



DRAFT

Prospective Site Analysis

BOARD OF COUNTY COMMISSIONERS
ARCHULETA COUNTY



I. Introduction

Northland Securities Inc. (“Northland”) is engaged with Archuleta County (the “County”) in an investment banking capacity to undertake a financing for a new county administration/judicial building. The scope of this report focuses on properties (the “Properties”) initially identified by the County and the pricing comparison is limited to the Pagosa Springs/Archuleta market. The Properties are shown in the map below (blue dots) for geographical reference.

Map of Prospective Properties



(Map produced using County GIS.)

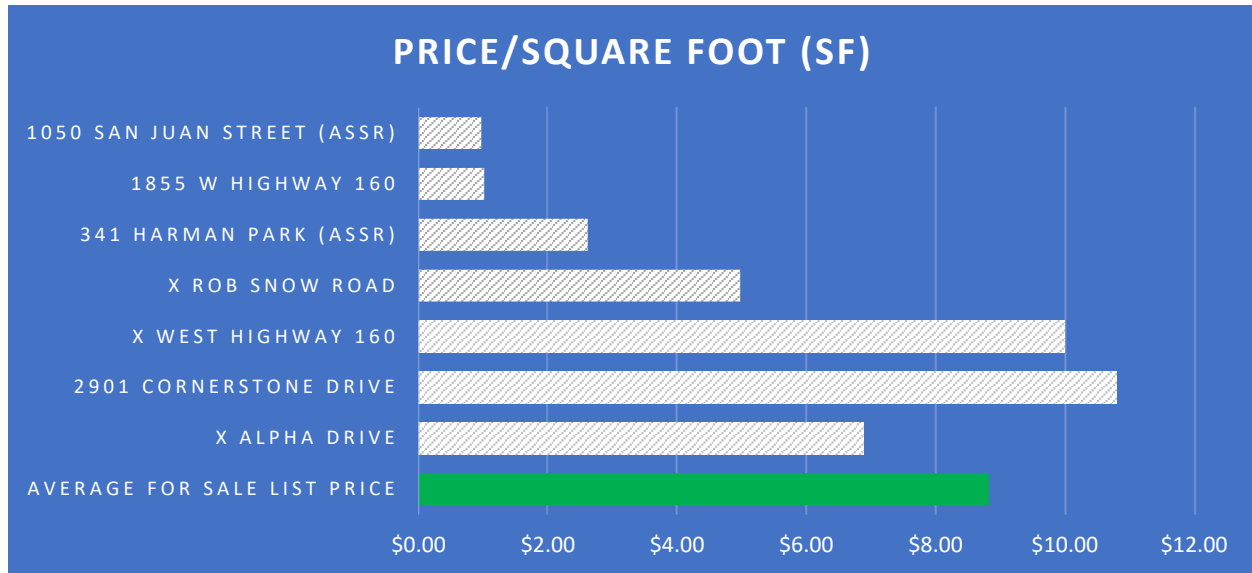
Site Selection is a component of many factors, summarized broadly below and explored further throughout.

- **Size and Expansion Potential:** A new county facility requires a specific size of parcel to meet the current (and future) operational needs of the County and provide enough parking for staff and residents.
- **Utility Access:** Readily available access to infrastructure connections (water, wastewater, storm water, broadband, etc.) lowers the cost of construction (contingency). Infrastructure ranges between 10 – 25% of a total project cost. The County is exercising its fiduciary duty to taxpayers by finding ways to lower the cost of construction.
- **Cost:** The square foot (“SF”) varies in large part due to size, access to the parcel/property and infrastructure availability all of which justifies higher asking prices (from the seller’s perspective).



II. Cost Summary

Prices quoted in dollars per square foot (\$/SF) are compiled in the chart below. The Properties are compared to an average \$/SF of eighteen local parcels listed for sale. Listed prices were in the information provided by the County. Properties with unknown pricing reference the latest County Assessor (“ASSR”) valuation data available online.



The comparable, local parcels for sale were identified using commercial real estate research. Of the comparable properties only one met the parcel size minimum. Five acres is a current estimate of the minimum to account for an appropriately sized building, parking, and storm drainage/mitigation improvements. In its due diligence the County should remain aware of interested and engaged property owners. This allows for exploration of sub-dividing larger parcels expanding the pool of potential properties.

The costs shown for land acquisition and the construction itself are variable at this point and are contextualized with the following considerations.

- **Contract Contingencies & Indemnification:** Protections under a real estate purchase agreement that limit the County’s liability exposure. Identifying current conditions of a property and its title – during a due diligence period – are a vital risk management tools in prudent land acquisition.
- **Accessibility:** A component of the cost in two ways. In the absence of accessibility comes increased costs for road infrastructure, costing millions per mile. And with increased accessibility comes the potential need and cost of traffic studies.
- **Size & Location:** The selected property should be considered for the current and future needs of the County. Neighboring properties and businesses impact selection as far as a shared environment. Rock work is a part of most, if not all, construction in the area. Avoiding or minimizing this work leads to more efficient project execution (lower costs, less risk to the construction timeline).
- **Funding:** Cash investment remains attractive for Colorado local governments via statewide liquidity/investment pools (e.g., Colotrust, CSLIP). While these rates have been and remain



currently attractive for local government, they fluctuate with prevailing interest rates like US Treasury securities. Rates at these levels can be locked in with longer duration assets like CDs. Otherwise, if borrowing costs decline, as some expect, so will these investment rates.

Financing is an available for land acquisition, likely through a form of lease purchase financing given its pervasive use amongst local government for investment in essential use assets. The County’s creditworthiness makes it an attractive borrower and provides options for capital access. Municipal lending is an appropriate method for the figures contemplated and it is a mature market for Colorado borrowers. There are less banks active than just a few years ago, which may result in more time finding a good lending partner.

III. Property Analysis

Each of the Properties considered comes with its advantages and disadvantages. An illustrative scoring matrix may be helpful to parse the Properties according to the factors previously discussed.

Illustrative Scoring Matrix

	<u>Price/SF</u>	<u>Available Infrastructure</u>	<u>Accessibility</u>	<u>Cost</u>	<u>Location</u>	<u>Total</u>
X Alpha Drive	\$6.89	3	3	2	3	11
2901 Cornerstone Drive	\$10.79	3	3	1	2	9
X West Highway 160	\$10.00	3	2	1	2	8
X Rob Snow Road	\$4.97	1	2	2	3	8
341 Harman Park (Assr)	\$2.61	2	2	3	2	9
1855 W Highway 160	\$1.01	1	2	3	2	8
1050 San Juan Street (Assr)	\$0.97	1	2	3	2	8
		3 - Available	3 - Available	3 - Lowest Range	3 - Good	
		2 - Some Available	2 - Some Available	2 - Mid Range	2 - Moderate	
		1 - Not Available	1 - Not Available	1 - High Range	1 - Poor	

The Properties are scored using the illustrative matrix above in determination of the parcel exhibiting the lowest all-in potential cost. Note the properties with high scores for lower \$/SF list prices, scored poorly in available infrastructure and accessibility. This is to account for the additional costs of extending utilities for long distances as well as road construction. While there is geotechnic data available for the first two sites, bedrock demolition remains a significant unknown for the remaining properties.

Descriptions of each category are described below.

- Available infrastructure is scored on the accessibility of utility connections.
- Accessibility speaks to the need for new road construction/improvement.
- Cost reflects the appeal of \$/SF pricing. It’s important to note two properties don’t have defined pricing; so, the latest valuation data from the County Assessor office is referenced.
- Location speaks to the impact of traffic and/or needing additional traffic improvements.

The scoring shown above is meant to be informative to the County’s decision-making process, and not the sole criteria for selection. To the County’s benefit there are appealing options for consideration.



Individual Properties – Notes & Observations

X Alpha Drive	Interesting pricing for near shovel ready parcel. Large format retailer across the street although there are several entry and exit points across that property. Multiple access options exist to the X Alpha property from either Alpha Drive or Aspen Village Drive. West bound US 160 traffic only has southern access from Aspen Drive. Use of neighboring parcels to the southwest is unknown.
2901 Cornerstone	Increased cost presumably for access, existing infrastructure, and highway frontage. More and varied businesses are present on three sides of this parcel. Research on neighboring parcels revealed Circle K Stores owns the parcel immediately to the west (2911 Cornerstone).
X W Highway 160	Second highest cost per square foot. Good road access with hospital across the street. Yet the construction of an access road is required at additional cost. This increased cost is somewhat mitigated by concept of reimbursement from the issuance of metropolitan district bonds.
X Rob Snow Rd.	Attractive pricing for a parcel adjacent or near to other County facilities with compelling pricing for the entire parcel (22.4 acres). While a logical location near other County facilities, the site lacks utilities and an improved roadway.
341 Harman Park	Offer/list price unknown; price shown reflects latest valuation data from County Assessor office. This property is similarly located near existing County facilities. Property requires subdivision before being available for purchase, an unknown risk to the timeline.
1855 W Hwy 160	One of the lowest list prices among the Properties. Size of parcel more than suitable although the site is without utilities and improved road access. Additionally, the slope of the parcel is a concern for increased horizontal work and the accompanying costs.
1050 San Juan St.	Another low-priced property with proximity to the downtown Pagosa Springs corridor. The low \$/SF is offset with the lack of infrastructure available on site, although utility connections are close with existing buildings. Moreover, the slope and drainage on the site requires additional infrastructure costs.

Final Considerations

Each of the Properties could serve as the new home for County administration and judicial services. It ultimately comes down to cost. And funding projects with taxpayer dollars justifies a practical approach – lowest cost while addressing all the needs of the new facility. Construction contingencies will vary 10-15%, but the more unknown, the higher the contingency percentage required.



Narrowing the candidates down, the five most western properties have relatively flatter geography decreasing the cost for site preparation. The Rob Snow and Harman Park properties make logistical sense due to the proximity of existing county facilities. Although the former requires utility extension and road construction/improvement while the latter needs subdivision approval and further understanding of the extent of bedrock. The remaining three Properties - X W Hwy 160; 2901 Cornerstone; X Alpha drive – have more specific site information. With more known about these three Properties, the less likely a need for a larger contingency. X W Hwy 160 requires significant road improvements. This leaves the two most western parcels under consideration – the two closest to shovel ready that present less unknown costs than the others. The two sites are remarkably similar except for a noticeable difference in cost. That leaves Alpha Drive as an interesting value proposition worth further exploration, subject to due diligence.

IV. Financing Feasibility

This section of the report considers the financing of a new County courthouse building. Investment in essential use assets is critical to providing services to residents. As previously mentioned, land is acquired by cash or debt. Building construction often outsizes the cost of land by a significant amount. And in some cases, a disciplined fund balance strategy is a successful funding mechanism. This can be challenging for several reasons, principally the cost of goods (inflation) often out paces the return on cash investment. Moreover, it is part of the County's fiduciary duty to maintain some level of fund balance for emergencies or unplanned opportunities.

While it makes sense to use cash when practical, most projects of this nature are financed making the investment more manageable via long-term annual debt service payments. And for over thirty years, Colorado local government have used certificates of participation or lease purchase financing to fund the construction of essential use assets such as administration/judicial buildings. Under this financing, a specific revenue source is not pledged; rather, real property serves as leasehold collateral.

Lease-purchase financing from start to closing generally takes 12-14 weeks. Depending on the timing for documentation and jurisdictional approval, the timeline can be truncated. Bond counsel and Northland, as investment banker, play significant roles in documentation and navigating the COP issuance process respectively.

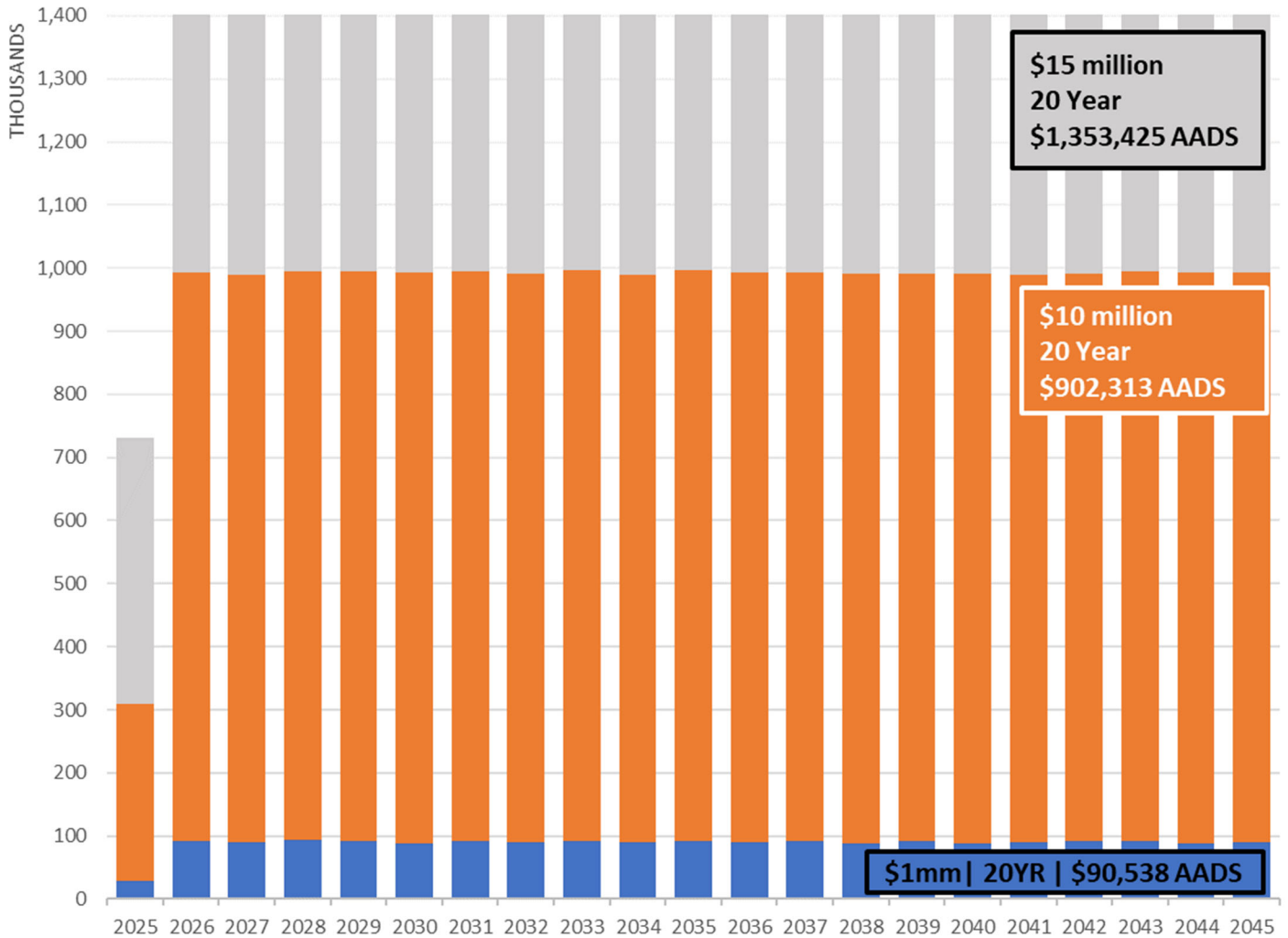
The County is a beneficiary of a December 2022 Moody's credit rating upgrade. The County currently has an "Aa2" issuer rating, upgraded from "Aa3". And the County's certificate of participation ("COP") rating is currently "Aa3", upgraded from "A1". There is already investor familiarity with the County's 2019 COP issuance and the current rating ensures the County will get market execution.

In contemplation of a COP issuance, three repayment scenarios are shown below (next page) in chart format. The repayment scenarios are for illustrative purposes in understanding the scope of lease repayments for differing borrowing amounts. They do not represent any specific construction cost information.



Given the elevated levels of interest rates in the last 12-18 months, investors have preferred five percent (5%) coupons on the municipal debt they purchase in the public market. It may not be your final interest rate, although it is a conservative approach referencing a figure well established in the marketplace.

\$1 million, \$10 million, and \$15 million repayment scenarios are depicted in the column format. "AADS" is average annual debt service (principal and interest).



The \$1 million scenario allows for scale (multiplication). The \$10 million scenario has an average annual debt service of \$902,313, approximately ten times the amount needed for \$1mm repayment.

The County issued its last COP in 2019, so it is worth revisiting the cash flow of sources and uses of a COP issuance. The chart below illustrates a \$10 million COP issuance yielding \$8.95mm in project funds.

<u>Source</u>	
\$10,000,000	COP Issue Amount
<u>Use</u>	
\$8,950,000	Project Account
\$800,000	DSR Amount (if needed)
\$250,000	COI



Costs of issuance (“COI”), or upfront costs, will range between 2-4% of the amount borrowed. COI includes fees for underwriting, bond counsel, trustee, credit rating and other costs associated with the issuance. A DSR is a rainy-day fund, approximate to 1 year of debt service, which is funded upon issuance and closing of the COP. The County may not need to fund a DSR, but again it is safe to assume in a conservative approach. DSRs, if needed, may be funded with cash-on-hand.

Budget Considerations

COPs are repaid by “any legally available funds” providing a great deal of budgeting flexibility. Observing recent budgets including the proposed 2025 budget, strategic planning for cost finalization and design leads to deliberate budget allocation for lease repayment. As with its outstanding 2019 COP, the County elects/decides to appropriate, via budget line item, the lease repayment for the upcoming fiscal year. Once construction costs are more finalized, the County will have firmer lease repayment figures to consider for budget allocation. The County’s upgraded credit rating is worth reiterating as it leads to lower costs of capital regardless of most bond market conditions.

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