



**Economic & Planning  
Systems, Inc.**

*The Economics of Land Use*

November 12, 2021

Mr. Jariah Walker, Executive Director  
Colorado Springs Urban Renewal Authority  
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Colorado Springs CO 80903  
[jwalker@springsgov.com](mailto:jwalker@springsgov.com)

**Subject: Colorado Springs URA O'Neal Group Plan Modification; EPS #213167**

Dear Mr. Walker:

Thank you for asking Economic & Planning Systems (EPS) for a proposal to provide the technical analysis and studies to enable Colorado Springs to evaluate a proposal from the O'Neal Group related to a proposed set of office and residential towers. Current URA district boundaries have been established and some of the land controlled by the O'Neal Group already has been included within an existing URA district. The work to be done by EPS includes providing recommendations to the Colorado Springs URA regarding the best way to utilize TIF to further the goals of the City and specifically the URA.

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 45 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 project understanding, scope of work, and proposed budget. 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. Given the complexity of the development and the number of options associated with the project, the timing will be based on milestones. We anticipate beginning immediately, and providing the analysis and reports, based on the direction of the Colorado Springs URA. We anticipate that we can complete the initial phases in 6 to 10 weeks.

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We look forward to working with you.

Sincerely,

ECONOMIC & PLANNING SYSTEMS, INC.

Andrew Knudtsen  
Managing Principal

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# Proposal

## Project Understanding

The City of Colorado Springs has received a proposal from the O'Neal Group for two towers to be constructed at the northeast corner of Costilla Street and Sahwatch Street in downtown Colorado Springs. One tower is planned to be a 25-story residential project. The other would be a 12-story office building. At this time, the office tower is located within the existing Museum and Park URA district, and the developer has expressed interest in creating a new district for the tower that does not have TIF potential at this time. There has been some discussion of a modification to current boundaries to align revenues with projects, but that may not materialize as part of this analysis. To the extent that the project involves formation of a district for a single tower, the services will be sequential, based on the tasks shown below. To the extent the project may involve questions from the City, community stakeholders, and elected officials, the work by EPS will be more involved. EPS is proposing to cover the services listed below, based on our typical timing and budget standards. In addition, to the extent the project requires significant revisions in assumptions and/or community interest, EPS has budgeted these services as optional and will be available to the Colorado Springs URA as needed.

Economic & Planning Systems has been requested to provide a proposal for five services. These include:

1. High level strategy advisory services, to enable the O'Neal Group to best utilize TIF within its projects. This step will involve preliminary estimates of future TIF proceeds, based on boundary location, , market absorption, and valuation of the commercial and residential uses. EPS will provide financial take off's that can be used by the developer and the URA to understand options related to residential and commercial impact, boundaries, formation, TIF revenue flow, and project viability.
2. A conditions analysis to determine that the areas for potential formation of the new district are eligible for URA district designation with the corresponding potential for Tax Increment Financing (TIF) revenues.
3. An evaluation of the financial feasibility of projects within the new URA plan area that includes a "But For" analysis of the proposed projects to confirm that they cannot proceed, 'but for' the investment of public funds.
4. An Urban Renewal Plan, which encapsulates the findings of the first two tasks, summarizes the aspects of the proposed development, and delineates the material in a document that can be used by the CSURA to approve the new URA plan area.
5. An El Paso County Impact Report, required as part of any URA approval.

## Project Approach

While many of the elements of this work program are found in most URA project approvals, the order of tasks may vary from the standard sequence. The initial task is recommended to strategize the most effective use of tax increment financing (TIF) for the URA and project. This task will provide a strategy for establishing the TIF boundary and land uses. A variety of concepts will be created with different development scenarios, market capture evaluations, and projections of TIF revenues. EPS will provide estimates of total valuation and supportable bond proceeds from the corresponding TIF concepts to help understand the optimal approach for the URA to take. This task will be completed in light of the balance of the work program, including a conditions analysis, a 'But For' financial evaluation, and the follow up documents including the Urban Renewal Plan and the County Impact Report.

Following the Conditions Study, EPS will address the potential developer returns for projects in the area and provide the basis for the "but-for" test and the eventual investment of TIF. EPS will provide recommendations relating to the total amount of TIF and term of the sharing agreement necessary for the projects to achieve feasibility.

The fourth step involves aggregating the findings from the previous tasks and forming an official URA plan that can be adopted in compliance with state regulations. The fifth and final step is to provide an impact report, documenting the impacts attributed to the new Plan Area on El Paso County and other taxing districts.

## Scope of Work

The following Scope of Work provides an outline of the tasks and corresponding budget necessary to complete each. Please treat this proposal as an initial draft that can be revised to best meet the needs of the Colorado Springs Urban Renewal Authority.

### Task 1: Plan Area Sizing and TIF Revenue Estimates

For this task, EPS will work with CSURA staff to define potential boundaries of the future Plan Area. It is likely that the staff and EPS will generate concepts for up to three different areas and from these, EPS will provide development scenarios, market capture evaluations, and projections of TIF revenues. Due to the nature of this task, EPS will work closely with CSURA staff and board members to clarify alternatives and identify the pros and cons associated with different options. EPS will also provide an overview of the Conditions Study, to ensure that the potential boundary and proposed Plan Area will fulfill requirements related to state standards.

## Task 2: Conditions Study

### **Task 2.1 - 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.

EPS will also prepare a site boundary and aerial photo map of the subject property and surrounding area.

### **Task 2.2 - 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 2.3 - 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 Developer and determine if there is sufficient evidence of blight to proceed with writing a report.

**Task 2.4 - 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. EPS can also include, if requested, recommendations on including adjacent properties, and potential formation of a new URA plan area under the CSURA.

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 3: Financial Analysis****Task 3.1 - 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 3.2 - "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 3.3 - 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 3.4 - 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 the term sheet. 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. Any additional meetings and presentations will be billed as an additional cost item.

**Task 4: Urban Renewal 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 5: El Paso County Impact Report**

The impact report will include a summary of forecasted property tax revenues as well as El Paso County fiscal and service impacts associated with development in accordance with the Urban Renewal Plan. It specifically responds to the requirements outlined in C.R.S. 31-25-107 (3.5). These standards state that:

- (3.5) “Prior to the approval of an urban renewal plan, the governing body shall submit such plan to the board of county commissioners, which shall include, at a minimum, the following information concerning the impact of such plan:

- I. The estimated duration of time to complete the urban renewal project;
- II. The estimated annual property tax increment to be generated by the urban renewal project and the portion of such property tax increment to be allocated during this period to fund the urban renewal project;
- III. An estimate of the impact of the urban renewal project on county revenues and on the cost and extent of additional county infrastructure and services required to serve development within the proposed urban renewal area, and the benefit of improvements within the urban renewal area to existing county infrastructure;
- IV. A statement setting forth the method under which the authority or the municipality will finance, or that agreements are in place to finance, any additional county infrastructure and services required to serve development in the urban renewal area for the period in which all or any portion of the property taxes described in subparagraph (ii) of paragraph (a) of subsection (9) of this section and levied by a county are paid to the authority; and
- V. Any other estimated impacts of the urban renewal project on county services or revenues.”

## Budget and Agreement

EPS agrees to complete the above work program on a time and charges basis up to a maximum of \$54,990. Task 1 is subject to change and will depend on the complexity of the analysis. This task could range from \$10,000 to a maximum of \$23,600 (as listed). Depending on the time and analysis required for Task 1, the total project budget could range from \$41,390 to \$54,900. The approximate breakdown of level of effort by task and staff is shown in **Table 1**.

**Table 1. Proposed Project Budget by Task and Staff**

Description	Principal	Project Manager	Production	Total
<b>Billing Rate</b>	<b>\$240</b>	<b>\$185</b>	<b>\$105</b>	
Labor Costs				
<b>Task 1: Plan Area Sizing and TIF Estimates</b>	42	64	16	<b>\$23,600*</b>
<b>Task 2: Conditions Study</b>				
Task 2.1: City Outreach and Definitions	2	2	2	\$1,060
Task 2.2: Field Survey	2	4	2	\$1,430
Task 2.3: Draft Blight Findings	2	4	2	\$1,430
Task 2.4: Draft and Final Report	<u>2</u>	<u>6</u>	<u>4</u>	<u>\$2,010</u>
<b>Subtotal</b>	<b>8</b>	<b>16</b>	<b>10</b>	<b>\$5,930</b>
<b>Task 3: Financial Analysis</b>				
Task 3.1: Project Initiation	2	2	0	\$850
Task 3.2: "But-For" Analysis	8	16	4	\$5,300
Task 3.3: Summary Model	4	12	4	\$3,600
Task 3.4: URA Presentations	<u>8</u>	<u>8</u>	<u>0</u>	<u>\$3,400</u>
<b>Subtotal</b>	<b>22</b>	<b>38</b>	<b>8</b>	<b>\$13,150</b>
<b>Task 4: URA Plan</b>	6	18	12	<b>\$6,030</b>
<b>Task 5: County Impact Report</b>	6	18	12	<b>\$6,030</b>
<b>Totals Hours</b>	<b>84</b>	<b>154</b>	<b>58</b>	<b>296</b>
<b>Dollars by Person</b>	<b>\$20,160</b>	<b>\$28,490</b>	<b>\$6,090</b>	<b>\$54,740</b>
<b>Direct Costs</b>				
Travel & Data Acquisition				<u>\$250</u>
<b>Total Direct Costs</b>				<b>\$250</b>
<b>Total Project Budget</b>				<b>\$54,990</b>

Source: Economic & Planning Systems

\*Could range from \$10,000 to \$23,600 depending on complexity