ADMIRAL PLACE COMMUNITY DEVELOPMENT PROJECT PLAN
FINANCIAL IMPACT REPORT

I. DESCRIPTION OF PROJECT

The Admiral Place Community Development Project Plan is a project plan as defined under the Oklahoma Local Development Act, 62 O.S. §850, et seq., and is referred to here as the "Project Plan." The project is being undertaken by the City of Tulsa, Oklahoma ("City") in order to develop approximately 50 acres located in the eastern part of Tulsa, achieve the City's development objectives, improve the quality of life for its citizens, stimulate private investment, and enhance the tax base. At the heart of this project is the development of a regional retail outlet shopping center of approximately 350,000 square feet and public infrastructure improvements necessary to such development, including a regional detention facility. The proposed developer of the outlet mall is Horizon Group Properties ("Horizon" or "Developer").

II. STATUTORY REQUIREMENTS

Prior to approval of a project plan, the Local Development Act requires that the Review Committee consider and determine whether the proposed plan and project will have a financial impact on any taxing jurisdiction and business activities within the proposed district. 62 O.S. §855(C). Because there are no businesses presently existing within the proposed district, the only issue to be examined is the impact on the City of Tulsa.

III. SALES AND SALES TAX GENERATION

According to estimates by Horizon, the new outlet mall will generate sales starting around $116 million in Year 1 and rise to over $188 million in Year 15. This equates to $375-500 sales per square foot, which is consistent with industry standards for destination retail. The mall's Year 1 sales projection equals approximately 5% of the $2.5 billion in total GAFO retail sales located within City of Tulsa limits in 2015.

Based on an estimated 2.5% annual growth in sales and a 3.1% City sales tax, these sales projections will result in annual sales tax starting at $3.6 million in Year 1 and rise to $5.8 million in Year 15, yielding total tax generation to the City of $140 million over 25. Assuming a conservative annual growth rate of 0%, the project is estimated to generate $90 million in total sales tax revenues over 25 years.

IV. PROJECT COSTS AND ASSISTANCE IN DEVELOPMENT FINANCING

The Project Plan includes total Project Costs of $20,200,000, including $20 million in development financing assistance that would be provided to Horizon Group Properties pursuant to a Development Agreement in order to support the construction of the outlet mall. The increment established by the Project Plan is the 2.1% undedicated portion of the City's sales tax. The chart below indicates the number of years of sales tax increment generation required from the project until that total is reached, under different growth scenarios:

Scenario 1: 2.5% growth, 100% annual allocation:	<8 Years
Scenario 2: 0% growth, 100% annual allocation:	<9 Years

Based projections of sales tax generation by the proposed outlet mall, the assistance in development financing provided to the outlet mall development represents between 14-22% of total tax generation over 25 years, depending on how fast annual sales increase in the future.

V. IMPACT ON EXISTING CITY SALES

It can be difficult to precisely estimate what new retail competition will do to existing supply. The key issue is whether there is any "latent demand" within the region. Latent demand exists when "demand" for retail goods exceeds "supply" (i.e., existing sales). When the difference between demand and supply is negative, that means that a center or community is drawing dollars from the region surrounding it. When it is positive, that means there are dollars going unspent. Unspent retail dollars can occur for a number of reasons – undersupply of retail categories like luxury goods, or strong competitive centers that prevent new entrants into the marketplace.

Buxton data shows $524 million in demand for clothing and accessories within the City of Tulsa, with estimated sales of $599 million, meaning that Tulsa retailers draw in 15% more clothing and accessories business than demand within city boundaries. Normally, this would indicate a situation of equilibrium or slight oversupply – strong market position with a minor draw indicative of limited growth opportunity. However, the same numbers for the Metropolitan Statistical Area (MSA) and Designated Market Area (DMA) show considerable demand.

	Sales	Demand	Gap
City of Tulsa	$599MM	$524MM	$(74)MM
Tulsa MSA	$900MM	$1.200MM	$366MM
Tulsa DMA	$1,280MM	$1,780MM	$495MM

The MSA is estimated to have a latent demand of $366 million and the DMA an additional $128 million. Together, this equals almost $500 million in unspent demand. This $500 million in additional demand would potentially support about 1.2MM – 1.6MM in potential new square footage. A conservative forecasting approach would be to estimate leakage of only clothing and clothing accessory stores (less general merchandise / department stores), with a capture of 75% of the MSA area and 25% of the DMA. This yields the potential for 520,000 – 700,000 square feet of new retail focused only on clothing and accessories.

The proposed Horizon Mall is well positioned to capture a significant share of latent demand from around the region without relying upon a significant shift in retail sales from within the city itself. However, some shift in retail dollars from existing locations may occur, and is appropriate in an attempt to conservatively estimate the potential of the Horizon Mall.

The size and market position of the Horizon outlet mall means that if it pulls sales away from existing retailers within the city of Tulsa market, it would do so from four primary retail centers; Utica Square, Woodland Hills, Promenade Mall, and Tulsa Hills.

It is worth noting, however, that all of the retail centers listed above, including the proposed Horizon Mall, occupy very different positions within the marketplace. In order to analyze the potential re-distribution of sales within Tulsa, it is important to note these differences.

The chart below describes each mall's market position based on definitions from the International Council of Shopping Centers (ICSC):

Retail Center	Classification	Description	Anchors	Trade Area
Utica Square	Lifestyle	Upscale national-chain specialty stores with dining and entertainment in an outdoor setting	Large format upscale specialty	8-12 miles
Woodland Hills	Super-Regional	Similar in concept to regional malls, but offering more variety and assortment	Full-line or junior department store, mass merchant, discount dept. store and/or fashion/apparel store	5-25 miles
Promenade Mall	Regional	General merchandise or fashion-oriented offerings. Typically enclosed with inward facing stores connected by walkway.	Full-line or junior department store, mass merchant, discount dept. store and/or fashion/apparel store	5-15 miles
Tulsa Hills	Power	Category-dominant anchors, including discount department stores, off-price stores, wholesale clubs	Category killers, such as home improvement, discount department, warehouse club and off-price stores	5-10 miles
Horizon Mall	Outlet	Manufacturers' and retailers' outlet stores selling brand-name goods at a discount	Manufacturers' and retailers' outlets	25-75 miles

Based on this, the following assumptions on potential retail "cannibalization" are discussed in brief below:

Utica Square is the highest performing mall, with ~350,000 square feet. Utica Square and the outlet mall would hold two different positions with the marketplace, with the former being a luxury center and the outlet mall appealing to more price conscious buyers. However, the addition of luxury goods retailers like Brooks Brothers, Coach, or Burberry could draw some dollars away: estimate of 0.5%

Woodland Hills is another high performing mall, holding a position just below Utica Square with a mixture of high end and mid-tier retailers (1.2 million square feet) Similar to Utica, an outlet mall would hold a different position with the market than Woodlands, but because it will be so focused on clothing and accessories, it stands to reason that some retail dollars may shift: estimate of 1.0%

Tulsa Hills is located on the opposite end of the City, and consists of retailers that sell to customers on a more regular basis (weekly, monthly) rather than the semi-annual or annual nature of outlet mall shoppers. Similar to Woodland Hills, the focus on clothing and accessories may draw some spending away: estimate of 2%.

Promenade will likely see the largest shift in retail dollars of any major Tulsa center. It will compete against the outlet mall in terms of price point (mid-tier to discount retailers) and proximity to customers: estimate: 5%.

Based on these assumptions and an analysis of the respective positions of the retail centers in the marketplace, the total potential cannibalization from existing centers is estimated to be fairly low. Based on the projected sales tax generation discussed previously, this yields a net sales generation to the City of Tulsa of at least 80% of what is generated by the new mall.

VI. DEFENDING AGAINST SALES TAX LEAKAGE TO OTHER PARTS OF THE METRO AREA

The latent demand demonstrated above shows the potential for a general merchandise oriented shopping center in the Tulsa region. A second outlet mall in the region is proposed to be located in Jenks. The interest by both Horizon and another retail developer tends to establish the opportunity for new construction illustrated by the regional retail leakage data.

Other than Power Centers, outlet malls are one of the few types of shopping malls being built in the country; even Power Centers have experienced a precipitous decline in construction. The outlet mall category is the only type of regional center that is available to Tulsa and therefore the only type of development that can offer substantial growth in sales tax generation with the ability to capture a majority of retail sales from outside the city proper.

If the Horizon Mall is not built in Tulsa, then the dominant market position for the Jenks mall will likely not allow Tulsa to catch up. Not only would this result in retail leakage from Tulsa to Jenks, but more importantly, it will preclude Tulsa from being able to capture the high latent demand from the region, including all of Eastern Oklahoma, Western Arkansas, Southwestern Missouri, and Southeastern Kansas.

As long as Tulsa controls at least one new outlet mall, it should be able to mitigate any leakage from within its borders and capture at least a portion of the regional demand. Based on the analysis performed as part of this memo, the potential retail cannibalization from existing City of Tulsa centers will happen due to the Jenks mall, regardless of whether the Horizon center gets built or not. This means that the Project Plan enables the City to position itself to generate approximately $42 million in net new revenue, or risk losing revenue to other jurisdictions.

VII. CONCLUSION

Given the level of latent demand in the Tulsa region, as well as the threat that a competing outlet mall in Jenks poses and the ability of an outlet mall to draw retail sales from outside the City limits, the public assistance in development financing under the Project Plan has a net positive impact on the City of Tulsa, the only affected taxing jurisdiction as defined by the statute. Moreover, the Project Plan will help the City avoid negative impacts on its sales tax revenue due to a proposed competing outlet mall in Jenks. In addition, the project is likely to spark additional development and investment in a generally underserved and underdeveloped part of the City, thus having additional positive impacts.

Therefore, it appears that the proposed Project Plan and project will clearly have a positive financial impact on the City.