service (Line of Credit)	13,682
Total Expenses	\$657,128	Real Estate Taxes	<u>56,250</u>
		Total Expenses	\$585,001
Cash Flow Coverage = $\frac{\text{Revenue}}{\text{Expenses}} = \frac{651,260}{657,128} = 0.99$		Cash Flow Coverage = $\frac{\text{Revenue}}{\text{Expenses}} = \frac{711,260}{585,001} = 1.22$	
<u>Private Financing Terms:</u>			
<ul style="list-style-type: none"> • Interest at 7% • Project financing does not include Grow America Fund loan because bank needs to have senior lien position • Revenue does not include tenant income because banks typically do not include such income in cash flow coverage analysis 			