

**TOWN SQUARE INITIATIVE** Kingsville, TEXAS | Texas Theater Feasibility Study | August 2016

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This feasibility study was prepared by the Texas Historical Commission’s Town Square Initiative team. It is intended for use by the property owner and the City of Kingsville to assist in determining the redevelopment potential for the historic *Texas Theater*. This is a preliminary study and not intended for permitting or regulatory approvals. It should be used as a suggested direction and superceded by recommendations made by licensed design professionals employed by the owner or potential owners of the subject property. No guarantees are implied as to the existing nor proposed conditions and configurations of the building, the economic viability of the suggested course of action and funding possibilities, nor any explicit nor implied regulatory approvals.

TSI team members:  
 Riley Triggs, AIA, Architect  
 Brian O’Connor, Economic Development Specialist  
 Emily Koller, AICP, Planner

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# About the Town Square Initiative

The Town Square Initiative (TSI) is a new approach by the Texas Historical Commission to holistically address the challenge of vacant and underutilized historic downtown buildings. The TSI team provides services to spur preservation-based projects so that local, small-scale and high-quality development becomes more achievable in Texas downtowns. TSI's work is guided by a place-driven and market-informed philosophy meaning that we are focused on supporting viable redevelopment projects in communities who are strongly motivated by enhancing the quality of place in their downtowns.

TSI operates as an affiliate of the Texas Main Street Program, a preservation-based downtown revitalization effort with a 35-year history of success. An interdisciplinary team with expertise in architecture, planning and economic development provides specialized project assistance with a focus on:

- Conceptual design and financial feasibility studies for vacant buildings that are place-driven and market-informed.
- Coordinated downtown planning strategies to address development barriers.
- Increasing and influencing the market exposure of available properties.
- Providing information, education, and resources on best practices that have a positive impact on local policy and decision-making.

## Process

Communities participating in any of the Texas Historical Commission's programs are eligible to apply for TSI services. The team completes an initial assessment to determine the scope of the project; some are limited to building/site specific strategies while others take on broad economic, planning and downtown policy challenges. These projects require working closely with a variety of downtown stakeholders including private property owners, elected officials, city and county leadership as well as local banks and economic development entities. Deliverables typically include technical reports outlining the potential for redevelopment (including a re-use plan, drawings and pro-forma statement) as well as recommendations for longer-term planning and policy changes. Staff can remain involved at the local level to help implement the recommended policy changes and provide guidance on redevelopment.



*TSI working with a property owner in Harlingen.*



*TSI renderings developed for a project in Elgin.*



*TSI working with downtown stakeholders in Mount Vernon.*

# Executive Summary

The *Texas Theater* is an historically significant building in Kingsville’s downtown with the potential to transform its future. The theater sits on a prominent corner in the core of the Main Street district. It was constructed in 1950 and operated until 1970. During that period it was known as “the” theater in town and the “pinnacle of modern Kingsville.” Considered a local landmark, the community is emotionally invested in the building. The combination of location, function and historical significance make the *Texas* a uniquely positioned project to be a catalyst for the creation of a strong quality and sense of place.

In order for the rehabilitation of the *Texas Theater* to be feasible, a market must be identified that will support a long-term financial strategy for its operation. The restored and operating theater has the potential to serve as an activity center for downtown and, if successful, will offer a place that will better connect downtown to the Texas A&M University - Kingsville (TAMUK) community. The *Texas Theater* rehabilitation could become the anchor for a new downtown identity—one which appeals to students and draws on their energy and spending to support new shops, restaurants, and entertainment venues.

**The Town Square Initiative study finds the project feasible as part of a scenario that utilizes the federal and state historic tax credit programs along with a variety of alternative funding sources. The scenario projects a modest revenue stream to support construction costs and proposes a phased development plan that utilizes the adjoining commercial space to bolster theater operations over the long-term. The project will require strong backing by the city and buy-in from the larger community.** This means addressing the conditions beyond the building itself—assisting in developing events, programs and policies to move downtown in the direction of an active, entertainment-focused district that is well-connected to the university.

## Phasing

In order to accomplish a full reactivation and then subsequent restoration of the *Texas*, a phasing strategy is proposed to re-introduce it to the community, provide working capital and civic participation with the ultimate goal of the theater once again significantly contributing to Kingsville’s downtown and special quality of place. The phases are illustrated to the right:

### Texas Theater Proposed Redevelopment Plan

**Estimated Project Cost: \$5,696,500**  
**Costs per Square Foot: \$339**

**Phase 1**  
Timing: Immediate  
Goal: To make the theater and adjoining commercial building safe for habitation on a temporary basis.  
Duration: 3-6 Months  
Projected Cost: \$50,000

**Phase 2**  
Timing: Short-term  
Goal: To make permanent improvements to the infrastructure of the theater.  
Duration: 1.5-3 Years  
Projected Costs: \$1.75-\$2.5 million

**Phase 3**  
Timing: Longer-term  
Goal: To make an historically accurate restoration of the theater and add a complimentary use business to the adjoining commercial building.  
Duration: 5-10 years  
Projected Costs: \$2.5-\$3.2 million

Uses:		Sources:	
Hard & Acq. Cost	\$3,922,495	USDA B&I Loan	\$2,105,188
Soft Cost	\$877,024	State Historic Tax Credit	\$1,288,270
Development Fee	\$850,000	Federal Historic Tax Credit	\$953,043
Reserves	\$20,000	Capital Campaign	\$500,000
Capitalized Interest	\$26,982	Deferred Developer Fee	\$500,000
		EDC Grant	\$350,000
<b>Total Uses:</b>	<b>\$5,696,501</b>	<b>Total Sources:</b>	<b>\$5,696,501</b>

Table 1. Project Cost Assumptions.

## Financial Feasibility

The financial analysis assumes that the restoration of the *Texas Theater* would cost approximately \$5,696,500. The phasing plan breaks this down into more manageable amounts with Phase 2 and Phase 3 addressing the most costly improvements. The financing scenario developed by TSI utilizes an USDA Business & Industry loan, federal and state historic tax credits, deferred developer fees, an economic development grant and a capital campaign.

The project cost assumptions demonstrate that redevelopment of the *Texas Theater* is possible, but will require some alternative sources of funding and a committed public/private financing strategy. TSI has made some assumptions in its analysis to address a financing gap including the consideration of a substantial economic development grant and community-driven capital campaign. These are outlined as a possible scenario to provide guidance to local stakeholders and should not be considered the only path forward.

It is important to note that in order to receive the historic tax credits available through the state and federal programs, the project must first be determined eligible for listing on the National Register of Historic Places and the rehabilitation work must be completed in accordance with the Secretary of the Interior’s Standards for the Treatment of Historic Properties. The theater is not currently listed on the National Register, but possesses the historical significance to make it a likely candidate for listing. Existing alterations have compromised the building’s historical integrity and would make an application ineligible for both the state and federal tax credit programs under the current ownership. However, a new owner would have the opportunity to pursue listing on the National Register and become eligible for the historic tax credit programs.

# Context

In order for the rehabilitation of the *Texas Theater* to be possible, a market must be identified that will support a long-term financial strategy for its operation. The restored and operating theater has the potential to serve as an activity center for downtown and, if successful, will offer a place that will better connect downtown to the Texas A&M University - Kingsville (TAMUK) community.

Currently the King Ranch Saddle Shop and the King Ranch Museum, along with the Kleberg County Courthouse and City Hall serve as activity centers in downtown, but there is a strong need to develop retail, dining and entertainment to enliven the downtown experience and draw students, faculty and staff to the district.

The campus is 1.5 miles away from the heart of downtown and the Main Street district, but downtown would never be considered a “university town” by the casual visitor. There are few, if any, businesses or amenities in the district that would draw students on a regular basis to dine, socialize and be entertained. TAMUK has developed an aggressive plan for growth and expansion with a particular focus on increasing enrollment and housing more students on campus. At the time of the development of their master plan in 2010, they stated the goal of doubling the student population to 12,500 in the next 10 to 20 years. Enrollment has already climbed to 8,300.

The *Texas Theater* rehabilitation could become the anchor for a new downtown identity - one which appeals to students and draws on their energy and spending to support new shops, restaurants, and entertainment venues. The proximity to campus means they can move back and forth easily and safely by bike or bus. Long-term considerations should include new residential infill in the downtown that is focused on graduate student or married student housing as well as housing products that would appeal to staff and faculty.



The campus and downtown are only 1.5 miles apart, projects like the *Texas Theater* can help draw students into the district.



TAMUK plans to increase enrollment to 12,500 students in the next 10-20 years.



The historic King Ranch Museum draws many visitors to downtown, but students and locals need places for dining, shopping and entertainment.

# Existing Conditions

The Kingsville Main Street Program and current property owner submitted an application for TSI assistance in March 2016 for the Texas Theater, located at 327 E. Kleberg Avenue. The theater sits on a prominent corner in the middle of Kingsville's historic downtown and the Main Street district. The theater was constructed in 1950 and was in business from 1950-1970. During that period it was "the" theater in town and the "pinnacle of modern Kingsville." Considered a local landmark, the community is emotionally invested in the building.

The theater, designed by noted Dallas architect Jack Corgan and built in 1950, along with the adjacent commercial building at 323 E. Kleberg, are currently privately owned and vacant. The integrity of the *Texas*' historic interior is compromised, with only a few remnants intact for reference for a full restoration project, but historic photos show a simple design scheme that could be relatively easy to restore. MEP (mechanical, electrical and plumbing) and structural systems would need to be investigated fully to provide an accurate assessment of the building. Restrooms, emergency egress and HVAC systems are in need of modernization and reconfiguration to meet current building codes.

The buildings have been sporadically inhabited over the past four decades, and they are partially renovated and on the market for sale. The current property owner has made improvements and has received about \$66,000 for façade restoration including the marquee, which has not yet been completed.

The City of Kingsville is vitally interested in making the property functional again. This feasibility study is intended to assist the City and the property owner with understanding the scope of the full restoration, a pathway to get there, and how the federal and state historic tax credit programs could be utilized to execute the project.



*Current non-historical construction activity.*



*The S. 8th Street facade faces an HEB gas island and parking lot. Reinhabiting the retail spaces on this side of the building would improve the streetscape.*



*The commercial space at 323 E. Kleberg provides support areas and space for complimentary programming to make the theater a viable financial endeavor.*

# Conceptual Plan

Restoration of the *Texas Theater* is an essential component to the vitality, significance and the presence of not only the downtown district, but also, more importantly, the entire town of Kingsville, Texas. Downtowns function as the core of a city, and they set the cultural, symbolic and economic identity that communicate what a city is all about to visitors, residents and future citizens. The theater embodies the spirit of the past and the potential success for the future. It is a combination of location, function and historical significance that make the *Texas* a uniquely positioned project to be a catalyst for the creation of a strong sense of place.

The *Texas*' location is a primary component to its strategic importance to Kingsville. Equidistant from the very strong activity centers along the core of the eastern side of Kleberg of the King Ranch Saddle Shop and the HEB, the *Texas* would perform an important bridging third point of activity. The location at S.8th Street helps to bracket the strongest part of the urban fabric of downtown between S.6th and S.8th as well as to provide a bridging function towards the HEB for further smaller businesses and activities. Besides its location, the *Texas*' potential effect as a catalyst is heightened by the entertainment activity it will make possible.

Entertainment activities are missing from the downtown core, and the *Texas* would provide a reason for people to inhabit the street later in the evening and linger in a walkable main street setting enhancing the overall market for other similar desirable entertainment activities such as restaurants, museums, music venues, and then, ultimately, residential living. Creating an activity center with extended hours of operation that includes music, movies and live theater provides the opportunity for other business to benefit from increased evening and weekend traffic in the area.

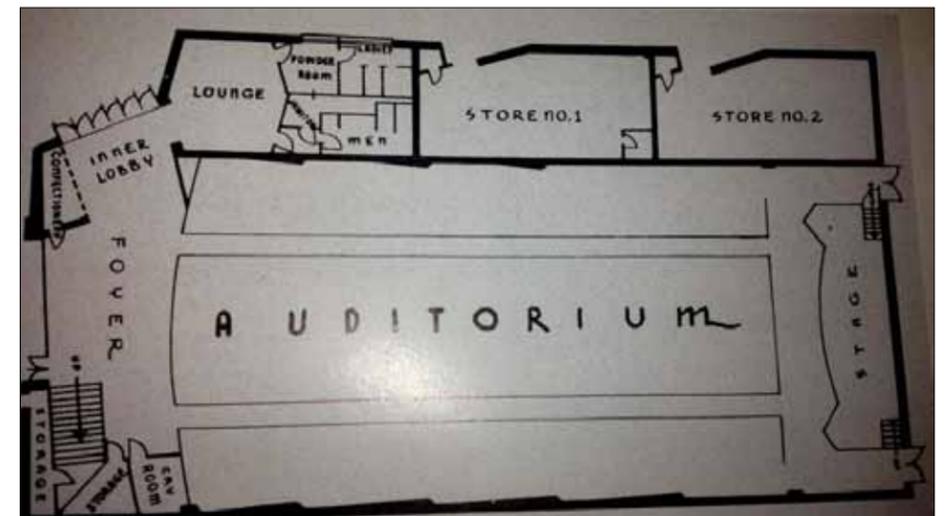
One of the best aspects of the *Texas Theater* is its rich historical significance. Longtime residents remember seeing major films of cultural importance and their own personal connections to this particular place in Kingsville are in the forefront of their everyday encounters with the building. The building itself embodies much of the energy and characteristics of the post war era and provides a unique connection to the rest of the history and architectural history of Texas.



Strong centers of activity along the core of Kleberg would be connected by Texas Theater rejoining the community.



The historic interior of the Texas Theater was straightforward, but distinctive, which makes it financially possible and culturally significant to pursue restoration.



An historic preservation plan of the Texas Theater shows the assumed original configuration with important retail spaces.

Because of its belonging to an exclusive family of buildings, the *Texas* Theater provides a particular presence and significance that is an important component to the place of Kingsville that will be amplified when it is back in operation. Noted Texas architect Jack Corgan, whose legacy firm is still in business in Dallas, specialized in the design of movie theaters, and is responsible for creating an identifiable style that the *Texas* shares with its siblings across the state. Because of his involvement and because of the significance of the era and design, the *Texas* should eventually be as closely restored to its original configuration as possible.

The importance of the *Texas* as a cultural artifact builds upon its practical importance to restoring a healthy, functioning downtown. It is through this combination of location, function and historic significance that makes the *Texas* an important contributor to the cultural and economic identity of Kingsville. **It is imperative that the proper planning, design, programming, execution and operation of the theater be a rigorous, financially prudent, and civic-supported process as it is a key component of a long-term strategic plan vital to the future of Kingsville as a desirable, livable and strong South Texas town.**

## Phasing

In order to accomplish a full reactivation and then subsequent restoration of the *Texas*, a phasing strategy is proposed to re-introduce it to the community, provide working capital and civic participation, and have a goal of restoring the theater to be a building that once again significantly contributes to making the place of Kingsville. The phases are proposed as follows:

- Phase 1: to make the theater and adjoining commercial building safe for habitation on a temporary basis;
- Phase 2: to make permanent improvements to the infrastructure of the theater; and,
- Phase 3: to make an historically accurate restoration of the theater and add a complimentary business to the adjoining commercial building.

### Other Jack Corgan Theaters in Texas



Graham, TX



Vernon, TX



Borger, TX



Gonzales, TX



New Braunfels, TX

Historic photo, 1950 (date assumed from release date of film "Key to the City").



# Phase 1

Timing: **Immediate**

Duration: **3-6 Months**

Projected Cost: **\$50,000**

The proposed initial phase for the *Texas Theater* is meant to secure the building from the elements and make safe for temporary occupation as a music venue and for special events. It is proposed that with the minimal amount of time, effort and expense, an appealing temporary raw music venue can be established as early as Fall 2016 for reintroducing the space to the public. This is especially intended to engage the university population of students, faculty and staff with a suggested welcome back to school grand re-opening kick off event for freshmen and returning students.

Vendors located in tents along the sidewalk and possibly street would provide refreshments and portable restrooms, and lighting and sound equipment would be rented. Following this, regular concerts could occur in the raw space while planning and funds are secured for subsequent phases.

In order for the building to be inhabited on this temporary basis, the following scope is suggested:

- **Ceiling and possible roof repair from deteriorating interior finishes.**
- **Structural engineer consultation to ensure the structure is sound**
- **Materials testing and abatement as required**
- **Overall building soundness with regards to moisture penetration, extermination and finish stability**
- **Hang stage lights from roof structure**
- **Close off balcony**
- **Investigate / make safe existing / install temporary electrical service**
- **Paint / make safe stage**
- **Portable restrooms**
- **Possibly temporary air conditioners**
- **Trailer / kiosk food and beverage vendors**
- **Architectural planning and design**



Current photo of existing building.



Brick damage at rear of building should be carefully repaired.

## Preliminary Code Analysis

- **Verify all information before taking any action**
- **For *Texas Theater* only**

### Building codes:

2009 International Building Codes:  
2009 International Fire Code  
2009 International Energy Code  
2009 International Mechanical Code  
2009 International Plumbing Code  
2011 National Electric Code

**Assumed construction:** Type III-B

**Total estimated square footage:** 12,000 sf

**Total estimated auditorium:** 4400 sf

**Occupancy:** Movie theater A-1  
Music venue A-2

### Occupant load:

Fixed seat auditorium and balcony A-1: approx. 800 seats  
Standing room music venue A-2: approx. 800

### Plumbing fixtures required:

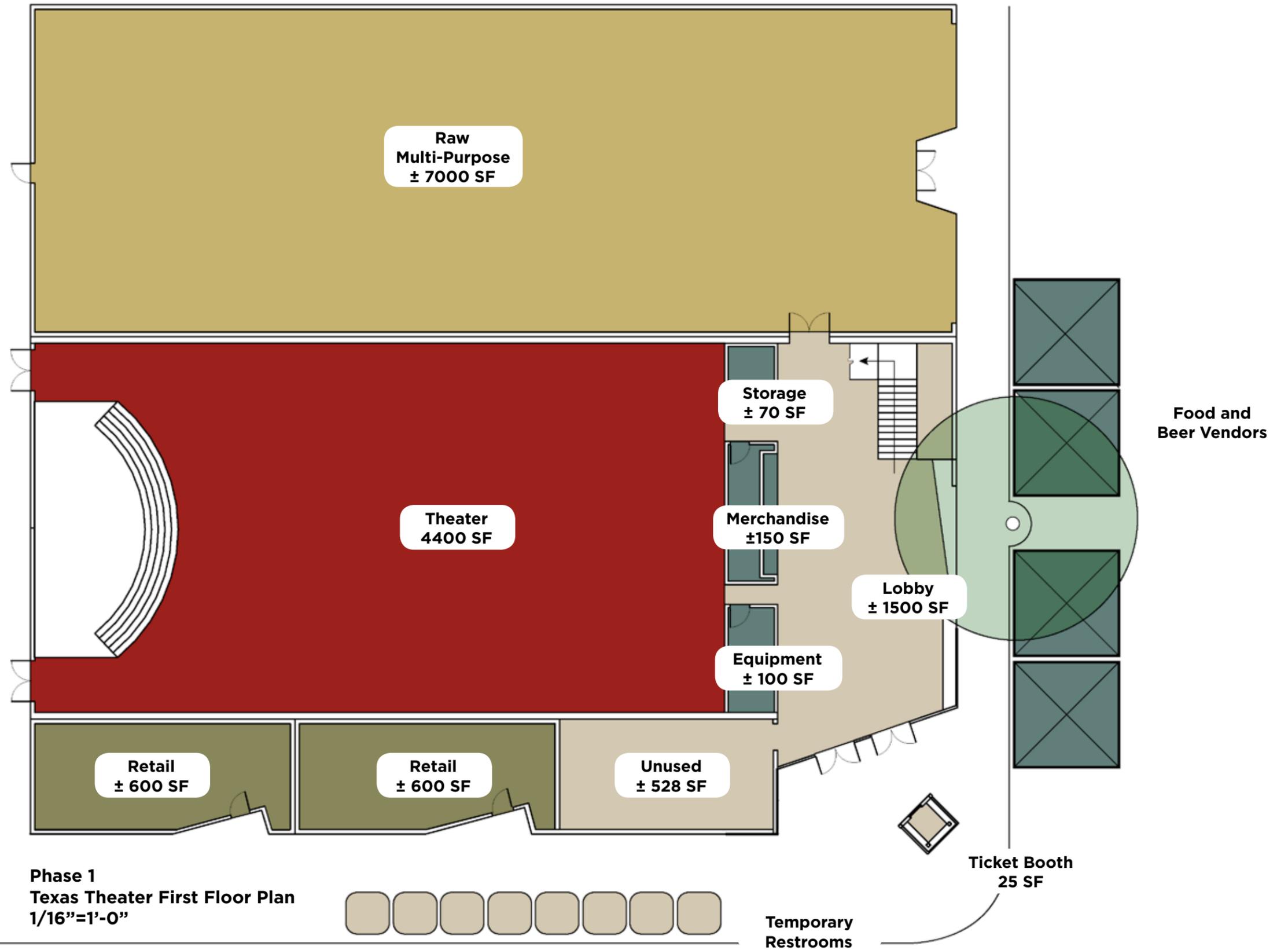
A-1: Men 1:125 and Women 1:65 Lavatories 1:200  
A-2: Men 1:40 and Women 1:40 Lavatories 1:75



Current state of theater auditorium at balcony showing projection booth.



Current state of theater auditorium at bottom of balcony.



## Phase 2

Timing: **Short-term**

Duration: **1.5-3 Years**

Projected Costs: **\$1.75-\$2.5 million**

The proposed next phase for the *Texas Theater* is meant to begin making permanent repairs, renovations and infrastructure replacements that will be necessary before a complete restoration can begin. Any permanent repairs to the exterior roof or shell should be made at this time to ensure the building is sound and secure for later interior restoration work as well as upgrades and reconfigurations necessary to MEP systems.

While film, music and other programming begins to fill out the schedule, work should be scheduled and planned so that operations can continue as uninterrupted as possible. Planning, design and construction schedules and financing for the larger restoration of Phase 3 can be developed during this phase.

The adjoining commercial space can be cleaned, made safe and habitable and used as meeting, gallery, event, pop-up food or retail space while plans are being developed for the brewpub or other permanent program.

In order for the building to be inhabited on this temporary basis, the following scope is suggested:

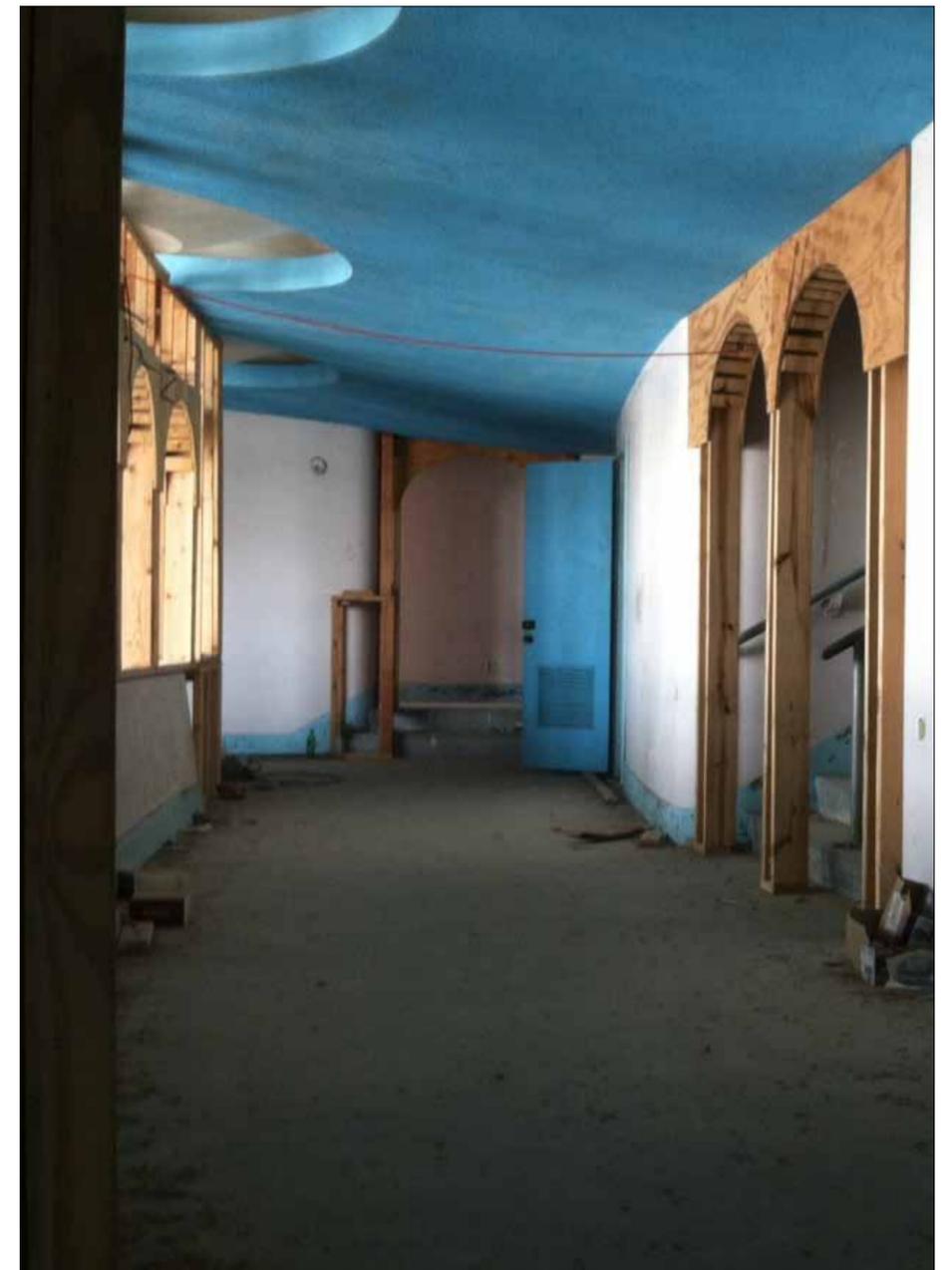
- **Rehabilitation of the two retail spaces to be rentable**
- **Historic materials and configuration research on theater**
- **Removal of non-historic alterations**
- **Plans developed for restoration**
- **Restroom reconfiguration**
- **Permanent upgraded electrical service as required**
- **Permanent HVAC rehab or replacement as required**
- **Concession capabilities**
- **Permanent office refit**
- **Marquee restoration**
- **Permanent lighting, projection and sound systems installed**
- **Balcony egress**



*Current state of rear of theater. Careful cleaning of brick is needed.*



*Current state of interior of theater showing balcony.*



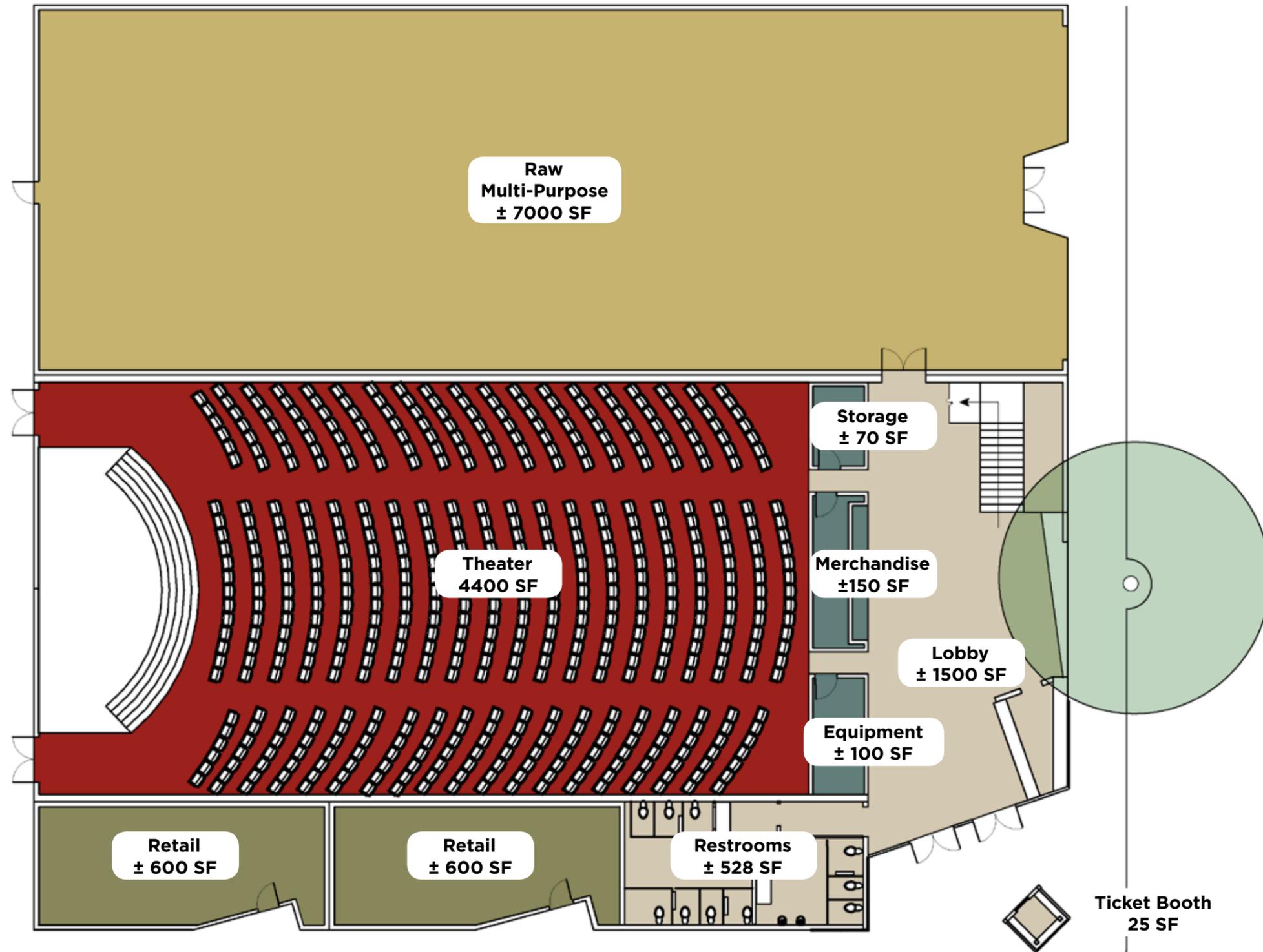
*Current state of theater lobby, second floor.*



Current state of theater lobby. Ceiling medallions should be uncovered.



Current state of theater auditorium. Original plaster work.



**Phase 2**  
**Texas Theater First Floor Plan**  
**1/16"=1'-0"**

# Phase 3

Timing: **Longer-term**

Duration: **5-10 years**

Projected Costs: **\$2.5-\$3.2 million**

The final proposed phase calls for a complete restoration of the *Texas Theater* to match as closely as possible the original historic finishes and configurations. The exterior of the building appears to be in good condition overall with only minor repair and cleaning required. The historic interior design was not overly complex or ornate, so a full restoration is financially feasible. An architect who specializes in historic restoration work should be retained to develop design and phasing plans. Original plans might still be available from the firm of Jack Corgan.

This phase also includes the rehabilitation of the adjoining building at 323 E. Kleberg Avenue. This space has undergone interior demolition and is ready for “tenant” finish-out.

The Phase 3 floor plan, opposite page, illustrates a proposed brewpub concept with a “green room,” additional restrooms, office and kitchen space in

addition to the large dining and entertaining space fronting Kleberg Avenue.

The following scope of work to be completed in the final phase includes:

- **Exterior cleaning, box office rehabilitation, poster cases rebuilt**
- **Interior configuration demo and rebuild**
- **Lobby balcony – return to original configuration and finishes**
- **Theater and lobby wall plaster designs, drapery, seating restored to historic configurations and materials as closely as possible**
- **Restrooms rebuilt in new configuration**



*Interior plaster wall and trim in theater.*



*Current state of interior of adjacent commercial building.*



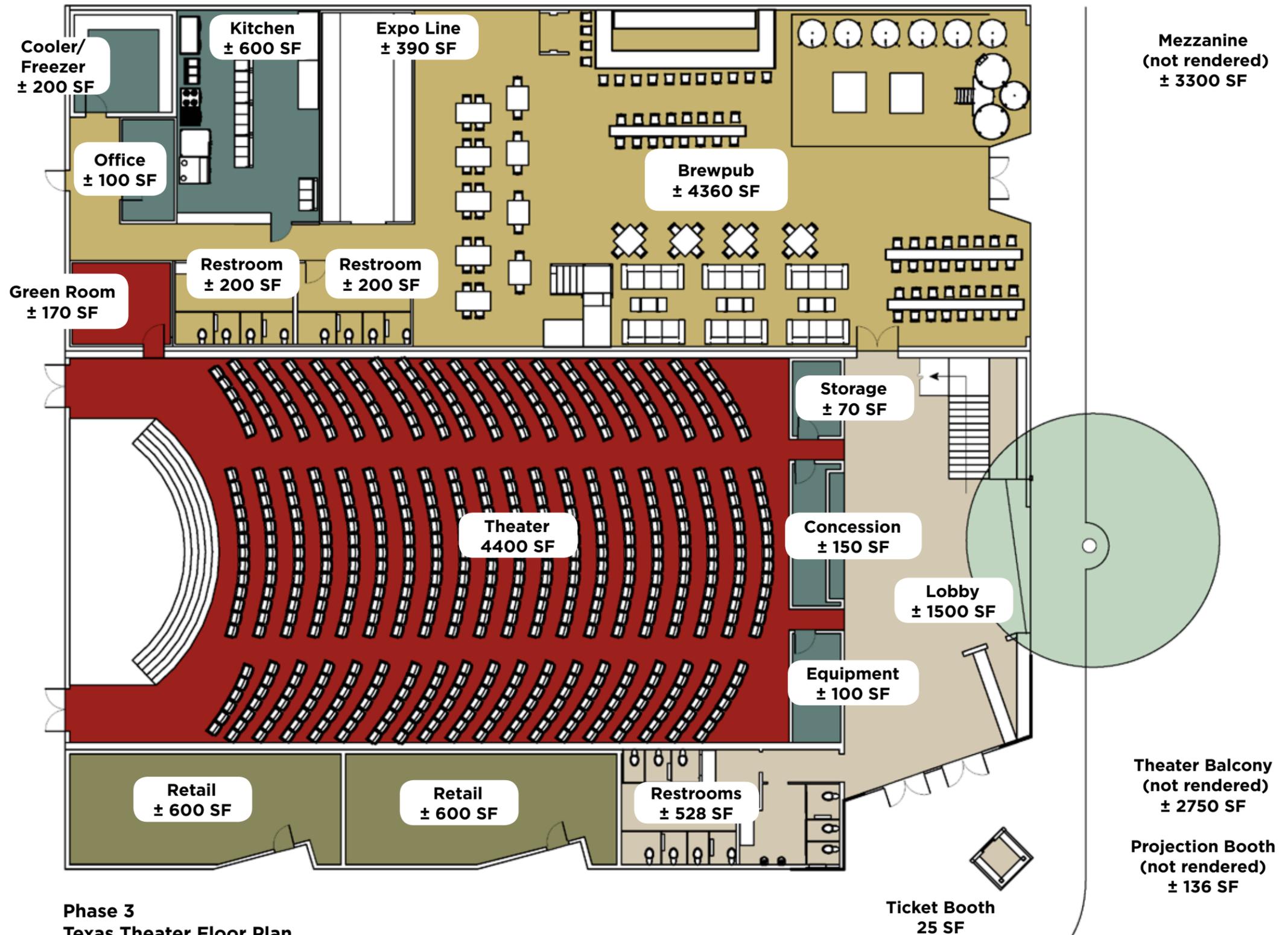
*Current state of theater lobby.*



Current state of wall between theater and commercial space.



Current state of theater lobby. It is not yet known if balcony configuration is original.





**Phase 3  
Brewpub Conceptual Plan**



Phase 3  
Brewpub and Texas Theater

# Financial Feasibility

As mentioned previously, it is critically important that the *Texas Theater* be strategically reintroduced into the community to strengthen the linkages between assets in and around the downtown. It is believed that the creation of an entertainment venue focusing on live musical events and film will help build a stronger relationship between TAMUK's 250-acre campus and the city's urban core. Another significant community benefit is likely to be an increase in downtown consumer spending, an increase in occupancy rates through hotel stays, and greater tax revenues through an increase in restaurant and alcohol sales.

It is proposed that the *Texas Theater* be reintroduced to the community via live musical performances. Theater events will be supported through concessions with the introduction of on-street food vendors to reduce overhead and limit liability. This strategy should allow the theater to test market its programming to the community in order to focus attention on the downtown while allowing potential investors to witness the investment potential of the theater. Programming should flow in coordination with the start of the school year to capture the fullest array of student participation.

## Ticket Revenue

For purposes of the Town Square Initiative's *Texas Theater* financial analysis, it is assumed that in the first two years, the "event week" would principally consist of twice weekly movies and live musical performances that would occur every other Saturday. A weekly facility rental is anticipated by the civic organizations such as the Rotary Club or Chamber of Commerce for a total of 169 projected events in a 52 week season. **This initial type of programming would allow for the least amount of physical improvement to the building and overhead expense while appealing to the greatest number of patrons.** It is conservatively estimated that the theater could be granted a conditional Certificate of Occupancy for as little as \$10,000 to \$15,000 to complete ceiling repairs, upgrading of HVAC, emergency lighting and temporary seating for patrons. However, it is estimated that as much as \$50,000 may be required to safely occupy the building (see page 10).

During the initial phase of operation, it is assumed that the theater would feature cult, classic and foreign films on Wednesday and Friday nights. First year



Lufkin, Texas



Georgetown, Texas

There are several excellent examples of theater rehabilitations across Texas resulting in community focused entertainment venues including the Palace Theater in Georgetown (operated by a non-profit) and the Pines Theater in Lufkin (operated by the city). Both informed this study.

theater concessions are anticipated to account for \$66,768 annually or 33.4% of total annual revenue of \$199,920. Our percentage of theater concessions were slightly higher than most as typical theater concessions make up 27 - 29% of total revenues while accounting for only 4 - 4.5% of the expenses. We attribute this high capture rate to the large student population.

Live musical acts would be presented every other Saturday night and feature local and regional artists in Country, Rock, Bluegrass, Pop, Hip-Hop and Electronic Dance Music (EDM) which is currently the fastest growing musical genre among millennials. In fact, EDM is the only genre that has grown over the past decade. According to data from Eventbrite and Nielsen, EDM is a \$6 billion industry, with festivals making up \$4.2 billion of the pie. The fan base is incredibly active on social media: an EDM fan tweets 11 times a day compared to an average user, who sends out 1.85 tweets daily. One-third of posts on Facebook from EDM fans are about music.

Activity	# of Businesses	# of Employees
Touring Services	1,195	11,493
Working Musicians	6,610 acts	28,293

Table 2. Figures on the Texas music industry (Texas Governor's Office, May 2015).

Event	No. Annual Events	Total No. of Attendees	Cost per Individual Event	Total Annual Direct Expense
Film	40	4,800	\$150.00	\$6,000
Music	24	6,600	\$2,500	\$60,000
Total		11,400		\$66,000

Table 3. Total number of events and attendees estimated for year one.

The increasing dependence on live music triggers new strategies and revenue streams. Given the decline in recorded music sales in recent years, artists are now more dependent on earnings from live music performances than ever before. This shift from recorded music to live performance has changed the economics of the industry, with record companies extending their revenue streams to include live performance. According to Global Entertainment and Media Outlook, live music revenue will rise at a 3.0% growth rate through 2020.

Programming for the Texas Theater was based upon the proximity of the 8,300 student population of Texas A&M University-Kingsville. **Conversations with some undergraduate students revealed that they currently travel 45 miles to downtown Corpus Christi seeking live music.** We conservatively estimate that two live musical performances would occur each month with 275

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5	
Events (% of Typical)										
Number of Events		168		182		192		204		204
Ticket Revenue		\$178,320		\$178,385		\$333,788		\$334,772		\$336,017
Concession Revenue		\$114,321		\$114,478		\$115,590		\$116,150		\$116,859
Sponsors / Donations		\$12,000		\$12,000		\$12,000		\$12,000		\$12,000
	<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>		<b>100%</b>	
Live Theatre Adult	0.0%		0.0%		0.0%		0.0%		0.0%	
Movies	26.6%	\$47,520	26.8%	\$47,781	14.4%	\$48,047	14.4%	\$48,280	14.5%	\$48,575
Live Theatre Children	0.0%		0.0%		0.0%		0.0%		0.0%	
Live Music	66.6%	\$118,800	66.5%	\$118,800	35.6%	\$118,800	35.5%	\$118,800	35.4%	\$118,800
Comedy	0.0%		0.0%		46.4%	\$154,941	46.5%	\$155,692	46.6%	\$156,642
Facility Rentals	6.7%	\$12,000	6.7%	\$12,000	3.6%	\$12,000	3.6%	\$12,000	3.6%	\$12,000
<b>Total Performance Revenue</b>	<b>100.0%</b>	<b>\$178,320</b>	<b>100.0%</b>	<b>\$178,581</b>	<b>100.0%</b>	<b>\$333,788</b>	<b>100.0%</b>	<b>\$334,772</b>	<b>100.0%</b>	<b>\$336,017</b>
Live Theatre Adult	36.0%	\$0	36.0%	\$0	36.0%	\$0	36.0%	\$0	36.0%	
Movies	35.0%	\$16,632	35.0%	\$16,723	35.0%	\$16,817	35.0%	\$16,898	35.0%	\$17,001
Live Theatre Children	34.0%	\$0	35.0%	\$0	35.0%	\$0	34.0%	\$0	34.0%	
Live Music	45.0%	\$53,460	45.0%	\$53,460	45.0%	\$53,460	45.0%	\$53,460	45.0%	\$53,460
Comedy	45.0%	\$0	45.0%	\$0	45.0%	\$69,723	45.0%	\$70,061	45.0%	\$70,489
Facility Rentals	20.0%	\$2,400	20.0%	\$2,400	20.0%	\$2,400	20.0%	\$2,400	20.0%	\$2,400
<b>Total Performance COGS</b>	<b>40.7%</b>	<b>\$72,492</b>	<b>40.6%</b>	<b>\$72,583</b>	<b>42.7%</b>	<b>\$142,400</b>	<b>42.7%</b>	<b>\$142,819</b>	<b>42.7%</b>	<b>\$143,350</b>
<b>Gross Profit</b>		<b>\$232,149</b>		<b>\$232,280</b>		<b>\$318,978</b>		<b>\$320,103</b>		<b>\$321,526</b>

Table 4. This illustrates a five-year summary of event type and capture rate along with gross profit projections.

tickets purchased for each event at \$9.00 apiece. In our analysis, theater ticket revenue totaled \$178,320 in year one supplemented by \$9,600 from tenant rents from the storefronts lining Kleberg Avenue. Annual theater concessions of \$66,768 were anticipated along with \$12,000 in annual donations from sponsorships and fund raising activities. We conservatively increased annual revenues by 2% annually over the 15-year time line while expenses were increased by 3% over the same period.

In year three, it is suggested that the theater change its programming to include live comedy into its Thursday evening entertainment line-up. Again, theater attendance was conservatively estimated at 85 patrons with an 853 seat capacity and ticket prices were set at \$10.00. The current building condition,

location and readily available audience make live comedy performances an ideal complement to the theater's live music programming. The comedy component is anticipated to generate \$3,400 in monthly gross revenues or \$40,800 annually. Concession revenues from comedy performances are projected to total \$633 weekly or \$30,384 annually.

Concession Item	Concession Price	Capture Rate
Popcorn	\$3.50	65%
Soft Drinks	\$3.25	50%
Candy	\$2.75	15%
Hotdogs	\$3.75	10%
Beer & Wine	\$5.25	30%

Table 5. Capture rate per performance for theater events. Beer and wine sales were projected for comedy and musical performances only.

## Concession Revenue

The analysis includes a range of theater concessions and calculates the revenues generated per weekly event. However, it may prove more financially prudent for the theater to contract out food and beverage services to private vendors due to the time, expense and liability involved in obtaining a liquor permit for musical events. According to the Texas Alcohol Beverage Commission, the annual charge for Food and Beverage Certificate is \$776.00. However, our analysis does not specifically include the insurance costs to serve alcohol on premises. Accordingly, the theater's operating expenses were increased to 45% to reflect the added expense of film rental, liability insurance, and liquor permitting for musical and comedy events. In year three, theater concession revenues of \$80,448 are anticipated.

Average weekly captures rates (Table 5) for consumer purchases at theater events ranged from 10% for hotdogs to 65% for popcorn. Beer and wine sales were only projected for comedy and musical performance events. Table 6 indicates the estimated wholesale costs to provide concessions to patrons of *Texas Theater* events. Theater concession profits will help to cover some of the dozens of house costs in operating a theater – employee wages, specialized sound systems, utility consumption.

Concession Item	Est. Wholesale Cost of Theater Concessions	Mark-up	Price
<b>Sodas</b>			
Small	\$.49	11 X	\$5.25
Medium	\$.64	9 X	\$5.75
Large	\$.76	8 X	\$6.75
<b>Popcorn</b>			
Small	\$.35	19 X	\$6.50
Medium	\$.61	12 X	\$7.50
Large	\$.98	9 X	\$8.50
<b>Slushie</b>			
Small	\$.43	13 X	\$5.75
Medium	\$.56	11 X	\$6.25
Large	\$.67	10 X	\$7.25

Table 6. Estimated wholesale costs and markup on concession items (Source: Regal Cinemas, 2014).

## Sponsors and Donations

The analysis assumed that the *Texas Theater* would eventually operate as a 501(c)(3) non-profit to solicit funds from donors and corporate sponsors. However, until the IRS issues a certificate of tax-exempt status, the City of Kingsville may consider establishing a grant fund to accept and pass through funding for operational support of the theater. This initial funding is critical in that it will allow the theater to broadly test market its programming during the first two years of operation. Once the theater obtains its non-profit status, the organization may want to start a capital campaign to fund building renovations and three years worth of operating support. Conservatively, we estimate that the theater would need to raise \$5,500 monthly in Sponsor/Donations annually to defray operating expenses.

## Total Performance Revenue

**Our cash flow analysis concludes that the *Texas Theater* has the potential to generate \$40,001 in annual net cash flow before deferred developer fees.** However, in order to make the project cash flow during the start-up phase (years one and two) it was assumed that the USDA Rural Business & Industry Loan would be willing to accept interest-only payments for the first 24 months.

These assumptions reduced the annual debt service payments by \$35,016 from \$125,016 to \$90,000 making it possible to achieve a debt service coverage ratio of 1.44 in year one. Moreover, we also presumed that the developer would become active in the project and contribute \$500,000 of deferred developer fees; the annual debt service payments of \$88,163 would be made at 3.9% fixed rate starting in years 3- 9. However, should either the bank or the developer be unable to agree to interest-only payments or a payment forbearance for years one and two, the theater would produce a negative net cash flow of -\$83,178 and would be unable to secure financing. It is not until year three of operations that the theater is able to broaden its programming to produce a positive Net Cash Flow DDF/Fees of \$67,051. Net cash flow is projected to increase modestly until all deferred developer fees are satisfied.



*There are several excellent examples of successful brewpubs in not only college towns. Pinthouse Brewery in Austin, TX (left) has recently opened multiple locations following the pizza and beer model. The young entrepreneur (right) and consumer is looking for opportunities to be close to the process of making products to ensure the authenticity they value.*



## Phasing the Improvements

As it will eventually become tedious for even college students to attend live musical events and comedy performances without creature comforts, basic building improvements will need to be completed before the theater can reach its financial potential. Fixed seating will have to be installed at approximately \$600 to \$700 per seat to complete the 835 seat auditorium. A customized infrastructure consisting of lighting, sound, and dressing rooms is anticipated to range between \$150,000 and \$250,000. Public rest rooms will have to be brought into compliance before a full Certificate of Occupancy can be issued. The current owner also owns the adjacent 7,500 sq. ft. commercial building at 323 E. Kleberg Avenue and has completed interior demolition. TSI staff believes that the single-story structure should be developed as a brewpub featuring craft beers, pizza and burgers that will appeal to both university students and residents. The pizza and beer model has proved popular in markets both large and small in Texas. Revenue is impressive for the size of the business; for example, a new concept in Corpus Christi, B&J's Pizza Restaurant and Brewpub, reported annual sales of \$1.7 million in an 8,000 square foot space in 2009.

The craft beer industry identifies a brewpub as a restaurant-brewery that sells 25 percent or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar. The beer is often dispensed directly from the brewery's storage tanks. Where allowed by law, brewpubs often sell beer "to go" and /or distribute to off-site accounts. Note: the Texas Brewers Association (BA) categorizes a company as a microbrewery if its off-site (distributed) beer sales exceed 75 percent. According to the (BA) there are currently 53 breweries in Texas with one brewer located in Nueces and Kleberg County with a combined population of 372,284.

As ground floor space is at a premium within the theater, we believe that the former retail space along S. 8th Street should be restored to support the theater. The two storefronts comprise 1,200 sq. ft. and would likely generate rents at 50 cents per sq. ft. generating an additional \$7,200 in revenue for the theater. Public rest rooms are located in this area, while the "Green Room" and additional public rest rooms are proposed to be included in the commercial building housing the brewpub.

Should programming at the *Texas Theater* prove financially successful, it is recommended that a full restoration of the facility be considered with the potential of using both state and federal historic tax credits. Construction costs to restore the theater in accordance with Secretary of the Interior Standards are anticipated at \$338.91 per sq. ft. or \$5,696,501 to return the theater to its former grandeur.

Based upon historic photographs, a full restoration may prove cost effective given the buildings original character and modest level of finish. More importantly, the historic tax credits will allow the theater to be brought to International Building Code in terms of fire suppression, ADA accessibility, emergency lighting and secondary egress. Additionally, it is possible that some of the more customized aspects of the theater such as projection screens, staging, rigging, lighting and sound may qualify under the historic tax credit programs.

## Project Financing

The financial analysis estimates that a complete restoration of the 11,574 sq. ft. *Texas Theater* would cost \$5,696,501 and take approximately 24 months to complete construction. TSI's financing strategy makes several assumptions for alternative sources of construction financing, and it should be made clear to local stakeholders there is a gap that is met in this analysis through a variety of local funding sources. These are included for illustration purposes only.

Permanent financing would be provided through the USDA Rural Development Loan program or community bank at 4.5% fixed rate for a 30-year term with annual debt service payments of \$125,016. It was also assumed that the theater developer would contribute \$500,000 of deferred developer fees and that would be repaid at 3.9% over 84 months starting in year three. A deferred developer fee refers to the portion of the agreed upon developer's fee that the developer is not paid as a development expense, and instead remains in the project to cover development costs. The fee may be recovered from the developer's share of operating cash flow.

Additionally it was assumed that the project would be eligible for the state and federal historic tax credit programs. Other alternative sources of

Uses:		Sources:	
Hard & Acq. Cost	\$3,922,495	USDA B&I Loan	\$2,105,188
Soft Cost	\$877,024	State Historic Tax Credit	\$1,288,270
Development Fee	\$850,000	Federal Historic Tax Credit	\$953,043
Reserves	\$20,000	Capital Campaign	\$500,000
Capitalized Interest	\$26,982	Deferred Developer Fee	\$500,000
		EDC Forgivable Loan	\$350,000
<b>Total Uses:</b>	<b>\$5,696,501</b>	<b>Total Sources:</b>	<b>\$5,696,501</b>

Table 7. Project cost assumptions.

construction financing include \$500,000 raised through a capital campaign and a \$350,000 forgivable loan through a 380 Agreement stipulating the total private investment, employment and programming offered by the City of Kingsville through its Economic Development Corporation. The theater's appraised value was held constant at \$104,580 through the period of analysis paying \$3,337 of annual property taxes. However, our analysis used a simple income approach to value to estimate the after rehabilitation value of the theater at \$868,864 resulting \$27,728 in annual property taxes.

### USDA Business & Industry Loan

Kingsville is a rural community of 27,000 in south central Texas and is located within a United States Department of Agriculture Rural Developer eligible area for the USDA Business and Industry (B&I) Guaranteed Loan program. This program bolsters the existing private credit structure through the guaranteeing of loans for rural businesses, allowing private lenders to extend more credit than they would typically as the federally guaranteed portion of a B&I loan does not count toward a bank's legal lending limit. The amount applied against the bank's legal lending limit is the non guaranteed portion of the loan and has the potential to receive Community Reinvestment Act consideration. The B&I Guaranteed Loan Program provides a 60 to 80 percent federal guarantee on business loans depending on the size of the loan. This is a guarantee against loss. If there is a loss on the loan after liquidating the collateral, USDA will reimburse the lender for a portion of the loss, on a pro-rata basis, based on the percent of guarantee. Maximum term on real estate is 30 years, and reduced payments may be scheduled in the first three years.

Our operating pro forma anticipated that the USDA would provide a Business and Industry Loan of \$1,810,000 for a 30-year term at a fixed interest rate of 4.5% and that interest-only payments would be made through year two at which time the theater's full array of programming could be established.

### State and Federal Historic Tax Credits

In order for the project to be financially feasible, it must utilize the 25% State and 20% Federal Historic Tax Credit programs, and accordingly, the construction costs are estimated based on design and material choices that will meet the National Park Service's Secretary of the Interior Standards for Rehabilitation. While the construction costs to meet the Standards may rise, the credits typically off-set these increases. When combined, these tax credits, \$1,288,270 and \$953,043 respectively, produce \$2,241,313 of total project equity (39%) after accounting for purchase of the theater and monetization of the tax credits. The Texas Historical Commission administers these tax incentive programs and will provide consultation and review before and throughout the duration of the project. **It is important to note that the rehabilitation work must meet the Secretary of the Interior Standards for Rehabilitation in order to receive the available tax incentives.** THC staff are available to advise interested parties on the appropriate treatment of historic materials during the initial stages of project planning.

For the federal tax credit, building owners who are not able to fully utilize the credits personally or who prefer cash during construction instead of a reduction in taxes, may choose to syndicate or transfer the historic project's credits to an investor. To do this, the building owner forms a limited partnership (LP) or a limited liability corporation (LLC) with a corporate or individual tax credit investor

through which the investor becomes (and must remain) one of the building owners for a 5-year period. The investor is then able to claim the federal tax credits generated by the project to defray federal income tax liability. In return, the corporate investor makes an equity investment in the project. The amount of the tax credit equity investment varies depending on the attractiveness of the transaction. Pricing is usually in the range of \$.95 - \$.99 cents on the tax credit dollar for the federal historic tax credit, \$.65 - \$.85 cents on the tax credit dollar for state historic tax credits. In the absence of a state income tax, the state tax credit is applied against a business' franchise tax liability. These are desirable in Texas at the current time and easily transferred. We assumed that the state historic tax credits would be sold to raise project equity in this scenario and calculated the transfer at \$.93 cents on the dollar.

It is also important to note that the theater is not currently listed on the National Register of Historic Places but possesses the historical significance to make it a likely candidate for listing. However, existing alterations have compromised the building's integrity and would make an application ineligible for both the state and federal tax credit programs under the current ownership. However, if under new ownership and the scope of work for the rehabilitation meets the SOI standards, the theater could likely be determined eligible for both NR listing and the historic tax credit programs.

**Private Foundations**

It was assumed that the non-profit *Texas Theater* would appeal to some of the more prominent local foundations that provide support for the Arts & Culture. The chart below identifies three local foundations and their 2015 endowments:

Kleberg County Foundations	2015 Grants
Carl B. & Florence E. King Foundation	\$2,000,000
Alice Kleberg Reynolds Foundation	\$1,440,000
Robert J. & Helen C. Kleberg Foundation	\$11,851,650

Table 8. Foundations operating in Kleberg County (source: Foundation Reports).

**Other Comparable Projects**

Other cities in Texas have good comparable projects with restorations of their historic theaters and should be contacted for guidance. The LanTex Theater in Llano is run by the Main Street Program and hosts professional touring acts as well as a regular schedule of first run films. The Pines Theater in Lufkin has been city-operated for two years. Just under way is the Wallace Theater Project in Levelland which features pop up projects, art shows, etc. and is currently working towards securing grant money and funding opportunities. The Simon Theater in Brenham is the best example of utilization of the historic tax credit program for theater restoration.

The League of Historic American Theatres is a non-profit organization with the main purpose of sustaining historic theaters across North America for the benefit of their communities. The local project manager should consider joining this membership group in order to access their resources.

On the commercial side, looking at successful theater types like the Alamo Drafthouse for inspiration and/or leasing or othering partnering possibilities would be a strong pathway for success.



Alamo Drafthouse pioneered "restaurant-style" service at the movies.



The Simon Theater restoration in progress in Brenham, TX, above (photo by Frank A Mills) and completed, below.

Theater	Renovation Cost (millions)	Sq. Ft.	Cost/Sq. Ft.	City	Built
Texas	\$5.7 (projected)	11,574	\$338	Kingsville	1950
Simon	\$9.0	18,025*	\$499	Brenham	1925
Wallace	\$4.5	8,200	\$548	Levelland	1928
Stephen, Mary Birch	\$2.5	4,173*	\$599	Seguin	1931

\*Floor area was expanded in theater/ lobby area

Table 9. Comparable historic theater renovations in Texas.

# Future View

The *Texas Theater* has the potential to be a transformative project for downtown Kingsville. Connecting to the university and drawing the energy of students and faculty to the Main Street district is essential, not just for the success of this project but also for the overall success of downtown. This concept depends on creating a cluster of businesses in the vicinity that also appeal to university students—additional bars, student oriented eclectic retail and dining options.

It is imperative that local project managers view the *Texas Theater* as one step in an overall strategy to unite downtown and the university. Other essential steps would include working with HEB to remain in the downtown market, perhaps altering their concept in Kingsville to something similar as the urban South Flores market store in downtown San Antonio. A downtown grocery store is an asset that can drive new urban-style mixed use development. To that end, the city and university should collaborate on infill residential opportunities as the university's enrollment increases. Kingsville's downtown building stock consists primarily of single-story buildings with limited potential for conversion to student housing. Fortunately, the vacant lots exist along the Main Street corridor and redeveloping these large tracts of vacant land, focusing on both ends of the Main Street corridor, into graduate student or married student housing will knit together the district, altering the experience of downtown.

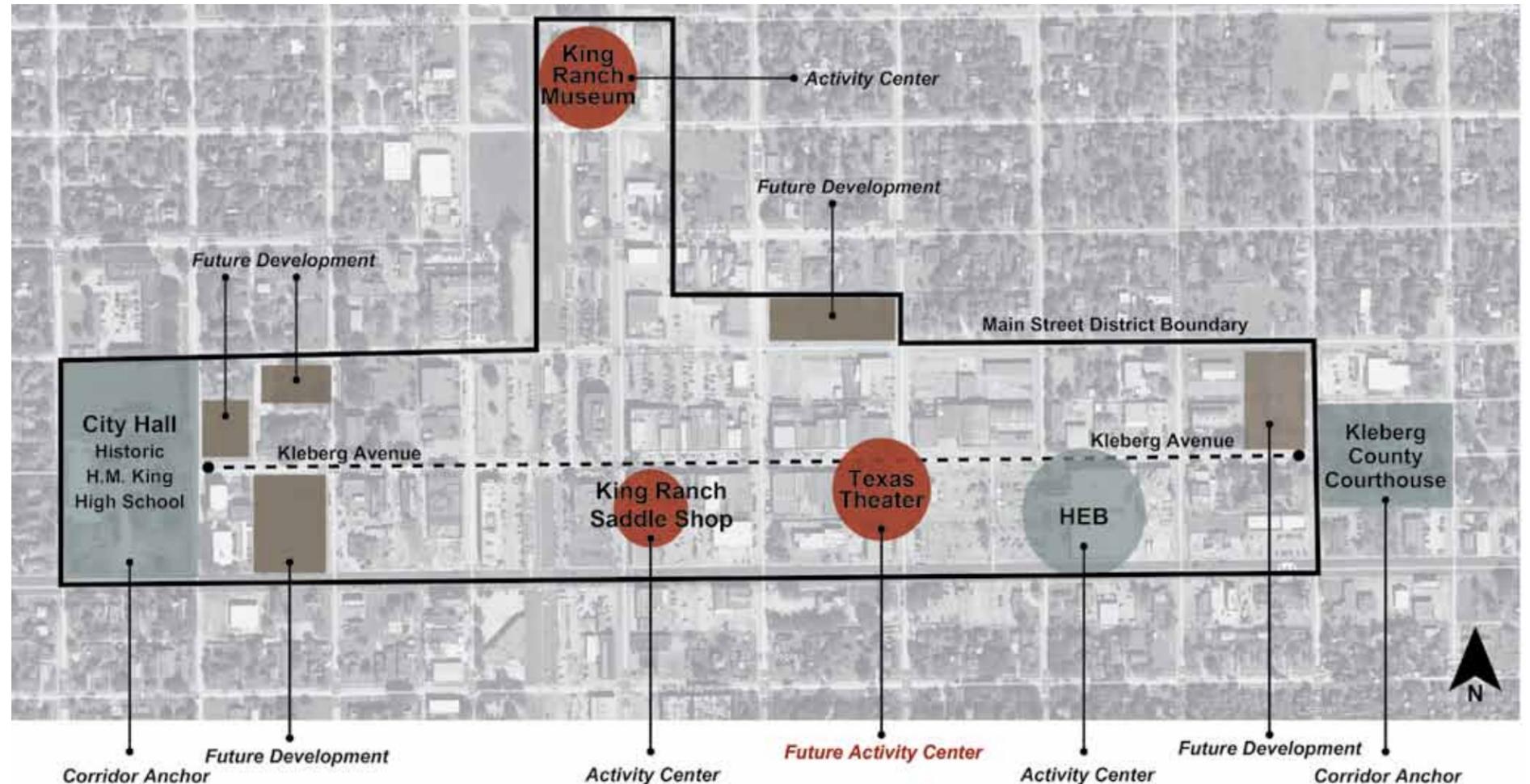
Whoever becomes the custodian of the *Texas Theater* has a unique opportunity coupled with an important responsibility to the greater good of Kingsville. As a major component of downtown placemaking, the *Texas* has the potential to transform the cultural, symbolic and economic identity of Kingsville for years to come. It is the sincere hope of all involved that a dedicated team be assembled to make this place of the past a continued important place in the future story of Kingsville.



HEB concept for local market sized South Flores St, San Antonio, TX.



Typical new off-campus mixed-use student housing type.



Possible locations of future infill development in the downtown area in relation to the Texas.



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