Memo

To: Fred Starr, Planning & Development Director
Town of Erie

From: James A. Mann, Senior Municipal Advisor/Principal
Sherry Villafane, Financial Specialist

Cc:

Date: January 15, 2020

Subject: Westerly Metropolitan Districts Nos. 1 - 4 Service Plan Review

Introduction:

Comments contained herein are based on a review of the Westerly Metropolitan District No. 1-4 Draft Service Plan as prepared by White Bear Ankele Tanaka received January 8, 2020, and the DA Davidson Financial Plan dated December 20, 2019 (as Exhibit E of the draft Service Plan).

Review and Analysis:

1. The Service Plan contains a buildout plan for the 418 acres of area included within the boundary of the service plan area. The anticipated development includes 1,204 residential units and 15,000 square foot of commercial development. The average price point for the residential development is approximately $540,572 per single family home. The anticipated build-out of the plan area will occur through 2027 and will aggregate a value of approximately $650,849,000.

2. The estimated Assessed Valuation at full build-out for the residential portion of the plan is $41,090,230 which is based on a 7.15% assessment ratio for the residential units. The Commercial assessment ratio of 29.0% for 15,000 square foot space is used and equates to an Assessed Valuation of $3,799,420 for the Commercial area at full build out. This is projected to occur in Assessment Year 2027 and Collection Year 2028.

3. The Service Plan identifies a 55.000 mill levy for debt service and 10.000 for operations, totaling $65/$1000, as of December 20, 2019 on the developed value of the District through 2061 (the maximum combined debt and operation mill levy authorized). The mill levy is subject to a “Gallagher” adjustment in the event the State acts to adjust the assessment rate from its current level.

4. The current Assessed valuation of the Initial District boundaries is $17,980 and estimated population at full build-out is 3,364 people.

5. The Service Plan estimates the costs of the Public Improvements in the Service Area to be approximately $88,000,000 with a maximum debt authorization of $100,000,000.

6. Based on the average home price of $540,572, the following is a breakdown of the annual cost to the homeowner as contained in the financial plan:

a.	Assessed Value	$ 38,650.92
b.	Debt Mill Levy @ 55 Mills	2,125.80
c.	Operating Mill Levy @ 10 Mills	386.51
d.	Total Annual Impact of MD	**2,512.31**

7. The Financial Plan includes a biennial reassessment growth rate of 6% on the residential portion of the financial plan.

8. Revenues to pay debt service and support operations are provided from Property Taxes, Specific Ownership Taxes and one-time per residence Capital Improvement Fee of $2,500.

9. The Financial Plan included in Exhibit E provides for a 40-year financing for $88,875,000 and includes a cash funded surplus established at the bond closing to cover annual anticipated shortfalls through 2027. The overall cash flow provides for an approximately $76,834 release of funds in 2061.

10. The Initial District Operating mill levy is projected to be 10 mills. Per the Financial Plan, the first year's operating budget will be $5,972 beginning collection year 2023. The Operating Revenues grow to $547,336 at build-out (2028), and then increase by 6.00% in reassessment years.

Commentary:

1. Exhibit D, "Form of Intergovernmental Agreement between Districts and Erie, Covenants and Agreements, Part 2, Enforcement" the term "specific performance" has been stricken regarding the Town's enforcement ability. Town may want to have legal counsel opine on this removal.

2. Section V, 12, gives the District the authority to exercise eminent domain. The section identifies that the District must notify the Town of its intent to exercise that authority but does not provide the Town any objection authority or approval authority. The Town may wish to tighten the District's ability to exercise eminent domain authority.

3. The Financial Plan identifies a 1.00x coverage on the bonds, which is achieved at full build-out. If the projected build-out is delayed, projected valuation targets are not met, etc., there would not be adequate cash to make the bond payments, resulting in material default. Recommend that the borrowing be adjusted to allow for a minimum of 1.20 x coverage on the bonds.

4. The Financial projection relies on a 6% biennial increase in assessment values in all districts throughout the life of the bond. Most plans Ehlers has reviewed include a conservative 4.00% biennial reassessment increase. Is there a metric that the proponent can identify to support the higher biennial increase?

5. The proponent did not provide a market study. It would be beneficial to see a market study to conduct a full review of the feasibility of the project absorption and value statements.

6. The Service Plan does not provide detail regarding the required improvements or engineering plans to evaluate. Given the size of the planned improvements, it would be beneficial if the proponent provided detailed engineer's costs estimates for the development that identify regional type improvements, external improvements, internal improvements, amenities, etc.

7. The proponent did not provide an overall cash flow projection reflecting full sources and uses for the development. It is impossible to determine the return on investment the proponent is receiving without being able to evaluate the overall project cash flow.

8. There is no operational budget provided that supports the 10 mill levy for operations will be adequate to address the operational needs. The operational budget should include the maintenance and upkeep of any infrastructure the District will remain responsible for, including administrative functions of the District (financial administration, auditing, financial advisory, legal, etc.).

9. Section VI, B, Maximum Voted Interest Rate and Maximum Underwriting Discount identifies 18% as the maximum interest rate and 5% as the maximum underwriting discount. The Financial Plan identifies interest not exceeding 5%, making the maximum interest rate of 18% seemingly excessive. The Financial Plan further identifies the underwriting discount to be 2%, again making the maximum 5% seem excessive.

10. In the Service Plan, Section VI, E, states that the initial Maximum Debt Mill Levy shall be 55 mills and that said Maximum Debt Mill Levy shall be subject to a Gallagher Adjustment for any changes imposed by the State to the assessment calculation beginning January 1, 2017. The Town should obtain a legal interpretation of the Maximum Debt Mill Levy and the backdating of the Gallagher period to January 1, 2017.

11. The Town may want to consider the overall development as to its extraordinary benefits to the future residents. Are there amenities, i.e. trail systems, parks, community buildings, etc., included in the development that are extraordinary in nature that are necessary to support the values projected? Without those amenities would there be a reduction in the overall value of the proposed development? Is the difference significant enough to warrant the additional taxes projected on the future homeowners? Justification of utilizing the maximum debt mill levy authorized in statute should be provided by the proponent.

12. Section VI, G identifies that Developer Advances may be used as a source of Debt Repayment, and further states that if there is not a reasonable expectation that an advance will be repaid within one year, that said advance shall be structured as a Promissory Note. The terms of the Developer Advances should be identified in the Service Plan, including a maximum interest rate and how interest is calculated. It is Ehlers suggestion that any advance be charged simple interest.

Conclusion

While Ehlers raises significant questions regarding the basis for the assumptions used in the Service Plan, based on the above analysis, if all the assumptions were to be realized, there is a reasonable expectation that the District would be able to discharge the debt incurred to install the infrastructure in a reasonable time frame.