

Proposal

Conditions Study, Financial Evaluation, and URA Plan for Mission Trace

The Economics of Land Use



Prepared for:
City of Colorado Springs

Prepared by:
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EPS #203136

November 9, 2020

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Mr. Jariah Walker, Executive Director
Colorado Springs Urban Renewal Authority
jwalker@springsgov.com

Subject: Conditions Study, Financial Evaluation, and URA Plan for Mission Trace;
EPS #203136

Dear Mr. Walker:

Thank you for asking Economic & Planning Systems (EPS) for a proposal to prepare a Conditions Study, a Financial Evaluation, and an Urban Renewal Plan for the Mission Trace development. EPS has worked extensively with Urban Renewal Authorities throughout the western United States, including a large number of authorities across the Front Range of Colorado. We understand the technical elements of URA regulations, including the implications of forming URA districts in Colorado following the adoption of HB 1348. We also understand the larger goals of URAs and how the tools provided by URAs can provide developers and communities with better solutions.

EPS is a full-service urban economics consulting firm with over 40 employees in its Denver, Oakland, Sacramento and Los Angeles offices. The firm is experienced in a range of services related to real estate development including market analysis, financial feasibility assessment, and public financing options, including all aspects of Urban Renewal Authority participation. Because the firm maintains a keen awareness of client needs along with community interests, it can deliver robust analytics tailored to specific issues.

Included in this proposal is a scope of work, budget, firm overview, and selected project experience. If you have comments or suggestions, we can discuss with you and incorporate as needed. We understand that you would like to move quickly, and we are prepared to begin following your review and approval of the contract. We anticipate that we can complete the work in 8 to 10 weeks.

We look forward to working with you.

Sincerely,

ECONOMIC & PLANNING SYSTEMS, INC.



Andrew Knudtsen
Managing Principal

Proposal

Project Understanding

Mission Trace is an existing shopping center with approximately 270,000 square feet of commercial space and over 1,000 parking spaces. The entire development covers approximately 24 acres. The King Soopers on site has been vacant for a long time and is proposed to be torn down and replaced with 50,000 to 75,000 square feet of commercial space using New Market Tax Credits (NMTC) to offer discounted rents to local businesses and philanthropic organizations. Additionally, a 280-unit multifamily development is proposed where the King Soopers currently sits that will be dedicated to affordable units for residents earning 60 percent AMI or less. The remaining land and existing buildings (220,000 square feet) in the Mission Trace shopping center will be rehabilitated and modernized to create an activity hub along South Academy Boulevard.

The Developer has identified a number of public funding sources that include Low Income Housing Tax Credit funds, HUD HOME funds, and New Market Tax Credits. In order to maximize the amount of annual net operating income that is able to service the project's bond commitments, the developer is seeking participation from the Colorado Springs Urban Renewal Authority (CSURA) in the form of property and sales tax increment financing. The Developer estimates that the property and sales tax increment results in an additional \$3.0 million in project financing. In order to be eligible for these funds, it will be necessary to complete a Conditions Study that identifies 4 out of the following 11 factors of blight and the degree to which they are currently present within the study area. The full 11 factors are noted as follows:

1. *Slum, deteriorated, or deteriorating structures*
2. *Defective or inadequate street layout*
3. *Faulty lot layout – size, adequacy, accessibility, usefulness*
4. *Unsanitary or unsafe conditions*
5. *Deterioration of improvements*
6. *Unusual topography or inadequate public improvements or utilities*
7. *Title problems rendering title unmarketable*
8. *Conditions that create fire hazard*
9. *Buildings unsafe because of code violations*
10. *Environmental contamination*
11. *Health, safety, or welfare factors requiring high levels of municipal services, or substantial underutilization or vacancy of buildings or property*

In addition to the Conditions Study, the CSURA has stated a desire to complete an evaluation of project feasibility with and without property and sales tax increment financing. This analysis will evaluate project performance “but-for” the investment of tax increment financing (TIF) and ensure that any commitment of TIF by CSURA results in a rate of return that is commensurate with industry standards for comparable project types. EPS will construct a financial feasibility model and provide recommendations relating to the total amount of TIF and term of the sharing agreement necessary for the project to achieve feasibility.

The following Scope of Work provides an outline of the tasks and corresponding budget necessary to complete the Conditions Study, the Financial Evaluation of the project, and develop a plan that the URA can adopt for the area. In addition to the scope and budget outlined below, EPS has included a firm overview and a summary of relevant past projects. Please treat this proposal as an initial draft that can be revised to best meet the needs of the Colorado Springs Urban Renewal Authority.

Scope of Work

The following proposal provides a detailed scope of work broken out by task and subtask with a corresponding budget.

Task 1: Conditions Study

Task 1.1: City Outreach and Definitions

To begin this Conditions Study, EPS will contact City of Colorado Springs staff to confirm the process and requirements of the conditions study. We will also request copies of any previous blight studies that have been completed in the City to gain a better understanding of the format that City staff and the URA board are accustomed to. For this discussion with staff, EPS will prepare a site boundary and aerial photo map of the subject property and surrounding area to gain clarity in terms of the developer’s plans.

Task 1.2: Field Survey

EPS staff will visit the subject property to identify and record photographically potential factors of blight. The Developer may wish to accompany EPS at the start of the site visit to point out any particular blight factors of note or concern.

EPS will conduct a detailed walking and photographic tour of the property, taking notes and documenting photograph locations manually on maps and with GPS enabled smartphones. Total building square footage will be documented from assessor records, and vacant space will be estimated from the current tenant inventory. The site visit and blight identification process is outlined below:

- Document vacancy/occupancy history from property owner interviews or other available information;

- Interview City public safety staff to identify any increased service costs or frequency (fire, police, EMS) and unsafe conditions;
- Evaluate street access;
- Identify and evaluate deterioration and deferred maintenance to building and site improvements;
- Summarize any existing studies or documentation on environmental contamination; identify potential for contamination based on historic tenants (e.g. dry cleaners). *This does not include performing an environmental site assessment or purchasing reports or data on potential contamination history;* and
- Perform a less detailed scan of neighboring properties to potentially recommend for inclusion in a larger blighted area, which could help support a larger redevelopment project over the long term.

Task 1.3: Draft Conditions Findings

EPS will compile the field research into draft maps/illustrations and a matrix identifying draft blight findings. We will review these with the URA staff and determine if there is sufficient evidence of blight to proceed with writing a report.

Task 1.4: Draft and Final Report

EPS will finalize the conditions findings and produce a concise (20-30 page estimated) report illustrating and explaining the findings of blight.

Any presentations or meetings to present or discuss findings with the City will be billed on a time and direct expenses basis and are not included in this Scope of Work.

Task 2: Financial Evaluation

Task 2.1: Financial Evaluation Initiation

EPS will meet with staff and the development team to discuss the basic framework of the analysis related to the financial evaluation of the project. The purpose of this meeting will be to outline key issues, project details, project performance, and the project's need for TIF.

Task 2.2: "But-for" Analysis

In order to complete an evaluation of the project, the Developer will need to provide an up-to-date development program, detailed estimates of construction costs, anticipated rental rates, and other pertinent information necessary to complete an evaluation of the performance of the project with and without TIF. EPS will use this information to develop a baseline feasibility model that will provide the basis for beginning to define a project gap and a reasonable level of public investment. In other words, this analysis will answer the question: "but-for" the investment of public revenues, will the project be able to move forward?

This task includes an evaluation of the performance of the project under alternative scenarios and EPS will evaluate project feasibility with and without TIF revenues. At a minimum, EPS will run two versions of the model that will include the following:

- **Baseline Scenario** – The Baseline Scenario will reflect assumptions and estimates provided by the Developer. These will be used to ensure that there are not technical model inaccuracies in the Developer’s request for TIF. This model will also be used to determine a baseline from which to test alternative assumptions.
- **Alternative Scenario(s)** – Based on EPS’ review of the project assumptions and Developer’s pro forma, along with discussions with staff, EPS may develop one to two alternative scenarios that reflect any potential revisions to key model inputs. The results of this model will be used to estimate potential project funding gaps and determine project sensitivities to various model inputs, lease rates, vacancy rates, operating costs, and other key variables. This analysis will help the URA determine if the level of TIF is appropriate or if there are excess returns generated by any portion of the project, potentially justifying a lower amount of public investment through TIF.

Task 2.3: Summary Model

The analysis outlined in this scope of work will be detailed in a comprehensive financial model that will include a summary of key project components, TIF revenue estimates, project feasibility with and without TIF revenues, and a range of sensitivity analyses.

Task 3: Urban Renewal Plan

Task 3.1: Draft URA Plan

EPS will develop an Urban Renewal Plan (“Plan”) that is pursuant to the provisions of the Urban Renewal Law, Colo. Rev. Stat. § 31-25-101 et seq. (“Urban Renewal Law”). The driving interest in the establishment of the Plan is to enable the use of tax increment financing (“TIF”) as a tool to stimulate and leverage both public and private sector development, including redevelopment, to help remedy adverse conditions and prevent the spread of further deterioration. The plan will include the following key sections:

1. Introduction
2. Definitions
3. Plan Purpose, Goals, and Conformance
4. Blight Conditions
5. Relationship to Comprehensive Plan
6. Authorize Urban Renewal Powers
7. Project Financing
8. Severability and Reasonable Variations

Task 3.2: Draft and Final URA Plan

EPS will submit a draft URA Plan for the CSURA to review. Within one week of receiving comments and edits, EPS will submit a final URA Plan to be approved by CSURA Board and City Council.

Task 4: Meetings and Presentations

Task 4.1: Meetings and Presentation

EPS anticipates attending a URA meeting (either in person or virtually) to present the analysis outlined in this scope of work and any recommendations to be considered in allocating the TIF to the development team. This presentation will provide the URA with an overview of the methodology used to estimate the need for public financing, a summary of the initial assumptions used by the developer, any changes that are recommended by EPS, and the final estimated public financing that the project requires in order to move forward.

Task 4.2: Additional Meetings as Needed

Due to the complicated nature of the Mission Trace redevelopment and the reliance on federal tax credit programs (New Markets and LIHTCs), additional meetings with the developer and City staff may be required throughout various phases of the project. This is noted in the table that follows and, as shown, will be billed on an as needed basis.

Budget and Agreement

EPS agrees to complete the above work program on a time and charges basis up to a maximum of \$31,290. Additional meetings and presentations are not included in this estimate and will be billed on a time and materials basis. The approximate breakdown of level of effort by task and staff level is shown in **Table 1**.

Table 1. Budget by Task

Description	Principal	Vice President	Research / Production	Total
Billing Rate	\$245	\$185	\$130	
Task 1: Conditions Study				
Task 1.1: City Outreach	2	2	0	\$860
Task 1.2: Field Survey	2	6	8	\$2,640
Task 1.3: Draft Conditions Findings	2	4	8	\$2,270
Task 1.4: Draft and Final Report	<u>4</u>	<u>6</u>	<u>8</u>	<u>\$3,130</u>
Subtotal	10	18	24	\$8,900
Task 2: Financial Evaluation				
Task 2.1: Financial Initiation	4	4	0	\$1,720
Task 2.2: "But-for" Analysis	6	12	4	\$4,210
Task 2.3: Summary Model	<u>6</u>	<u>12</u>	<u>4</u>	<u>\$4,210</u>
Subtotal	16	28	8	\$10,140
Task 3: Urban Renewal Plan				
Task 3.1: Draft URA Plan	4	8	16	\$4,540
Task 3.2: Final URA Plan	<u>4</u>	<u>8</u>	<u>8</u>	<u>\$3,500</u>
Subtotal	8	16	24	\$8,040
Task 4: Meetings & Presentations				
Task 4.1: Meetings & URA Presentation	8	8	4	\$3,960
Task 4.2: Additional Meetings as needed	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
Subtotal	8	8	4	\$3,960
Hours by Person	42	46	32	120
Dollars by Person	\$10,290	\$8,510	\$4,160	\$31,040
Direct Costs				
Data Acquisition				<u>\$250</u>
Subtotal				\$250
Total Project Cost				\$31,290

Source: Economic & Planning Systems