

**TWIN CITIES THEATRE ALLIANCE
OPERATING PRO FORMA ASSUMPTIONS
RENT/MANAGEMENT WITH DEBT ASSUMPTION/PURCHASE OPTION**

The Alliance's financial results will reflect the operations of the Historic Orpheum, Historic State, Historic Pantages theaters in Minneapolis along with the Ordway Center's Main Hall and McKnight Theater. A consolidated operation benefits from leveraging the already existing infrastructure and therefore enables us to provide additional education and community outreach.

NOTE: Year one in the pro forma covers the period 7-1-06 through 6-30-07 and all subsequent years end on June 30th.

The operating pro forma was established based on the following:

- **Primary Information Sources**
 - Minneapolis Theatres' Combined 6-Year Operating Statement
 - State Auditor's reports for Minneapolis Theaters 1991 –2003
 - Restoration Fee History 1998 -2002
 - City's paid expenses for Minneapolis Theaters 1998-2003
 - Minneapolis Theatrical results from 1992 – 1996 Years during which Ordway Center programmed the theatrical season
 - Bond Documents
 - Management Agreements
 - Professional Management Services Agreement
 - Task Force input (Ordway Center's Board lead a group including Board Members, Staff and outside community members to review this business opportunity)
 - Industry Knowledge
 - Ordway Center's facilities management team
 - Ordway Center financial information and audits

- **Methodology**
 - Information from the stated sources was compiled and reviewed to gain a complete understanding of current operations
 - Information compared and analyzed with Ordway Center current and past results
 - Programming template built to utilize all theatres and maximize return and community outreach
 - Cost estimates received where applicable

The following are planning assertions we used for revenue projects:

- **Market Assumptions**
 - Market economic conditions remain constant (local economy, theater business, etc.)
 - No major new local competitor emerges

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- **Performance we plan to achieve**
 - 1,223,300 available show-seats per year
 - First year of the contract will include 52 more performances in City of Minneapolis venues than in 2002 (last year of available operating results) with planned growth as market allows
 - 74% overall performance utilization. (Sold tickets to capacity) in first year with increased utilization planned to achieve 80% in year six
 - \$30.75 average ticket price in base year with plans to increase for both inflation and less discounting with a consolidated marketplace
 - “Restoration Fees” managed to balance debt service requirement
 - 3.5% interest on advance ticket sales
 - Retain most ticketing service fee revenue
 - Most tickets sold through in-house system
 - Increase annual giving by \$600,000 during first year with continued increases during the term of the contract
 - Current Historic Theaters Trust raised \$344,000 for the year ended June 30, 2003
 - Pro forma numbers beyond 2011 assume that The Alliance is sustaining programming levels, increasing revenue streams as costs increase. To the extent costs exceed revenue increases from “Presentation Revenue” the bottom line is bridged through fundraising efforts and increasing available from the endowment
 - The Alliance will manage all education, outreach and local non-profit arts activities in line with our financial ability to serve and adjust when necessary. We will manage the bottom line.

The following are planning assertions we utilized for expense projections:

- **Environmental assumptions**
 - Labor rates will not dramatically change
 - No excessive property assessments placed on theaters
- **Contract provisions**
 - Capital costs in Minneapolis paid by City of Minneapolis
 - Any deferred maintenance costs in Minneapolis paid by City of Minneapolis
 - Alliance will not be responsible for any new indebtedness incurred by City of Minneapolis
 - Alliance will collect Restoration Fees and be responsible for making annual debt service payment.
 - Any excess derived from one year will be held in reserve by The Alliance for future year’s debt service requirement.
 - Alliance will pay annual net rent of \$500K (with planned escalation as outline in term sheet)
 - Alliance will pay a \$2,222,500 Purchase Option Fee at contract execution

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- **Performance we plan to achieve**
 - On-going maintenance costs in theaters escalates with inflation only
 - Consolidated G&A cost reduced from 7% to 2% of revenue.
 - Consolidated Programming & Marketing cost reduced from 8% to 4% of revenue.
 - Show costs will not increase more than inflation
 - Fixed expenses grow no more than inflation. 3% inflation used for future years.

- **Capital purchases**
 - Capital purchases for the Minneapolis Theaters identified by the City of Minneapolis in RFP will be completed prior to the beginning of our rent/management contract.
 - The average on-going capital expense, a City of Minneapolis responsibility, is based on the average of the past 6 years, increased for inflation.
 - Resources to fund the City of Minneapolis' capital purchases are made available through improved cash flow, rent paid by The Alliance, and Alliance's assumption of 100% of operating expenses.
 - City of Minneapolis responsible for capital purchases until such time Alliance becomes fee owner of Theatres

- **Investment Return Alliance**
 - The RFP requests the pro forma show the "Cash on Cash" and "Internal Rate of Return" for the operations. Due to the non-profit nature of The Alliance, its mission, and its ongoing investment in community arts and education programs, any net surplus will be dedicated to "Community Reinvestment".

- **City of Minneapolis Financial Results**
 - Based on the City of Minneapolis' historical information and the terms of this Rent/Management with Purchase Option alternative, the City of Minneapolis' net cash inflows will improve annually, on average:
 - **\$738,200 years 1 – 5**
 - **\$776,800 years 6 – 10**
 - **\$838,300 years 11 – 15**
 - **\$909,600 years 16 – 20**
 - **\$992,300 years 21 – 25**

in comparison from the 2002 net cash outflow of (\$390,500).

This is an improvement of \$21,276,000 over the term of contract for the City of Minneapolis.

(We are unable to give a comparison for 2003 as the Restoration Fee information was not provided during the RFP process.)