Memo

To: Malcolm Fleming, Town Administrator

From: Jim Mann, UMB

Date: February 3, 2022

CC: Paul Glasgow, Interim Planning & Development Director

Subject: Lafferty Canyon Metropolitan District Service Plan and *pro forma* Review

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Comments contained herein are based on a review of the proposed Lafferty Canyon Service Plan revision submitted December 21, 2021. The plan and associated attachments reviewed were prepared by White Bear Ankele Tanaka & Waldron, CWC Consulting Group Inc., and Piper Sandler.

This is a supplemental review of the proposed Service Plan and a review of information submitted related to the development *pro forma* of the project. A more detailed review of the development was completed in January of 2021, however there are a limited number of changes to the Service Plan that are highlighted herein.

The overall boundaries and general planned development have not changed from the submittal reviewed previously and continues to plan for the development of 320 homes, that will range in value from $475,000 to $650,000. Full build-out is anticipated to occur in 2026, with a market value of approximately $184,650,000.

To cause the development to occur, Exhibit D-1, prepared by CWC Consulting Group Inc., identifies approximately $15.5 M of public infrastructure costs. As identified in the plan, the developer will install roads, water, sewer and storm water infrastructure to meet the needs of the District.

The plan identifies a total of $13,555,000 maximum debt to be issued, which based on Exhibit E – Financial Plan prepared by Piper Sandler, will be issued in 2024 to reimburse the developer for fronting the costs associated with the development. Based on the maximum language in the plan, and the amount that is being issued in 2024, we would recommend that the maximum debt to be issued number be increased to $14,000,000 to allow for the issuance of refunding bonds (covers future issuance expenses) as Section 6 only allows for the principal amount of debt to be refunding to not be counted against the cap.

The financial plan itself relies on a target 45 mill levy, leaving some cushion within the cash flow to meet any delays in development or other market disruptions. At the 45-mill levy for debt purposes, the anticipated debt service coverage is 1.2x, which while on the low side of a solid financial footing, however, certainly exceeds the typical metropolitan district debt service coverage that is reviewed.

From the original review dated January 2021, the following comments are reiterated:

- No market study has been provided
- Developer Advances - while the cash flow identifies no need for developer advances, the Town may wish to require definition of and the terms of any developer advance; define the method of interest calculation (recommend simple interest); define the maximum interest rate.
- Section VI, sub B, UMB recommends that the maximum voted interest rate be modified to be the Prime Lending Rate plus 4%, not to exceed 12% as reported at the time of issuance. We further recommend that the maximum underwriting discount be modified to 2.5%. We note that the financing plan in Exhibit D-1 includes issuance expenses of 4.2%.
- While the Service Plan identifies a $100,000 initial operating budget, we recommend a full build-out operational budget be prepared in order to understand whether the 10-mill operational levy will be adequate to serve the operation and maintenance needs of the district.

The developer did provide UMB with a full source and uses analysis of the development. The information provided by the developer was comprehensive and did provide a better financial picture of the need for the metropolitan district financing tool. In the case of Lafferty Canyon, the land developer is not the same as the housing developer, and thus only the development costs associated with the infrastructure and site preparation were considered – no vertical construction was evaluated.

Based on the information provided by the developer, we were able to conclude that the return on investment for the developer is within the range of what would be expected for similar developments. In fact, the return on investment that UMB was able to calculate is on the low end of the range that we would expect for a project similar to this.

Without the use of the metropolitan district financing tool, it is unlikely that the developer would proceed with the project.

Conclusion

Based on the above, UMB believes that the Plan substantially complies with Title 32-1-202(2) C.R.S. Further, given the review of the developer's source and use *pro forma*, there also exists evidence that Title 32-1-202(2.5)(e) is met driving the conclusion that the district will be in the best interest of the area to be served.