

**TWIN CITIES THEATRE ALLIANCE
OPERATING PRO FORMA ASSUMPTIONS
RENT/MANAGEMENT ALTERNATIVE**

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 Theatre. 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 Theatres 1991 –2003
 - Restoration Fee History 1998 -2002
 - City's paid expenses for Minneapolis Theatres 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 (between Clear Channel and Hennepin Theatre Trust, see "Other Information" section in proposal)
 - 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 term of contract
 - Current Historic Theatres 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 amounts 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 theatres
- **Contract provisions**
 - Capital costs in Minneapolis paid by City of Minneapolis
 - Any deferred maintenance costs in Minneapolis paid by City of Minneapolis
 - The Alliance will not be responsible for any new indebtedness incurred by City of Minneapolis
 - The Alliance will collect Restoration Fees and remit to City of Minneapolis to cover annual debt service
 - Any excess derived from Restoration Fee will be held by the City of Minneapolis in reserve for future year’s debt service requirement
 - The Alliance will pay annual net rent of \$500K (with planned escalation as outlined in term sheet)
 - The Alliance will pay \$500,000 “Good Faith Deposit” to be held by City of Minneapolis during term of contract

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- **Performance we plan to achieve**
 - On-going maintenance costs in theatres 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 Theatres 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 The Alliance's assumption of 100% of operating expenses.

- **Investment Return**
 - 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' historic financial information and the terms of this Rent/Management alternative, the City of Minneapolis' net cash inflows will improve annually, on average:
 - **\$758,300 years 1- 5**
 - **\$796,900 years 6 – 10**
 - **\$858,400 years 11 – 15**
 - **\$929,700 years 16 – 20**
 - **\$1,012,400 years 21 – 25**

This compares to the City of Minneapolis' net cash outflow of (\$390,500) in 2002

This is an improvement of \$21,778,500 over the term of the 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.)