

ENCORE FINANCIAL REVIEW

Town Council Presentation

Presented by:

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INTRODUCTION

ABOUT ECONOMIC & PLANNING SYSTEMS



REAL ESTATE ECONOMICS



PUBLIC FINANCE



LAND USE &
TRANSPORTATION



ECONOMIC DEVELOPMENT
& REVITALIZATION



FISCAL & ECONOMIC
IMPACT ANALYSIS



HOUSING POLICY



PUBLIC-PRIVATE
PARTNERSHIP (P3)

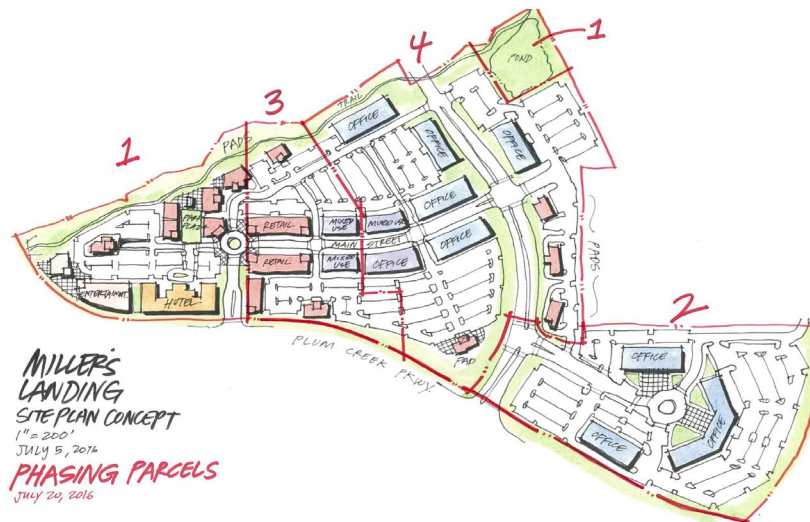


PARKS & OPEN SPACE
ECONOMICS

INTRODUCTION

RECENT PROJECT EXPERIENCE

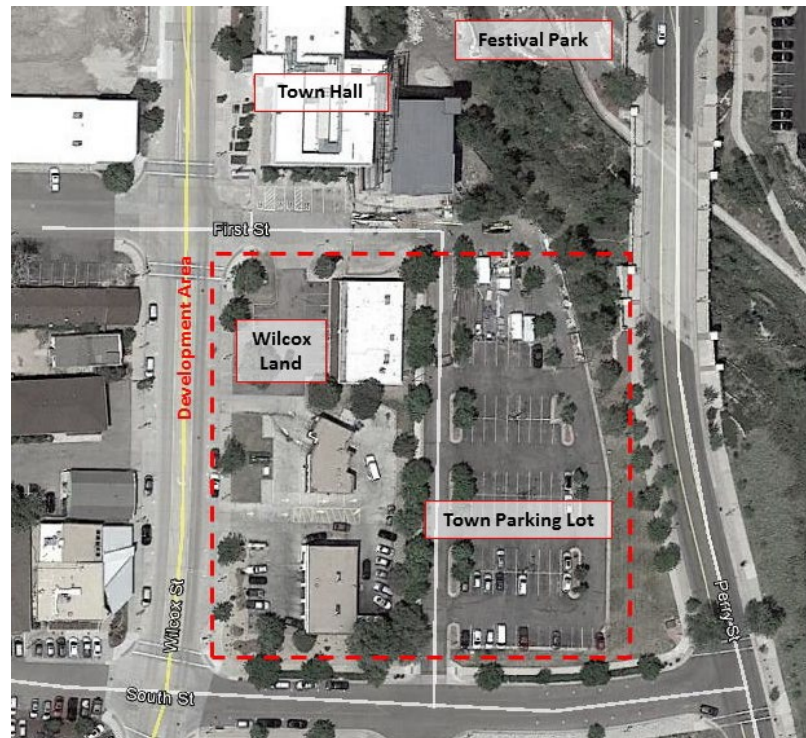
- **Castle Rock, CO Projects**
 - Miller's Landing Public Finance Review
 - Economic Development Plan
 - Development Impact Review
 - Promenade Financial Analysis
- **Other Douglas County/Regional Projects**
 - Parker, CO TIF/Public Revenue Projections
 - Parker, CO URA/P3 Market Studies
 - E-470 Economic Impact Analysis
 - Lone Tree Retail Forecasts
 - Regional Economic Development strategy
- **Other Notable Projects**
 - Denver Union Station, Denver, CO
 - Foothills Mall Redevelopment, Fort Collins, CO



INTRODUCTION

OUTLINE

- **Project Background**
 - Project Summary
 - Public Revenues
 - Public Finance Agreement
- **Market Analysis**
 - Project Cost and Revenue Factors
- **Financial Analysis**
 - “But For” Analysis
 - Financial Returns
- **Public Finance**
 - Public Revenue Estimates
 - Town Surplus/Deficit
- **Conclusion**
 - Summary of Findings



INTRODUCTION

KEY QUESTIONS

- **Private Development**
 - Are market assumptions reasonable?
 - Would project be feasible “but for” public finance revenues?
 - Does Developer make a reasonable return with public finance revenues (i.e. no windfall profit)?

- **Public Portion**
 - What are reasonable public revenues factors to use in estimate?
 - Do public revenue cover the cost of the public portion of the project? Is there a surplus or deficit?



BACKGROUND

PROGRAM

- **Private**
 - Residential: 124 condominium units
 - Retail: 17,881 sq. ft.
 - Office: 11,921 sq. ft.
 - Parking: 350 spaces
- **Public Portion**
 - 308 public parking spaces (net gain of 216 spaces)
 - Downtown railroad quiet zone (~\$900k)
 - Civic Plaza (between Encore and Town Hall)
 - New roundabout South and Wilcox Street



BACKGROUND

SOURCES & USES

Sources	Amount	% Sub	% Tot	Uses	Amount	% Sub	% Tot
TOWN							
Public Parking Garage [1]	\$9,750,000	92%	13%	Public Finance Proceeds	\$10,550,000	100%	15%
Public Plaza	<u>\$800,000</u>	<u>8%</u>	<u>1%</u>	<u>NA</u>	<u>0</u>	<u>0%</u>	<u>0%</u>
Subtotal	\$10,550,000	100%	15%	Subtotal	\$10,550,000	100%	15%
DEVELOPER							
Private Development	\$60,832,000	99%	84%	Private Capital	\$58,296,000	94%	81%
Quite Zone	<u>\$900,000</u>	<u>1%</u>	<u>1%</u>	<u>Public Finance Proceeds</u>	<u>\$3,436,000</u>	<u>6%</u>	<u>5%</u>
Subtotal	\$61,732,000	100%	85%	Subtotal	\$61,732,000	100%	85%
TOTAL	\$72,282,000	100%			\$72,282,000	100%	

[1] Based on developer cost estimate, Town does not cover full cost of public parking at ~\$10.6 million.

Source: Economic & Planning Systems

BACKGROUND

PUBLIC FINANCE AGREEMENT

Public Revenues

- Generated from private project
- Shared between Town and Confluence
- Share of sale tax to incentivize developer

Other Contributions

- Town**
 - Town land – 1.09 ac
 - Municipal fees
- Developer**
 - Wilcox land – 0.96 ac
 - Quiet zone
 - Construction risk

Sources	Description	Town	Developer
PROPERTY TAX			
Tax Increment Financing (TIF)	Property Tax Increment generated by development of the project. <i>(Note: TIF ends in 2038)</i>	~58% of revenues	~42% of revenues
General Improvement District (GID)	Additional 45 mills to pay for public improvements	100% of revenues	0% of revenues
SALES TAX			
Town Sales Tax (4%)	Town sales tax generated by the retail sales in the development	~84% of revenues	~16% of revenues
PIF (1%)	Additional 1% sales fee levied on retail sales within project	~84% of revenues	~16% of revenues
TOTAL		82% total	18% total
<i>Use of revenues</i>		<i>Public garage and plaza</i>	<i>Financing gap</i>

MARKET ANALYSIS

DEVELOPER AND PUBLIC REVENUE ASSUMPTIONS

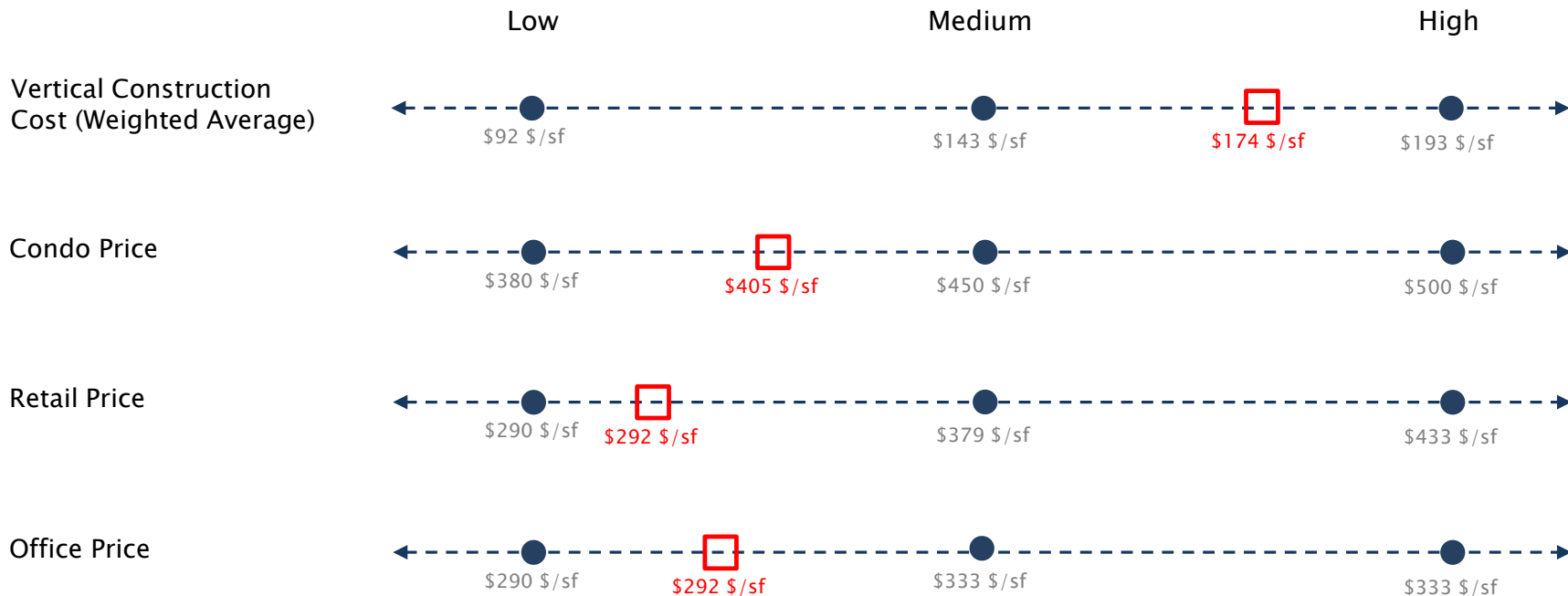
- **Overview**
 - Completed a market analysis to determine reasonable model and public revenue inputs
 - Created low, medium, and high values for each input
- **Developer Assumptions**
 - Cost and revenues values used in pro forma analysis
 - Ultimately impacts developer return, financing gap, and “but for” analysis calculations
- **Public Finance Estimate**
 - Property and sales tax value used in public revenue estimate
 - Ultimately impacts determination of surplus/deficit (i.e. can public revenues cover the cost of the project)
 - Used appropriately conservative estimates representing a “most likely” scenario


Conclusion:

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

MARKET ANALYSIS

DEVELOPER ASSUMPTIONS



 = Encore

MARKET ANALYSIS

PUBLIC REVENUE ASSUMPTIONS



 = Medium Estimate

FINANCIAL ANALYSIS

“BUT FOR” ANALYSIS

- **Financing Gap**
 - Calculated using real estate pro forma
 - Based on financial returns commensurate project risk
 - Low: ~\$2.4 million
 - High: ~\$3.2 million
- **“But For” Analysis**
 - Project would not be feasible “But For” public finance revenues
- **Public Revenue Proceeds**
 - Used to fill financing gap
 - Estimated to contribute ~\$3.4 million in project funds

Description	Low	High
	8% Discount Rate	10% Discount Rate
Public Revenue 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 public revenue contributions at 5% discount rate.

Source: Economic & Planning Systems

FINANCIAL ANALYSIS

FINANCIAL RETURN

- **W/out Public Revenue Contribution**

- Return = 3.09%
- Below market rate return and financial feasible Rate

- **With Public Revenue Contribution**

- Return = 10.45%
- Above market rate return
- Not unreasonable given project risks

Description	Without Public Revenue	With Public Revenue
But For Analysis Public Revenue Proceeds [1] Unleverage IRR	 <u>\$0</u> 3.09%	 <u>\$3,435,759</u> 10.45%

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

Source: Economic & Planning Systems

PUBLIC FINANCE

PUBLIC REVENUES ESTIMATES & SPLITS

- Overall Distribution
 - Town = 82%
 - Developer = 18%

- Developer shares in both property and sales tax
 - This incentivizes sales tax generating uses in retail portion of the development

- Majority of Town revenues are property tax
 - Property tax more stable than sales tax

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	<u>5%</u>	<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	<u>0%</u>	<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%
<i>% Total</i>	18%		82%		100%	

Source: Economic & Planning Systems

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%

¹ Collection year shown

PUBLIC FINANCE

SURPLUS/DEFICIT

- Both EPS and Hilltop Securities, the Town's financial advisor have calculated a surplus
- **Public Revenues**
 - Total = \$23.5 million
 - Using appropriately conservative factors
- **Total Debt Service**
 - Total = \$20.4 million
 - Includes the principal, interest, and capitalized interest
- **Surplus/Deficit = + \$3.1 million**
 - A cushion in case of less than expected revenue generation

Description	Amount
Total Town Public Revenues	\$23,470,000
Total Debt Service [1]	<u>\$20,370,000</u>
Deficit/Surplus	\$3,100,000

[1] Include principal, interest, and capitalized interest payments.

Source: Economic & Planning Systems

CONCLUSIONS

SUMMARY OF FINDINGS

1. Cost and revenue factors are generally within acceptable ranges for residential condominium and commercial development in the Castle Rock area
2. The Project would not happen “but for” the public contribution
3. The proposed public investments do not result in an unreasonable return for the Developer
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

APPENDIX

APPENDIX

PUBLIC REVENUE AGREEMENT

Sources	Description	Terms	Public	Private
PROPERTY TAX				
Tax Increment Financing (TIF)	Property Tax Increment generated by development of the project. <i>(Note: TIF ends in 2038)</i>	<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 	<ul style="list-style-type: none"> Years 2019–2032: 80% of revenues Years 2033–2039: 0% of revenues ~42% of total
General Improvement District (GD)	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% 	<ul style="list-style-type: none"> 0%
SALES TAX				
Town Sales Tax (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 	<ul style="list-style-type: none"> Years 2019–2032: 50% of revenues Years 2033–2048: 0% of revenues ~16% of total
PIF (1%)	Additional 1% sales tax levied on retail customer of the projects	<ul style="list-style-type: none"> Collection Years: 2019–2048 Sales Tax: 1% 		

APPENDIX

PUBLIC REVENUE AGREEMENT

Sources	Description	Terms	Public	Private
Other Contributions				
Town Land	Town contributing land to the Project	Completion of public parking	NA	~ \$2.5M in land value
Municipal Fees	Town is contributing municipal fees to the Project	Construction period	NA	~\$2.7M
Quiet Zone Improvements	Developer contribution to quiet zone improvements	NA	TBD (any amount over \$900,000)	\$900,00

APPENDIX

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	<u>\$1,087</u>
Total Uses	\$12,449,787

Source: Hilltop Securities; Economic & Planning Systems

APPENDIX

COP 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