Memo

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

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

Cc:

Date: February 6, 2020

Subject: Sunset Parks Metropolitan District Service Plan Review

Introduction:

Comments contained herein are based on a review of the Model Service Plan dated February 13, 2008, the Second Amended and Restated Service Plan dated April 14, 2015, the Third Amended and Restated Service Plan dated January 13, 2020, as prepared by Miller & Associates Law Offices, and the DA Davidson Financial Plan dated April 25, 2018 (as Exhibit F of the Third Amended and Restated Service Plan).

Review and Analysis:

1. The Third Amended and Restated Service Plan contains a buildout plan for the 156.626 acres of area included within the boundary of the service plan area. The anticipated development includes 241 residential units. The price point for each unit varies from $475,000 to $607,244 from 2019 to 2023. The anticipated build-out of the plan area will occur through 2023 and will aggregate a value of approximately $128,265,473.

2. The estimated Assessed Valuation at full build-out is $5,678,237 in 2018 dollars, which is based on a 7.20% assessment ratio for the total residential units. This is projected to occur in Assessment Year 2023 and Collection Year 2024.

3. The Third Amended and Restated Service Plan identifies a 55.277 mill levy for debt service, totaling $55.28/$1000 on the developed value of the District through 2052. 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 $1,201,850 and estimated population at full build-out is 669 people.

5. Per the proponent, the total estimated costs of the improvements necessary to serve the Project are $11,251,893.60 with a maximum debt authorization of $9,800,000. This includes the costs of improvements streets, storm sewer, sanitary sewer, water improvements, parks, recreation and landscaping improvements.

6. Based on the average home price of $532,221.79 the following is a breakdown of the annual cost to the homeowner as contained in the financial plan:

a.	Assessed Value	$38,319.97
b.	Debt Mill Levy @ 55 Mills	2,118.21
c.	Operating Mill Levy @ 10 Mills	383.20
d.	Total Annual Impact of MD	**2,501.41**

7. The Financial Plan includes a biennial reassessment growth rate of 2% on the residential units of the financial plan.

8. Revenues to pay debt service and support operations are provided from Property Taxes, Specific Ownership Taxes and Developer Advances.

9. The Financial Plan included in Exhibit F provides for a 30-year financing for $7,875,000 and includes a debt service reserve of the Maximum Annual Debt Service in the amount of $562,025.

10. The Third Amended Service Plan caps the District Operating mill levy at 10 mills. Per the Financial Plan in Exhibit F, the first year's operating budget will be $45,759 beginning in collection year 2016 at 50 mills, and decreases to 11.055 mills in years 2019 to 2052. The Operating Revenues grow to $98,134 at build-out (2023), and then increases by 2.00% beginning in reassessment year 2026.

11. The Third Amended Service Plan Ballot Issue Questions (as Exhibit G) asks the voters of the District to authorize a debt increase of $7,650,000 with a total Repayment Cost of $62,730,000 as well as authorization to increase annual debt service to $4,100,000.

Commentary:

1. Section VI. Financial Plan, F, states that a majority of the Board of Directors are District residents; however, the Third Amended and Restated Service Plan does not include any current Board of Directors, as was previously provided in the Second Amended and Restated Service Plan. A current list of the District Board of Directors should be provided.

2. Section V. A-8 "No Rates, Fees, Charges, Assessment or Exaction" in the Third Amended and Restated Service Plan has been modified from the Model Service Plan, and in current form may allow the District to impose unlimited fees, rates and charges without written consent from the Town. The Town should reconsider and require written consent for any increase in rate, fee, charge, assessment or exaction imposed.

3. Section VI. G, Debt Repayment Sources; Developer Advances are usually repaid in one year. That limitation has been removed in from the Third Amended and Restated Service Plan. This potentially allows multi-year carryovers of Developer Advances, and without

annual reconciliations would be even more difficult to monitor and reconcile in an annual audit.

4. 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.

5. 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 4.5%, making the maximum interest rate of 18% seemingly excessive.

6. The Ballot Questions provided in Exhibit G authorizes a maximum of $62,730,000 of total principal and Interest, along with a maximum authorized annual debt service payment of $4,100,000; however, the Third Amended and Restated Service Plan only authorizes a maximum debt issuance of $9,800,000. Clarification and reconciliation regarding the ballot question on maximum authorized debt service and the Service Plan maximum authorized debt issuance should be requested.

7. There is no operational budget provided that supports 11.055 mills 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.).

8. 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.

9. Based on the overall plan, it does not appear as though there are extraordinary costs associated with the development. The improvements seem to be simple subdivision improvements that are normally paid for through the sale of a lot and house package. The Town may wish to delve further into the need of a metropolitan district structure and taxing authority in order to cause the development to occur.

<u>Conclusion</u>

While Ehlers raises a variety of 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.