

MEMORANDUM

To: Sean Rabé, Town Manager

From: Craig Hill, Principal

Date: March 7, 2018

RE: Town of Loomis – Village at Loomis Development Project Feasibility Review

Background

The Town of Loomis (the “Town”) has engaged the services of NHA Advisors, LLC to review the proposed mixed-use development commonly referred to as the Village at Loomis project being developed by the True Life Companies (the “Project”). The Project consists of approximately 53 acres of undeveloped land with a proposed plan that includes single-family residential units, multifamily, residential/commercial mixed-use and commercial designations.

Analysis

Economic & Planning Systems, Inc. (“EPS”) was engaged by the Project developer to assist in the financial feasibility of the Project based on unit sales, projected construction costs and development costs including infrastructure improvements, fees and other obligations related to any development. While certain costs are unit specific, a number of infrastructure costs are relatively fixed based on the parcel and Town requirements. The cost burden of these costs is allocated based on the number of for-sale units and therefore are impacted by any changes in residential units or other development restrictions.

Based on the information provided to NHA Advisors by the Town from EPS, a portion of the backbone infrastructure costs are constrained by an existing agreement to fix the cost to the commercial property (thereby relying on all non-commercial properties to pick up the residual costs). The Project infrastructure costs are estimated to be \$14,980,000. The portion of the infrastructure cost allocated to the commercial property is approximately \$3,250,000.

The latest analysis completed by EPS indicates a residential unit count of 286. Based on the proposed allocation of costs between the three product types, the Project is anticipating an allocation of the backbone infrastructure costs of \$41,034 (per unit). At this amount, the Project pro forma (based on the EPS analysis) indicates a need to fund a portion of the backbone infrastructure outside of the Project developer equity. Preliminary review of the EPS analysis indicates a need to find alternative funding sources for approximately \$22,800 (per unit).

Traditionally, this “gap” is covered through the formation of a communities facilities district (a “CFD”) which levies a supplement property tax (special tax) to pay principal and interest on tax-exempt bonds that are issued to fund a portion of the public improvements (backbone infrastructure). The obligation to

repay the CFD bonds is solely on the property owners and is not the responsibility of the Town. A CFD is typically used to fund improvements or create a public services supplemental revenue source (such as police or fire services) which can not be covered by the annual revenues collected by the Town from the properties being served.

Sensitivity Analysis

Based on the EPS information, the projected “gap” in backbone infrastructure funding sources will be approximately \$22,800 (per unit). Given the projected residential unit count of 286, the shortfall will be approximately \$6,500,000 (funded through a CFD). The tax burden on future homeowners is projected to be \$1,500-\$1,750 per year (in addition to typical property taxes, public safety services and school levies). Based on the projected home prices, the increase in the known 1.25% property tax will be 0.32%-.40%. Best practices for local cities is to maintain a maximum total property tax rate of 1.75%-2.00%.

NHA Advisors extrapolated the impact of a reduction in the Alley Loaded portion of the Project (from 135 units to 120). The financial impact of such a reduction would significantly increase the pro rate share of the backbone infrastructure to \$41,034 (up from \$22,800) which would increase the need for supplemental CFD financing. This increase in the CFD amount would increase the annual special tax levy from \$1,500-\$1,750 to approximately \$2,750-\$3,000 which puts the total annual property tax payment at approximately 1.80%-2.00%.

Policy Considerations

The Town does not have any existing CFD taxing districts. The feasibility of the Project is subject to the formation of a CFD to fund a portion of the identified backbone infrastructure. In the event the Town elects to move forward with the approval of the Project, a secondary approval process will be required for the CFD formation and applicable actions required to levy the special tax and issue and bonds to fund the improvements.

Recommendation

Based on the information provided by EPS and the Project developer, the financial feasibility of the Project is based on the need to fund a portion of the backbone infrastructure costs through a CFD bond and maintaining a minimum number of for sale units. As observed from our own analysis, a 10% reduction in higher density portion of the Project has a significant impact on the funding gap for the backbone infrastructure and therefore will require a special tax levy on the Project property owners for the long-term.

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to Town and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

Duty of Care

- a) exercise due care in performing its municipal advisory activities;
- b) possess the degree of knowledge and expertise needed to provide Town with informed advice;
- c) make a reasonable inquiry as to the facts that are relevant to Town’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to District; and
- d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
 - i. any advice provided to or on behalf of Town;
 - ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by Town, any other party involved in the municipal securities transaction or municipal financial product, or investors in District securities; and
 - iii. any information provided to Town or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.

Duty of Loyalty

NHA Advisors, LLC must deal honestly and with the utmost good faith with Town and act in Town’s best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with Town as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in Town’s best interests.