

DRAFT

Final Report

Encore Financial Review

The Economics of Land Use



Prepared for:

Town of Castle Rock, and
Castle Rock Downtown Development Authority

Prepared by:

Economic & Planning Systems, Inc.

July 11, 2019

*Economic & Planning Systems, Inc.
730 17th Street, Suite 630
Denver, CO 80202-3511
303 623 3557 tel
303 623 9049 fax*

EPS #173076

*Denver
Los Angeles
Oakland
Sacramento*

www.epsys.com

DRAFT

Table of Contents

1.	Introduction and Summary of Findings	1
	Introduction	1
	Project Description	3
	Public Finance Structure.....	4
	Summary of Findings.....	6
2.	Model Inputs and Market Assumptions.....	7
	Cost Assumptions	7
	Sales and Revenue Assumptions	11
	Public Revenue Assumptions.....	16
3.	“But For” Financial Analysis.....	21
	Financing Gap	21
	Financial Returns	22
4.	Public Finance Estimates.....	25
	Public Revenue Estimate	25
	Hilltop Securities Preliminary COP Estimate.....	27

List of Tables

Table 1.	Preliminary Public Finance Agreement Summary.....	5
Table 2.	Project Land Costs	7
Table 3.	Encore Public Parking Cost Estimate	8
Table 4.	Parking Cost Comparison	8
Table 5.	Vertical Construction Hard Cost Estimates (\$Sq. Ft.)	9
Table 6.	Encore Vertical Construction Cost Estimate	10
Table 7.	Encore Sales Price Assumptions	12
Table 8.	Comparable Condo Projects.....	13
Table 9.	Actively Selling Condo Projects	14
Table 10.	Commercial Market Assumptions.....	15
Table 11.	Property Tax Market Values.....	17
Table 12.	Sensitivity Analysis of Sales Tax Revenue.....	19
Table 13.	Gap Financing Estimate.....	21
Table 14.	Unleveraged Project Returns with and without Developer TIF Contribution.....	22
Table 15.	Developer Cash Flow and Return Estimates.....	23
Table 16.	Detailed Public Revenue Estimate.....	25
Table 17.	Baseline Scenario – Annual Public Revenue Projections.....	26
Table 18.	Hilltop Securities Preliminary COP Summary	27
Table 19.	Hilltop Securities Preliminary COP Debt Service Schedule.....	28

List of Figures

Figure 1.	Project Site	3
Figure 2.	Vertical Construction Hard Cost Estimates	10
Figure 3.	Condo Sales Price Assumptions	12
Figure 4.	Capitalized Value Comparison	16
Figure 5.	Property Tax Market Value Comparison	17
Figure 6.	Sales Tax Revenues Scenarios	18

DRAFT

THIS PAGE INTENTIONALLY LEFT BLANK

DRAFT

1. Introduction and Summary of Findings

Introduction

This report summarizes Economic & Planning System's (EPS) review and analysis of the proposed Public Finance Agreement (PFA) for the Encore development project (Project) between the Town of Castle Rock (Town) and Confluence Companies (Developer). The Project is a proposed mixed-use development with 124 condominium units, 29,802 square feet of first level commercial space (estimated at 17,881 square feet retail space and 11,921 square feet office space) and 601 structured parking spaces. The Town is planning to acquire 300 of these spaces for public use. The acquired spaces would replace 94 spaces in the Town's existing surface parking lot, and lead to a net gain of over 200 spaces as public parking for the downtown. The remaining spaces will serve the residential tenants and commercial space.

The Town and Developer have negotiated a preliminary PFA. In the agreement, the Developer will receive a percentage of Downtown Development Authority (DDA) property tax increment financing (TIF) revenues and a percentage of the sales tax revenues generated by the Project in the form of a shareback. The sales taxes dedicated to the Project include the Town's current 4.0 percent sales tax as well as an additional 1.0 percent Public Improvement Fee (PIF).

The Developer will use the property tax TIF and sales tax proceeds to fill the Project's financing gap. The Town will receive the remaining TIF and sales tax of funds as well as additional property tax revenue from a General Improvement District (GID). The Town will use these revenues to pay annual payments to cover the costs of the public parking spaces and a public plaza.

The Town of Castle Rock (Town) retained EPS, an economic consulting firm, to provide an independent third-party review of the proposed PFA. EPS has extensive experience evaluating market and financial components of public-private development proposals involving TIF, metropolitan and other special districts, and other economic development incentives for cities and towns as well as urban renewal authorities (URAs) and downtown development authorities (DDAs). In addition, our analysis of market conditions is supported by our recent project experience in Castle Rock as well as elsewhere in the Colorado Front Range along the I-25 Corridor.

This report provides the following analysis to ensure that the Project would not happen “but for” the public financing revenues and to determine if the Project generates enough public revenues after sharing with the Developer to cover the costs of the public parking. The analysis is presented in three chapters following this Introduction and Summary of Findings:

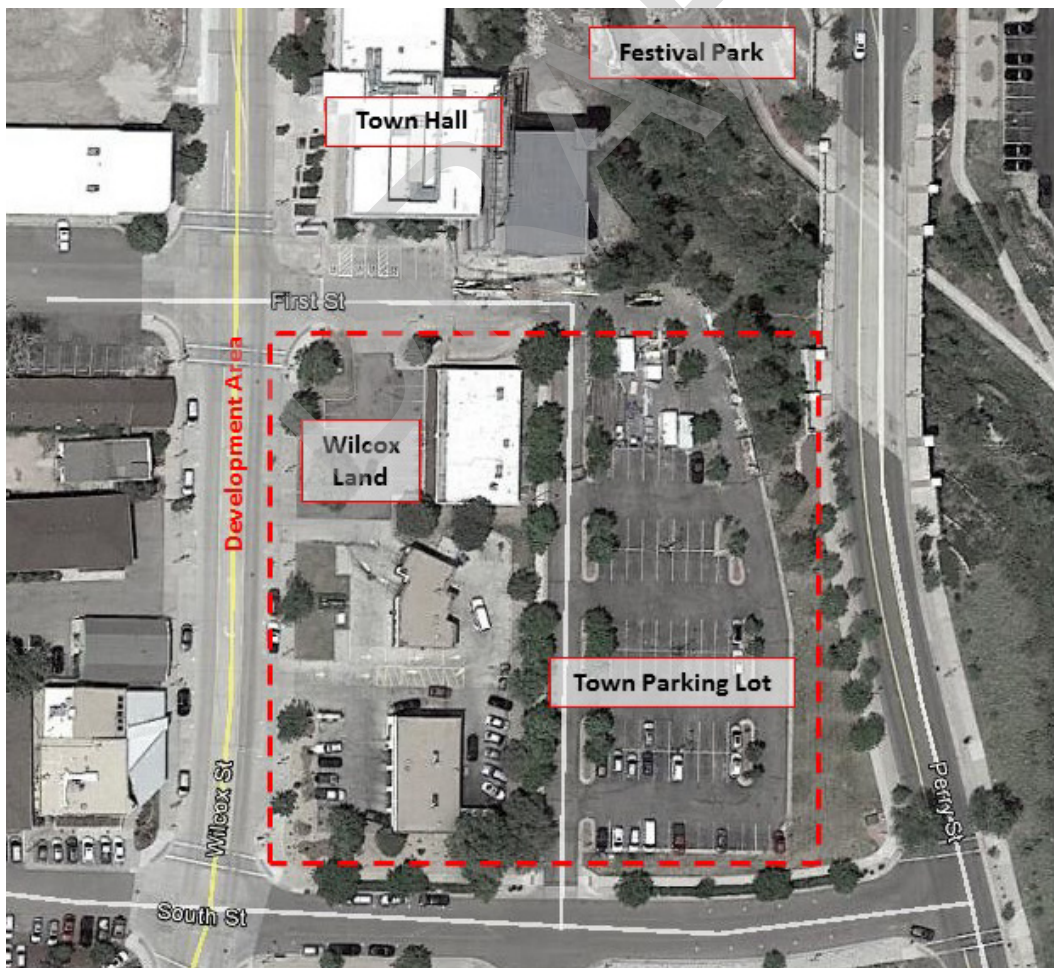
- **Model Inputs and Market Assumptions** – Verification of the supportable land and market values, associated property and sales tax values, and absorption estimates upon which the Project financing plan is based.
- **“But For” Financial Analysis** – An analysis of the Developer’s financing plan to determine if: 1) “but for” the public investment the Project is financially infeasible; and 2) with public investment the Project is feasible with a reasonable rate of return given current financial conditions and the associated level of developer risk.
- **Public Finance Estimates** – An evaluation of public finance estimates under moderately conservative sales and property tax rate assumptions. The testing focused on an assessment of the likelihood that public finance revenues from the Project will be able to service the Town’s debt obligations for building the public garage and plaza.

Project Description

The Encore development (Project) is proposed to be built on three parcels of land under contract by the Developer, referred to as the Wilcox Land in this report, and on land owned by the Town that is an existing Town parking lot, as shown in **Figure 1**. The Wilcox land is approximately 0.96 acres and the Town Land including the parking lot and adjacent alley is 1.09 acres resulting in a total land area of 2.05 acres.

The Project is proposed to include 124 for-sale condominium residential units and 29,802 square feet of commercial space in a seven-story building as well as an attached 601 space parking structure of which 300 spaces will be owned by the Town and dedicated for exclusive public use. The Developer will retain ownership of the remaining spaces. The Developer will also construct a public plaza between the development and the Town Hall and connecting to Festival Park, as well as a dog park available to the public on the east side of the Project.

Figure 1. Project Site



Public Finance Structure

The Project will be completed as part of a public private partnership (P3) between the Town and the Developer. The preliminary PFA is described below and summarized in **Table 1**. The descriptions include approximate percentage of public revenue received by both the Town and the Developer based on EPS's public revenue projections and are subject to change. The years shown are the collection years for Revenues.

- **Town Contribution:** As part of the P3, the Town will contribute the land under the existing Town parking lot, a portion of the development fees for the Project, and a portion of TIF and sales tax revenues generated by the development, including the Town's 4 percent sales tax, and a 1 percent "add-on" PIF. Specifically, the Town will reimburse the Developer 80 percent of the TIF and 20 percent of the Town sales tax generated in the Project from 2019 to 2032. As mentioned, in this agreement, TIF refers to the DDA property tax increment generated by the Project from the mills associated with existing tax entities. (Technically, the GID will also be collected through the TIF mechanism of the DDA. However, the report presents the two sources separately as they are from two different public finance tools.) The TIF does not include sales tax, which includes a shareback from the Town's existing sales tax and an additional sales tax PIF. The sales tax revenue is derived from taxable sales revenue generated by the Project.

The Developer will use these contributions to cover Project financing gaps—primarily due to increased costs associated with structured parking. The structured parking allows for a denser, mixed-use project in the Town's downtown. Starting in 2033, the Town will receive 100 percent of both the property tax TIF and sales tax revenues.

- **Developer Contribution:** The Developer will build and convey to the Town (through condominium ownership) a total of 300 parking spaces – for a net gain of just over 200 spaces compared to the Town's existing parking lot. In addition, the Developer will build a public plaza in the space between the Town Hall and development as well as a public dog park. In exchange, the Town will reimburse the Developer \$9,750,000. In this agreement, the Developer is responsible for the construction cost risk. For example, if construction costs for the public parking garage exceed \$9,750,000, then the Developer will absorb the additional costs. The Developer will also contribute \$900,000 to Quiet Zone improvements, with the Town contributing any amount over \$900,000.

The Town will finance the parking cost backed by the remaining TIF, sales tax and a GID with a 45 mill levy. These revenues will be used to finance the cost of the public parking garage. In total, the Town will receive approximately 80 percent of the public revenues.

Table 1. Preliminary Public Finance Agreement Summary

Sources	Description	Terms	Town	Developer
Property Tax				
Tax Increment Financing (TIF)	Property tax increment generated by development of the Project.	<ul style="list-style-type: none"> • Collection Years: 2019-2039 	<ul style="list-style-type: none"> • Years 2019-2032 – 20% of revenues • Years 2033-2039 – 100% of revenues • ~58% of total TIF revenues 	<ul style="list-style-type: none"> • Years 2019-2032 – 80% of revenues • Years 2033-2039 – 0% of revenues • ~42% of total TIF revenues
General Improvement District (GID)	Additional property tax levied on top of current taxing entities	<ul style="list-style-type: none"> • Collection Years: 2019-2048 • Mill Levy: 45 mills 	<ul style="list-style-type: none"> • 100% of revenues 	<ul style="list-style-type: none"> • 0% of revenues
Sales Tax				
Town Sales Tax Shareback (4%)	Town sales tax generated by the retail sales in the development	<ul style="list-style-type: none"> • Collection Years: 2019-2048 • Sales Tax: 4% 	<ul style="list-style-type: none"> • Years 2019-2032 – 50% of revenues • Years 2033-2048 – 100% of revenues • ~84% of total Town sales tax 	<ul style="list-style-type: none"> • Years 2019-2032 – 50% of revenues • Years 2033-2048 – 0% of revenues • ~16% of total Town sales tax
PIF (1%)	Additional 1% sales fee levied on retail sales in the Project	<ul style="list-style-type: none"> • Years: 2019-2048 • Fee: 1% 	<ul style="list-style-type: none"> • Years 2019-2032 – 50% of revenues • Years 2033-2048 – 100% of revenues • ~84% of total PIF revenues 	<ul style="list-style-type: none"> • Years 2019-2032 – 50% of revenues • Years 2033-2048 – 0% of revenues • ~16% of total PIF revenues
Other Contributions				
Town Land	Town contributing land to the Project	<ul style="list-style-type: none"> • Completion of public parking 	<ul style="list-style-type: none"> • NA 	~ \$2.5M in land value
Municipal Fees	Town is contributing municipal fees to the Project	<ul style="list-style-type: none"> • Construction period 	<ul style="list-style-type: none"> • NA 	~\$2.7M
Quiet Zone Improvements	Developer contribution to quiet zone improvements	NA	<ul style="list-style-type: none"> • TBD (any amount over \$900,000) 	\$900,00

Summary of Findings

1. *Cost and revenue factors are generally within acceptable ranges for residential condominium and commercial development in the Castle Rock area.*

Based on its research, EPS finds that the cost and revenue factors used in the Developer's financial analysis are generally within an acceptable market range. Budget estimates for the private development costs are on the higher end of these market ranges, but this is due to the fact that residential for-sale condominiums tend to have a higher level of finish than multifamily rental product. Estimated parking costs, however, are higher than estimates from Kimley-Horn, the Town's third-party engineer.

2. *The Project would not happen "but for" the public contribution.*

Based on this financial analysis, the Project would not happen "but for" the public investment. Without the public revenues, the Project's private development components have a financing gap between \$2.3 million and \$3.2 million (excluding the value of the Town land and municipal fees), and, as a result, would not be feasible based on an unleveraged discount rate range between 8 and 10 percent, which represent the hurdle rates needed for project feasibility. The financing gap mainly results from the structured parking in the Project, and the public contribution covers a portion of this cost. Structured parking is generally not supportable in suburban communities, and it is relatively common for Town's to support their construction in their downtowns with public revenue.

3. *The proposed public investments do not result in unreasonable returns for the Developer.*

EPS finds that the proposed public contributions lead to project returns that are within a feasibility range for projects with this level of risk. Without the property tax TIF contribution, the Developer achieves an estimated unleveraged return of 3.0 percent, well below the 8 to 10 percent hurdle rate for the Project. With the TIF contribution, the Developer will earn an unleveraged return of 10.5 percent, which is not unreasonable and EPS finds acceptable.

4. *The Town's portion of estimated public revenues cover the cost of financing the parking garage and public plaza under moderately conservative revenue assumptions.*

EPS's analysis indicate that the public revenue projections cover the \$10.550 million cost of the parking garage and public plaza, using moderately conservative assumptions for sales and property tax revenue.

2. Model Inputs and Market Assumptions

This chapter of the report reviews the cost and revenue assumptions contained in the Developer's pro forma. The Developer's assumptions are compared to average market values, broker provided inputs, and other regional cost and revenue estimates. When appropriate, assumptions are also compared to actual property values from the Douglas County Assessor. These cost and revenue factors are inputs to the pro forma model used to determine project feasibility as well as for the estimate of available public revenues.

Cost Assumptions

Land

The Project contains two land costs inputs. The Developer has purchased the Wilcox Land, and land costs are based on the actual purchase price. The value of the Town's land included in the Project is based on an appraisal commissioned by the Town. The Town will contribute the value of the Town land to the development, and this cost will not be included in total development costs.

The Wilcox land is valued at \$113 per square foot, compared to an appraised value of \$52 per square foot for the Town land, as shown in **Table 2**. The higher price on the Wilcox land is reflective of its commercial street frontage and the fact that it contains three active businesses. In comparison, the Town's land is an interior site and is utilized as a surface parking lot and is essentially vacant.

Table 2. Project Land Costs

Description	Wilcox	Town
Area (sq. ft.)	41,677	47,600
Cost		
Total Cost	\$5,000,000	\$2,451,400
per sq. ft.	\$119.97	\$51.50

Source: Confluence; Town of Castle Rock; Economic & Planning Systems

Public Parking Costs

The Developer hard cost estimates for public parking in the Project are approximately \$27,200 per space with total costs of approximately \$35,400 per space, as shown in **Table 3**. To better understand the reasonableness of these parking costs, the Town commissioned Kimley-Horn to provide a third-party review and estimate the cost of the structured parking in this Project. In its analysis, Kimley-Horn estimated that hard costs will be \$22,180 per space and that total costs will be \$27,726 per space. This estimated cost is \$7,680 or 22 percent less per space than the Encore development, as shown in **Table 4**.

Table 3. Encore Public Parking Cost Estimate

Description	Amount	% Total	\$/Space
Hard Costs			
Public Parking Garage	\$8,157,241	76.8%	\$27,191
Subtotal	\$8,157,241	76.8%	\$27,191
Soft Costs			
Financing	\$515,749	4.9%	\$1,719
Architecture & Engineering	\$573,217	5.4%	\$1,911
Mgmt Costs	\$568,581	5.4%	\$1,895
Utility Fees	\$66,549	0.6%	\$222
Contingency	\$740,507	7.0%	\$2,468
Subtotal	\$2,464,604	23.2%	\$8,215
Total Development Costs	\$10,621,845	100.00%	\$35,406

Source: Confluence; Economic & Planning Systems

Table 4. Parking Cost Comparison

Description	Encore		Kimley Horn		Difference	
	Amount	% Total	Amount	% Total	Amount	% Diff.
Cost Per Space						
Hard Costs	\$27,191	77%	\$22,181	80%	\$5,010	18%
Soft Costs	<u>\$8,215</u>	<u>23%</u>	<u>\$5,545</u>	<u>20%</u>	<u>\$2,670</u>	<u>33%</u>
Total	\$35,406	100%	\$27,726	100%	\$7,680	22%

Source: Kimley Horn; Economic & Planning Systems

Vertical Construction

Market ranges for vertical construction costs of office, retail, and multifamily in the Denver Metro Area are shown in **Table 5**. EPS used these values and the Encore development program to calculate a weighted average construction cost for the Project, which ranged from \$92 per square foot to \$194 per square foot.

Table 6 below provides a detailed breakdown of the Developer's estimated vertical construction costs. Overall, the Developer estimates construction hard costs of \$174 per square foot, including the costs of the residential and commercial portions of the program, but not including the parking, as shown in **Figure 2**.

To review the reasonableness of the Developer's costs, EPS then compared the weighted average market ranges to the Developer's estimate of vertical costs, and found that the project costs fall within the high range of market values, as shown in **Figure 2**. Above average costs are consistent with condominium developments, which typically have higher quality finishes.

Table 5. Vertical Construction Hard Cost Estimates (\$Sq. Ft.)

Description	Program		Market Range		
	Sq. Ft.	% Total	Low	Average	High
Office	11,921	7%	\$120.00	\$152.50	\$185.00
Retail	17,881	10%	\$90.00	\$117.50	\$145.00
Multifamily	<u>144,750</u>	<u>83%</u>	<u>\$90.00</u>	<u>\$145.00</u>	<u>\$200.00</u>
Total/Weighted Avg.	174,552	100%	\$92.05	\$142.70	\$193.34

Source: RLB Construction Costs; Confluence; Economic & Planning Systems

Figure 2. Vertical Construction Hard Cost Estimates

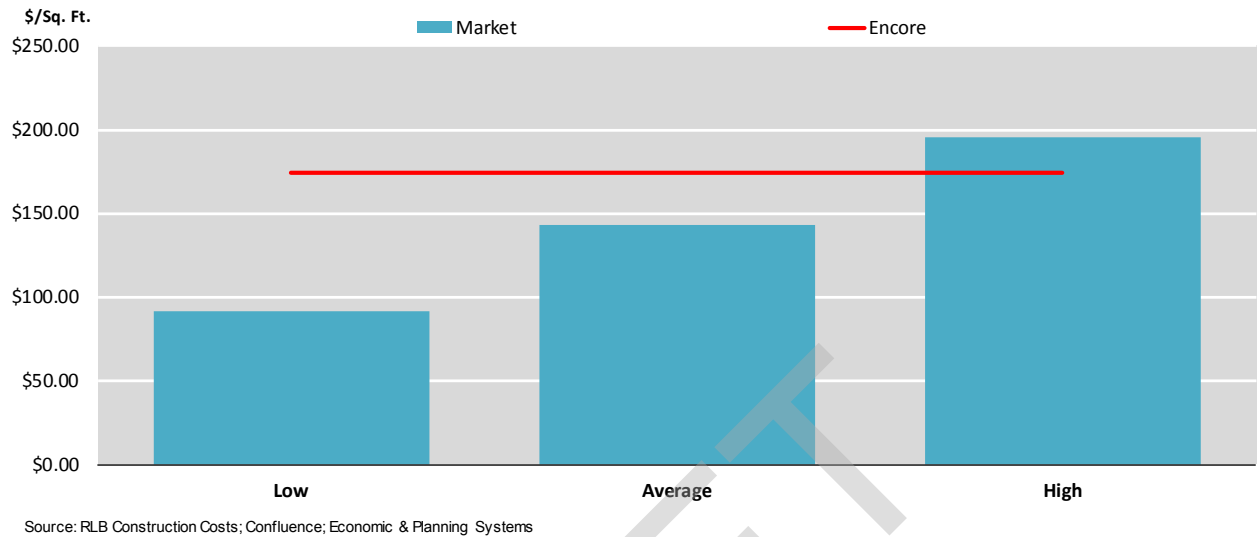


Table 6. Encore Vertical Construction Cost Estimate

Description	Factor	Description	Amount	% Total	\$/Unit
Land					
Acquisition	\$120.0	\$/land sq. ft.	\$5,000,000	8.2%	\$40,323
Subtotal			\$5,000,000	8.2%	\$40,323
Hard Costs					
Vertical [1]	\$174	\$/gross sq. ft.	\$35,289,334	58.0%	\$284,591
Parking	\$27,191	\$/space	\$9,516,782	15.6%	\$76,748
Subtotal			\$44,806,116	73.6%	\$361,340
Soft Costs					
Financing	3.8%	% hard costs	\$1,691,129	2.8%	\$13,638
Architecture & Engineering	4.1%	% hard costs	\$1,838,783	3.0%	\$14,829
Mgmt Costs	9.1%	% hard costs	\$4,095,992	6.7%	\$33,032
Utility Fees	2.5%	% hard costs	\$1,108,451	1.8%	\$8,939
Contingency	<u>5.2%</u>	<u>% hard costs</u>	<u>\$2,319,493</u>	<u>3.8%</u>	<u>\$18,706</u>
Subtotal	24.7%	% hard costs	\$11,053,848	18.2%	\$89,144
Total Development Costs			\$60,859,963	100.0%	\$490,806

[1] Includes commercial and residential costs.

Source: Confluence; Economic & Planning Systems

Sales and Revenue Assumptions

This section reviews the sales assumptions for residential housing units and commercial space. Findings are based on market research, including a market study by Meyers Research commissioned as part of due diligence for a previous proposal for this site, as well as EPS recent project experience in the Castle Rock and larger Douglas County market.

Residential Assumptions

To determine reasonable sales assumption, a market study to research comparable condo projects in similar market locations to the Project was commissioned as part of the Project's due diligence. These comparable projects are described in **Table 7**. Information on actively selling projects is described in **Table 8**; all of these projects, however, are in the City and County of Denver.

Sales Price

The Developer's pro forma assumes an average sales price of approximately \$455,129 per unit or \$392 per square foot for residential condominiums, as shown in **Table 7**. This price does not include the cost of a second parking space, which if added, would increase the average sales price to \$470,129 per unit and \$405 per square foot. This price is between a weighted average of all of the selected comparable projects and a weighted average of the three top projects with the highest sales rates, as shown in **Figure 3**. Variations in average price per square foot can be explained by differences in location or market, quality, and size (with larger units typically achieving lower prices per square foot). The assumed price is below the weighted average sales price of approximately \$500 per square foot for actively selling in the City of Denver. EPS finds that these are reasonable sales price assumptions for condominiums in Castle Rock.

Absorption

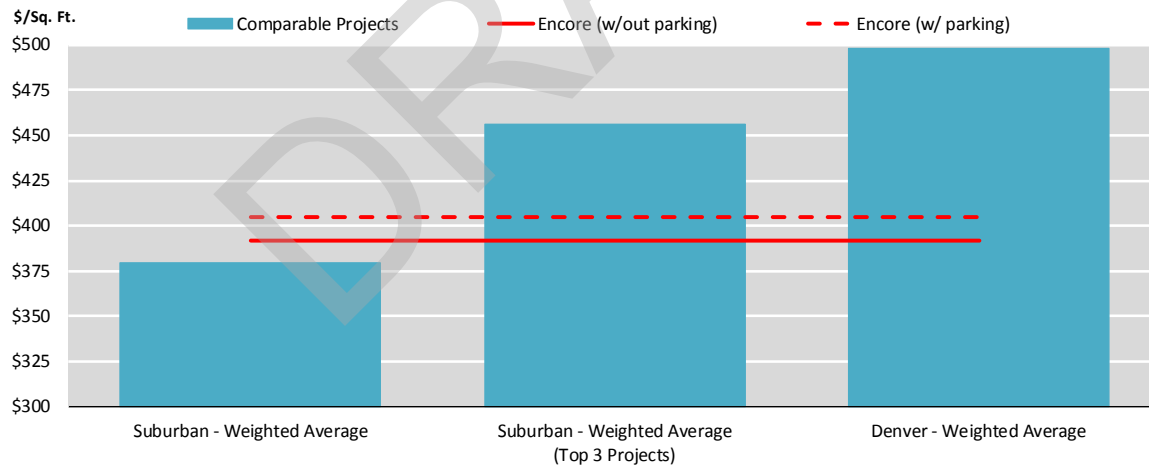
Currently, the Developer's financial analysis assumes that all 124 units will be sold in 2021. This represents an average rate of sale of just over 10 units per month. This is likely an aggressive assumption given that the average sales per month of actively selling comparable projects is 1.2, as shown in **Table 9**. However, this assumption is likely to change as the Developer finalizes its financing strategy and, for example, determines whether or not its lender requires any pre-sales. This overly aggressive strategy makes the financial returns in the Developer's model look overly optimistic unless the Developer is able to pre-sale a significant number of units at its planned price. Pre-sales, however, often can require significant discounts given that the buyers are not able to see the units. Overall, EPS finds that these assumptions are a reasonable starting place for the financial analysis, and, importantly, do not bias the analysis toward showing a higher financial need than a more realistic projection.

Table 7. Encore Sales Price Assumptions

Description	1 Bdrm	1.5 Bdrm	2+ Bdrm	3 Bdrm	Total/Weighted Avg.
Program					
Number	30	24	54	16	124
Percent Program	24%	19%	44%	13%	100%
Sq. Ft./Unit	917	999	1,280	1,509	1,167
Avg. Sales Price (without parking)	\$366,800	\$425,000	\$473,600	\$603,600	\$455,129
Price Per Sq. Ft.	\$400	\$425	\$370	\$400	\$392
Parking Space (\$/space)	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Price Per Sq. Ft.	\$16	\$15	\$12	\$10	\$13
Avg. Sales Price (with parking)	\$381,800	\$440,000	\$488,600	\$618,600	\$470,129
Price Per Sq. Ft.	\$416	\$440	\$382	\$410	\$405

Source: Confluence; Economic & Planning Systems

Figure 3. Condo Sales Price Assumptions



Source: Meyers Research Report; Economic & Planning Systems

Table 8. Comparable Condo Projects

Description	Location	Avg. SF	YOC	Avg. Price	Avg. PSF	# of Sales	Avg. DOM
Comparable Projects							
Gateway Station	Golden	1,682	2007	\$849,972	\$488	4	27
Landmark	Greenwood Village	1,951	2008	\$913,563	\$451	23	77
Millstone at Clear Creek Square	Golden	1,018	2007	\$456,000	\$449	2	25
Plaza Residences	Lakewood	1,783	2008	\$587,600	\$328	5	42
Vallagio Condos	Englewood/Centennial	1,435	2008	\$453,980	\$316	5	38
Vallagio Lofts	Englewood/Centennial	1,165	2008	\$363,867	\$315	9	39
Clocktower	Highlands Ranch	978	2014	\$298,625	\$305	14	24
Reference Points							
Weighted Average		1,515	2009	\$612,698	\$380	14	49
Weighted Average (Top 3 Projects)		1,850	2008	\$873,236	\$456	19	67

Source: Meyers Research Report; Economic & Planning Systems

Table 9. Actively Selling Condo Projects

Description	Location	Date	Units	Sales/Month	Avg. Price	Avg. SF	Avg. PSF
Comparable Projects							
1616 South At Platt Park	Denver	2017	40	2.5	\$398,500	921	\$433
Flats at Villa Rosso	Denver	2016	29	0.6	\$508,900	1,164	\$437
Obeservatory Flats	Denver	2017	52	1.2	\$412,400	803	\$514
Odgen Flats	Denver	2017	29	3.1	\$594,500	1,249	\$476
The Cassidy	Denver	2016	37	0.2	\$530,000	1,225	\$433
Wrigle on Penn	Denver	2017	29	1.7	\$519,750	875	\$594
S*Park Denver (Flats)	Denver	<u>2016</u>	<u>99</u>	<u>0.5</u>	<u>\$482,000</u>	<u>917</u>	<u>\$535</u>
Weighted Average		2016	57	1.2	\$481,854	984	\$498
Condo Towers							
Coloradan (excluding aff. units)	Denver	2017	334	70.4	\$775,000	1,153	\$670
Lakehouse on 17th	Denver	2016	196	1.4	\$893,550	1,574	\$568
Laurel Cherry Creek	Denver	<u>2017</u>	<u>71</u>	<u>4.0</u>	<u>\$1,879,981</u>	<u>1,919</u>	<u>\$837</u>
Weighted Average		2017	258	40.1	\$944,200	1,381	\$656

Source: Meyers Research Report; Economic & Planning Systems

Commercial Assumptions

This section compares the Developer's commercial price assumptions with the Castle Rock market, evaluating assumptions for rent and sales price. **Table 10** and **Figure 4** summarize the comparison at the end of the section.

Rents

The Project includes 29,802 square feet of condominium commercial space that is estimated to be sold as 60 percent for retail uses (17,881 square feet) and 40 percent for office uses (11,921 square feet). The Developer assumes a rental rate of \$30 per square foot for retail and \$24 per square foot for office. These rental rates are higher than market area average, but generally fall within the rental rate range used by the Douglas County Assessor to determine property tax valuation and the range identified by EPS in a number of broker interviews for new construction.

Sales Price

The Developer assumes a sales price for both retail and office of \$292.50 per square foot. To estimate a market value for this assumption, EPS calculated a sales price using capitalized value—dividing rent with observed cap rates. EPS finds that the sales price assumptions are similar to the average capitalized value for the Castle Rock market. These are likely relatively conservative assumptions given that the average values for the Castle Rock market will include both new and old properties. However, EPS finds that it is appropriate to be conservative given that the commercial space is in a mixed-use project, and, overall, that the Developer assumptions fall within an acceptable range.

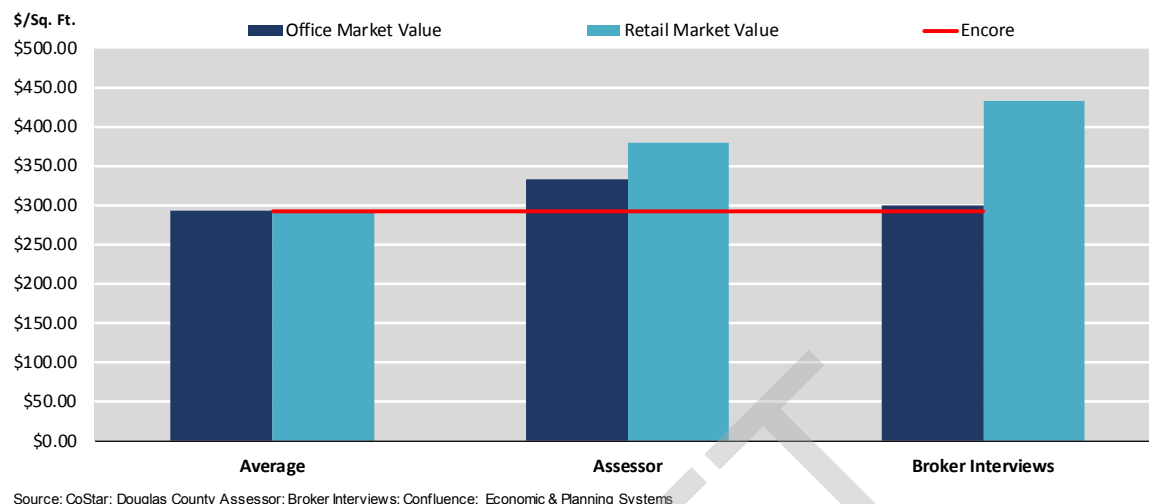
Table 10. Commercial Market Assumptions

Description	Castle Rock Market			Encore
	Average	Assessor	Broker Interviews	
Rent				
Retail (\$/sq. ft.)	\$20.13	\$30.00	\$30.00-\$35.00	\$30.00
Office (\$/sq. ft.)	\$21.36	\$25.00	\$20.00-\$25.00	\$24.00
Cap Rate				
Retail	6.90%	7.90%	7.50%	7.90%
Office	7.30%	7.50%	7.50%	7.90%
Sales Price [1]				
Retail (\$/sq. ft.)	\$291.74	\$379.75	\$433.33	\$292.50
Office (\$/sq. ft.)	\$292.60	\$333.33	\$300.00	\$292.50

[1] Sales price assumptions for Castle Rock Market calculated from the capitalized value (i.e. rent/cap rate).

Source: CoStar; Douglas County Assessor; Broker Interviews; Confluence; Economic & Planning Systems

Figure 4. Capitalized Value Comparison



Public Revenue Assumptions

There are two market inputs used for estimating public revenues in the model: market values of different property types used in property tax estimates and sales revenue per square foot used in sales tax estimates. This section reviews different scenarios generally representing low, medium, and high estimates for each factor.

Market Values

There are two sets of market value assumptions presented: one by the Douglas County Assessor and the other by the Developer. The Assessor's market values are based on a blended method that looks both at comparable sales in Douglas County and an income valuation based on rent estimates and cap rates. The income valuation is not available for residential condos, and, as a result, the Assessor relies solely on comparable projects. However, there are few newer comparable condo projects currently in Douglas County, which leads to a relatively conservative market value estimate.

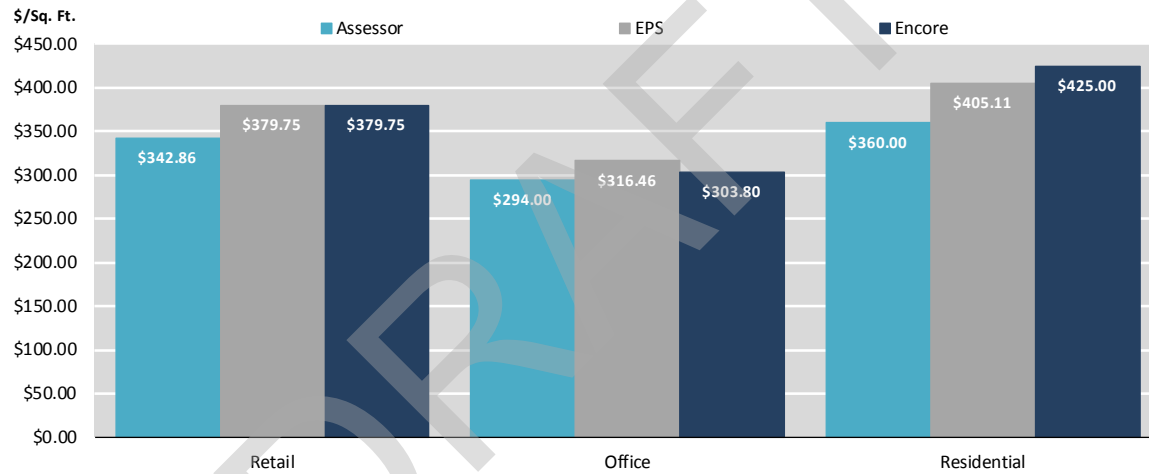
The Developer has its own estimates of market values, which are based on the Developer's market research for the value per square foot of different real estate product, and tend to be higher than the Assessor's blended method.

EPS also developed its own market value estimates for its public finance evaluation. These estimates rely on current market values for rent and cap rates for retail and office and use the Developer's residential condo sales price assumptions. EPS believes that these estimates are realistic and generally represent a "most likely" scenario. EPS used these estimates in its public finance estimates. A comparison of the different value estimates is illustrated in **Table 11** and **Figure 5**.

Table 11. Property Tax Market Values

Description	Assessor	EPS	Encore
Market Values (\$/Sq. Ft.)			
Retail	\$342.86	\$379.75	\$379.75
Office	\$294.00	\$316.46	\$303.80
Residential	<u>\$360.00</u>	<u>\$405.11</u>	<u>\$425.00</u>
Weighted Average	\$354.20	\$397.10	\$413.04

Source: Douglas County Assessor; Economic & Planning Systems

Figure 5. Property Tax Market Value Comparison

Source: Douglas County Assessor; Economic & Planning Systems

Sales Tax Revenue

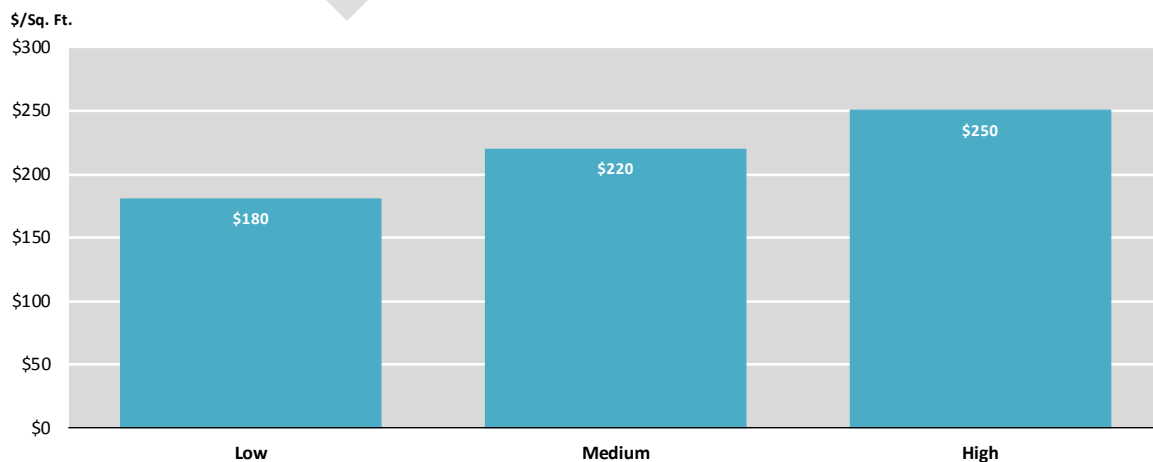
Retail space in the Project has yet to be leased and in fact, the allocation of commercial space to retail versus office uses is only an estimate. This makes estimating the sales tax revenue difficult because sales tax revenue estimates are based on the type of tenant. For example, a restaurant typically has higher sales per square foot than a general retail store. In addition to the types of stores not being defined, it is also not clear what percentage of the space will be sales tax generating retail and what percentage of the space will be non-sales tax generating uses like a gym or a salon.

Based on its analysis of historic sales tax data in Castle Rock, the Town determined that an average sales revenue of \$220 per square foot is an appropriately conservative assumption for public revenue estimates. To evaluate this estimate, EPS completed a sensitivity analysis looking at different percentages of retail service uses in the space and different average sales tax rates for sales tax generating uses. The sensitivity estimate is shown in **Table 12**. Based on this sensitivity analysis, EPS established low, medium, and high estimates for sales tax revenue per square foot:

- **Low:** 40 percent of the space is service uses generating minimal taxable sales.
- **Medium:** 25 percent of the space is service uses and corresponds to the Town's estimate.
- **High:** 10 percent of space is service uses and corresponds to the Developer's estimate.

EPS estimates an average sales revenue of \$220 per square foot represents a Medium Scenario and, overall, is a reasonable assumption to use.

Figure 6. Sales Tax Revenues Scenarios



Source: Economic & Planning Systems

Table 12. Sensitivity Analysis of Sales Tax Revenue

Avg. Sales Per Sq. Ft.		Percent Service Uses (e.g Salon, Gym)								
		10%	15%	20%	25%	30%	35%	40%	45%	50%
Service Sales/Sq. Ft.	\$15	\$257	\$243	\$230	\$216	\$203	\$189	\$176	\$163	\$149
	\$20	\$257	\$244	\$231	\$218	\$204	\$191	\$178	\$165	\$152
	\$25	\$258	\$245	\$232	\$219	\$206	\$193	\$180	\$167	\$154
	\$30	\$258	\$245	\$233	\$220	\$207	\$195	\$182	\$169	\$157
	\$35	\$259	\$246	\$234	\$221	\$209	\$196	\$184	\$172	\$159
	\$40	\$259	\$247	\$235	\$223	\$210	\$198	\$186	\$174	\$162
	\$45	\$260	\$248	\$236	\$224	\$212	\$200	\$188	\$176	\$164
	\$50	\$260	\$248	\$237	\$225	\$213	\$202	\$190	\$178	\$167
	\$55	\$261	\$249	\$238	\$226	\$215	\$203	\$192	\$181	\$169
	\$60	\$261	\$250	\$239	\$228	\$216	\$205	\$194	\$183	\$172
		Scenario used to establish low and high estimates								

Source: Economic & Planning Systems

Residential Assessment Rate

The Gallagher Amendment requires that the State of Colorado adjust the residential assessment rate to maintain a consistent relationship between residential taxable value and commercial taxable value for property tax, and the amendment prevents the share of residential property taxes from increasing relative to other property taxes. As a result of this requirement, the State has decreased residential assessment rates a number of times since 1982. The residential assessment rate was 7.2 percent in 2017 and 2018 and will drop to 7.15 percent in 2019 and 2020. The commercial rate is fixed and remains at 29 percent. Although future changes in the residential assessment rate are possible, this financial analysis assumes the 7.15 percent rate for the projected financing period.

THIS PAGE INTENTIONALLY LEFT BLANK

DRAFT

3. “But For” Financial Analysis

This chapter summarizes the “But For” analysis, which makes two determinations: 1) “but for” the public investment the Project is financially infeasible; and 2) with public investment the Project is feasible with a reasonable rate of return given current financial conditions and the associated level of developer risk.

Financing Gap

EPS estimates that the Developer would receive approximately \$3.4 million in net present value proceeds from its share of the public revenue contribution described in the preliminary PFA. To determine this estimate, EPS calculated the net present value of the public finance contribution to the Developer, assuming a 5 percent discount rate. This is an estimate of actual project proceeds that the Developer can use to cover the upfront costs of construction. The actual values will ultimately depend on future market conditions and the financial instrument the Developer decides to use. The financing gap is estimated based on unleveraged basis (not including debt financing) and assuming a discount rate between 8 and 10 percent. These discount rates represent reasonable rates of return for this Project given the levels of risk and typical capital costs for debt and equity. Based on the discount rate assumption, gap financing is estimated to be between approximately \$2.3 million and \$3.2 million, as shown in **Table 13** and in more detail in **Table 15**. Overall, the Project would not be feasible “but for” the public investment.

Table 13. Gap Financing Estimate

Description	Low	High
	8% Discount Rate	10% Discount Rate
TIF Proceeds [1]	\$3,435,759	\$3,435,759
Gap Financing	<u>-\$2,385,283</u>	<u>-\$3,248,275</u>
Total	\$1,050,476	\$187,483

[1] NPV of TIF contributions at 5% discount rate.

Source: Economic & Planning Systems

Financial Returns

Unleveraged project returns are calculated with and without the public TIF contributions to the Developer in **Table 14** below. Without the TIF contribution, EPS estimates that the Developer achieves an internal rate of return of approximately 3.0 percent, well below the 8.00 to 10.00 percent discount rate benchmark needed to compensate the developer for risks associated with the development. With the TIF contribution agreed on as part of the preliminary PFA, the Developer achieves a return of approximately 10.45 percent, as shown in **Table 14**. This is within the range of returns needed for the Project to be feasible as well as a reasonable rate of return given current financial conditions and the associated level of developer risk.

Table 14. Unleveraged Project Returns with and without Developer TIF Contribution

Description	Without TIF	With TIF
But For Analysis TIF Project Proceeds Unleverage IRR	<u>\$0</u> 3.09%	<u>\$3,435,759</u> 10.45%

Source: Economic & Planning Systems

Table 15. Developer Cash Flow and Return Estimates

Description	Factor	Program	Total	Construction		Sale
				2019	2020	2021
				1	2	3
REVENUES & EXPENSE						
REVENUES						
<u>Sales Revenue</u>						
Residential Condo	\$389.89	\$/sq. ft.	144,750 sq. ft.	\$56,436,000	\$0	\$0 \$56,436,000
Condo Parking	\$15,000	\$/space	124 space	\$1,860,000	\$0	\$0 \$1,860,000
Additional Parking	\$20,000	\$/space	25 space	\$500,000	\$0	\$0 \$500,000
Retail Sales	\$292.50	\$/sq. ft.	17,881 sq. ft.	\$5,230,193	\$0	\$0 \$5,230,193
Office Sales	\$292.50	\$/sq. ft.	11,921 sq. ft.	\$3,486,893	\$0	\$0 \$3,486,893
Subtotal				\$67,513,085	\$0	\$0 \$67,513,085
<u>Town Parking</u>						
Town Parking	\$10,550,000	total	1.0 per PFA	\$10,550,000	\$0	\$10,550,000 \$0
Subtotal				\$10,550,000	\$0	\$10,550,000 \$0
<u>Public Revenues</u>						
TIF Proceeds				\$3,435,759	\$3,435,759	\$0 \$0
Subtotal				\$3,435,759	\$3,435,759	\$0 \$0
TOTAL REVENUES				\$81,498,844	\$3,435,759	\$10,550,000 \$67,513,085
EXPENSES						
<u>Expenses</u>						
Broker Fee	6.0%	% sales		\$4,050,785	\$0	\$0 \$4,050,785
Subtotal				\$4,050,785	\$0	\$0 \$4,050,785
<u>Development Costs</u>						
Land				\$5,000,000	\$5,000,000	\$0 \$0
Hard				\$53,763,357	\$657,229	\$40,921,881 \$12,184,247
Soft				\$13,518,451	\$4,366,697	\$5,186,923 \$3,964,832
Subtotal				\$72,281,808	\$10,023,926	\$46,108,804 \$16,149,079
TOTAL EXPENSES				\$76,332,593	\$10,023,926	\$46,108,804 \$20,199,864
PROJECT CASH FLOWS & RETURNS						
Cash Flows (w/out TIF)				\$1,730,492	-\$10,023,926	-\$35,558,804 \$47,313,221
IRR				3.09%		
NPV/Gap - Low	8.00%	discount rate		-\$2,385,283		
NPV/Gap - High	10.00%	discount rate		-\$3,248,275		
Cash Flows (w TIF)				\$5,166,250	-\$6,588,167	-\$35,558,804 \$47,313,221
IRR				10.45%		
NPV/Gap - Low	8.00%	discount rate		\$1,050,476		
NPV/Gap - High	10.00%	discount rate		\$187,483		

Source: Economic & Planning Systems

THIS PAGE INTENTIONALLY LEFT BLANK

DRAFT

4. Public Finance Estimates

This chapter describes public revenue sources and resulting public and private proceeds for the Project. The chapter begins with EPS's estimate of public revenues contributed to both the Town and the Developer, based on the preliminary PFA. These estimates are derived from moderately conservative revenue assumptions, which EPS believes are reasonably achievable. The chapter also include Hilltop Securities' (Hilltop), the Town's financial advisor, preliminary estimate of COP (certificate of participation) proceeds.

Public Revenue Estimate

EPS estimates that total public revenues from the Project will equal approximately \$28.6 million, as shown in **Table 16**. Based on the preliminary PFA, it is estimated that the Town will receive approximately \$23.5 million or 82 percent of the total public revenues. The Developer will receive approximately \$5.2 million or 18 percent of the total revenues.

Table 16. Detailed Public Revenue Estimate

Description	Developer		Town		Total	
	Amount	%	Amount	%	Amount	%
Sales Tax						
Town (4%)	\$964,745	19%	\$4,946,483	21%	\$5,911,228	21%
PIF (1%)	\$241,186	5%	<u>\$1,236,621</u>	<u>5%</u>	<u>\$1,477,807</u>	<u>5%</u>
Subtotal	\$1,205,932	23%	\$6,183,103	26%	\$7,389,035	26%
Property Tax						
TIF	\$3,961,662	77%	\$5,360,109	23%	\$9,321,771	33%
GID	\$0	0%	<u>\$11,927,339</u>	<u>51%</u>	<u>\$11,927,339</u>	<u>42%</u>
Subtotal	\$3,961,662	77%	\$17,287,448	74%	\$21,249,110	74%
TOTAL REVENUE	\$5,167,593	100%	\$23,470,551	100%	\$28,638,146	100%
% Total	18%		82%		100%	
NPV @ 4.0% Discount Rate			\$12,104,391			

Source: Economic & Planning Systems

Of the Town's total, approximately 26 percent comes from sales tax revenue and 74 percent comes from property taxes. Sales tax revenues are less certain than property tax revenue due in part to the fact that the retail tenant mix is not known and the resulting sales tax revenue levels are therefore less certain. The inclusion of GID revenue with the ability to extend the revenue source helps mitigate against this uncertainty.

EPS also calculated the net present value (NPV) of the stream of cash flows, shown in detail in **Table 17**, using a 4 percent discount rate. This estimate roughly equals the cost of capital that Hilltop forecasts that the Town will pay. Based on this discount rate, EPS estimated an NPV of approximately \$12.1 million, which is greater than the \$10.550 million that the Town has agreed to pay the Developer for its parking spaces and the public plaza.

Ultimately, the amount of project proceeds or surplus/deficit will be based on the market conditions at the time of issuing COPs, including demand for this type of asset and interest rates.

Table 17. Baseline Scenario – Annual Public Revenue Projections

Year ¹	DEVELOPER					TOWN				
	Property Tax		Sales Tax		Subtotal	Property Tax		Sales Tax		Subtotal
	TIF	GID	Town	PIF		TIF	GID	Town	PIF	
		45 mills	4%	1%			45 mills	4%	1%	
2019	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2020	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2021	\$0	\$0	\$19,669	\$4,917	\$24,586	\$0	\$0	\$19,669	\$4,917	\$24,586
2022	\$0	\$0	\$74,743	\$18,686	\$93,428	\$0	\$0	\$74,743	\$18,686	\$93,428
2023	\$355,298	\$0	\$76,798	\$19,200	\$451,295	\$88,824	\$324,546	\$76,798	\$19,200	\$509,368
2024	\$353,468	\$0	\$78,910	\$19,727	\$452,105	\$88,367	\$324,546	\$78,910	\$19,727	\$511,550
2025	\$375,108	\$0	\$81,080	\$20,270	\$476,458	\$93,777	\$342,641	\$81,080	\$20,270	\$537,768
2026	\$373,176	\$0	\$83,310	\$20,827	\$477,313	\$93,294	\$342,641	\$83,310	\$20,827	\$540,072
2027	\$396,022	\$0	\$85,601	\$21,400	\$503,023	\$99,006	\$361,745	\$85,601	\$21,400	\$567,752
2028	\$393,982	\$0	\$87,955	\$21,989	\$503,926	\$98,496	\$361,745	\$87,955	\$21,989	\$570,184
2029	\$418,103	\$0	\$90,373	\$22,593	\$531,070	\$104,526	\$381,915	\$90,373	\$22,593	\$599,408
2030	\$415,949	\$0	\$92,859	\$23,215	\$532,023	\$103,987	\$381,915	\$92,859	\$23,215	\$601,976
2031	\$441,415	\$0	\$95,412	\$23,853	\$560,680	\$110,354	\$403,209	\$95,412	\$23,853	\$632,828
2032	\$439,141	\$0	\$98,036	\$24,509	\$561,686	\$109,785	\$403,209	\$98,036	\$24,509	\$635,540
2033	\$0	\$0	\$0	\$0	\$0	\$582,533	\$425,691	\$201,464	\$50,366	\$1,260,054
2034	\$0	\$0	\$0	\$0	\$0	\$579,533	\$425,691	\$207,005	\$51,751	\$1,263,979
2035	\$0	\$0	\$0	\$0	\$0	\$615,013	\$449,426	\$212,697	\$53,174	\$1,330,310
2036	\$0	\$0	\$0	\$0	\$0	\$611,845	\$449,426	\$218,546	\$54,637	\$1,334,454
2037	\$0	\$0	\$0	\$0	\$0	\$649,304	\$474,484	\$224,556	\$56,139	\$1,404,483
2038	\$0	\$0	\$0	\$0	\$0	\$645,959	\$474,484	\$230,732	\$57,683	\$1,408,858
2039	\$0	\$0	\$0	\$0	\$0	\$685,507	\$500,939	\$237,077	\$59,269	\$1,482,792
2040	\$0	\$0	\$0	\$0	\$0	\$0	\$500,939	\$243,596	\$60,899	\$805,435
2041	\$0	\$0	\$0	\$0	\$0	\$0	\$528,870	\$250,295	\$62,574	\$841,739
2042	\$0	\$0	\$0	\$0	\$0	\$0	\$528,870	\$257,179	\$64,295	\$850,343
2043	\$0	\$0	\$0	\$0	\$0	\$0	\$558,358	\$264,251	\$66,063	\$888,671
2044	\$0	\$0	\$0	\$0	\$0	\$0	\$558,358	\$271,518	\$67,879	\$897,755
2045	\$0	\$0	\$0	\$0	\$0	\$0	\$589,489	\$278,985	\$69,746	\$938,220
2046	\$0	\$0	\$0	\$0	\$0	\$0	\$589,489	\$286,657	\$71,664	\$947,810
2047	\$0	\$0	\$0	\$0	\$0	\$0	\$622,357	\$294,540	\$73,635	\$990,532
2048	\$0	\$0	\$0	\$0	\$0	\$0	\$622,357	\$302,640	\$75,660	\$1,000,657
TOTAL	\$3,961,662	\$0	\$964,745	\$241,186	\$5,167,593	\$5,360,109	\$11,927,339	\$4,946,483	\$1,236,621	\$23,470,551
% Subtotal	77%	0%	19%	5%	100%	23%	51%	21%	5%	100%
% Total	14%	0%	3%	1%	18%	19%	42%	17%	4%	82%
NPV @ 4%										\$12,104,391

¹ Collection year shown

Source: Economic & Planning Systems

Hilltop Securities Preliminary COP Estimate

Hilltop Securities (Hilltop) ran a preliminary COP series using EPS's public revenue estimates to test whether or not the Town's public revenues cover the cost of the COP payments and to estimate the resulting surplus/deficit to the Town. Hilltop designed the COP so that its proceeds equal the \$10.550 million needed by the Town to cover the costs of the public parking garage and the public plaza. The COP payments are also designed so that they approximately align with the schedule of public revenue estimates under EPS's revenue forecasts. **Table 18** summarizes the terms of the COP and the bond uses, and **Table 19** summarizes the COP schedule, including the surplus/deficit. Overall, the Town revenues are able to cover the COP payments, and Town results in approximately a \$1.3 million surplus. (Note: based on the timing of when Hilltop was able to run their estimates, they used a slightly older and more conservative version of the public revenue estimates than shown in **Table 17**, which accounts for the slight discrepancy. In addition, Hilltop used an older draft of the preliminary financing agreement and the set the required project funds to \$10,565 million instead of \$10.550 million. Overall, the direction and magnitude of results have not changed significantly.)

Table 18. Hilltop Securities Preliminary COP Summary

Description	Amount
Financing Statistics	
Total Debt Service	\$20,374,869
Avg. Ann. Debt Service	\$679,162
Net Interest Cost	4.187%
All-in True Insurance Cost (TIC)	3.934%
Bond Uses Summary	
Project Funds	\$10,565,000
Capitalized Interest	\$1,581,000
Cost of Issuance	\$250,000
Underwriter's Discount	\$52,700
Additional Proceeds	\$1,087
Total Uses	\$12,449,787

Source: Hilltop Securities; Economic & Planning Systems

Table 19. Hilltop Securities Preliminary COP Debt Service Schedule

Description	Annual Debt Service				Surplus/ Deficit
	Principal	Interest	Cap. Int.	Total	
Year					
2019	\$ -	\$ -	\$ -	\$ -	\$0
2020	\$ -	\$ 613,369	\$ (613,369)	\$ -	\$0
2021	\$ -	\$ 527,000	\$ (527,000)	\$ -	\$ 22,091
2022	\$ -	\$ 527,000	\$ (440,631)	\$ 86,369	\$ (2,422)
2023	\$ -	\$ 527,000		\$ 527,000	\$ (45,907)
2024	\$ -	\$ 527,000		\$ 527,000	\$ (44,029)
2025	\$ -	\$ 527,000		\$ 527,000	\$ (19,083)
2026	\$ -	\$ 527,000		\$ 527,000	\$ (17,100)
2027	\$ -	\$ 527,000		\$ 527,000	\$ 9,237
2028	\$ -	\$ 527,000		\$ 527,000	\$ 11,330
2029	\$ -	\$ 527,000		\$ 527,000	\$ 39,135
2030	\$ -	\$ 527,000		\$ 527,000	\$ 41,345
2031	\$ -	\$ 527,000		\$ 527,000	\$ 70,701
2032	\$ 560,000	\$ 527,000		\$ 527,000	\$ 73,034
2033	\$ 595,000	\$ 527,000		\$ 1,087,000	\$ 75,263
2034	\$ 685,000	\$ 499,000		\$ 1,094,000	\$ 71,245
2035	\$ 720,000	\$ 469,250		\$ 1,154,250	\$ 72,816
2036	\$ 825,000	\$ 435,000		\$ 1,155,000	\$ 75,214
2037	\$ 870,000	\$ 399,000		\$ 1,224,000	\$ 71,483
2038	\$ 980,000	\$ 357,750		\$ 1,227,750	\$ 71,057
2039	\$ 395,000	\$ 314,250		\$ 1,294,250	\$ 73,464
2040	\$ 450,000	\$ 265,250		\$ 660,250	\$ 73,779
2041	\$ 480,000	\$ 245,500		\$ 695,500	\$ 72,023
2042	\$ 540,000	\$ 223,000		\$ 703,000	\$ 71,956
2043	\$ 570,000	\$ 199,000		\$ 739,000	\$ 71,317
2044	\$ 640,000	\$ 172,000		\$ 742,000	\$ 76,165
2045	\$ 680,000	\$ 143,500		\$ 783,500	\$ 71,998
2046	\$ 750,000	\$ 111,500		\$ 791,500	\$ 72,282
2047	\$ 800,000	\$ 77,500		\$ 827,500	\$ 75,697
2048	\$ -	\$ 40,000		\$ 840,000	\$ 71,944
Total Debt Service	\$ 10,540,000	\$ 11,415,869	\$ (1,581,000)	\$ 20,374,869	\$ 1,306,035

Source: Hilltop Securities; Economic & Planning Systems