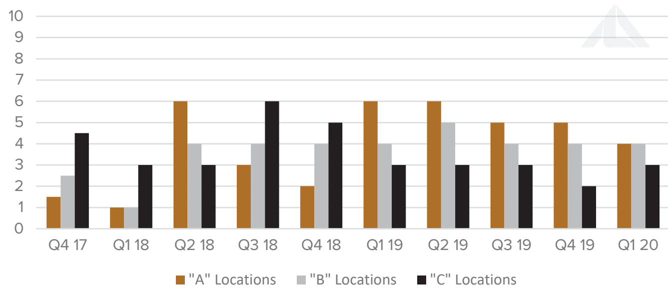
THE LAUNCH REPORT
1Q20 NEWSLETTER

LAUNCH
DEVELOPMENT FINANCE ADVISORS

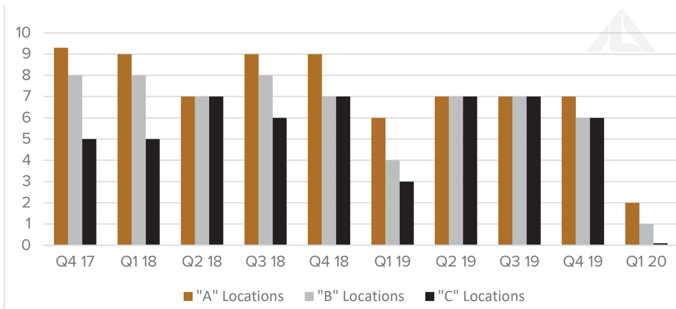
RESIDENTIAL LAND SURVEY - CA - SACRAMENTO, BAY AREA, LOS ANGELES (1Q20)

Sacramento Supply of Finished Lots



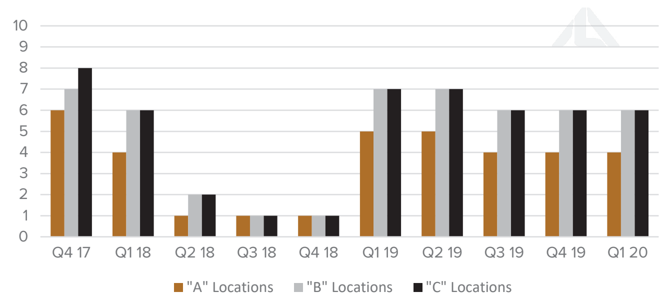
Source: Land Advisors Organization

Sacramento Demand of Finished Lots



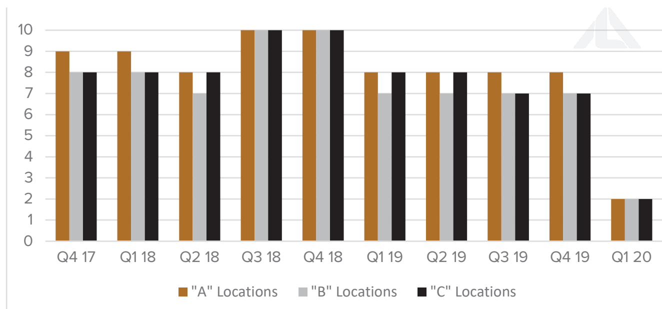
Source: Land Advisors Organization

Bay Area Supply of Finished Lots



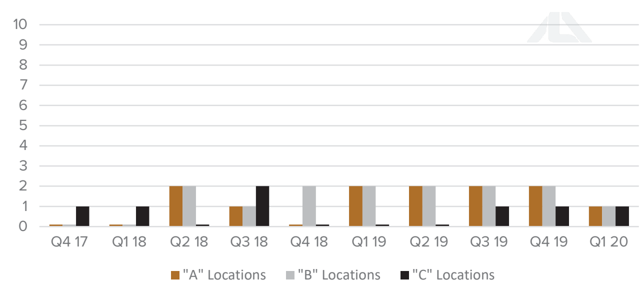
Source: Land Advisors Organization

Bay Area Demand of Finished Lots



Source: Land Advisors Organization

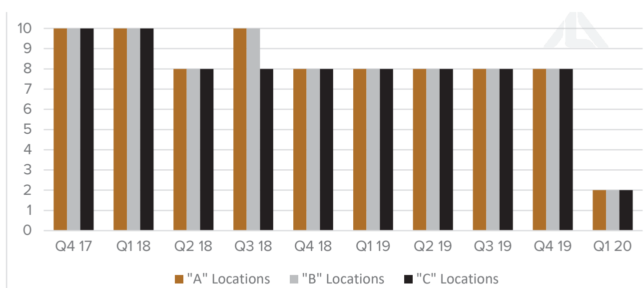
Los Angeles Supply of Finished Lots



Source: Land Advisors Organization

^^^Los Angeles Infill does not track FLVs

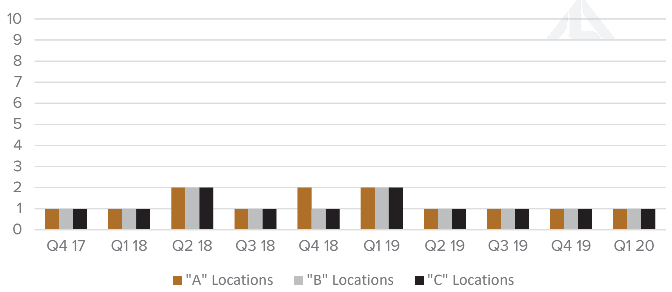
Los Angeles Demand of Finished Lots



Source: Land Advisors Organization

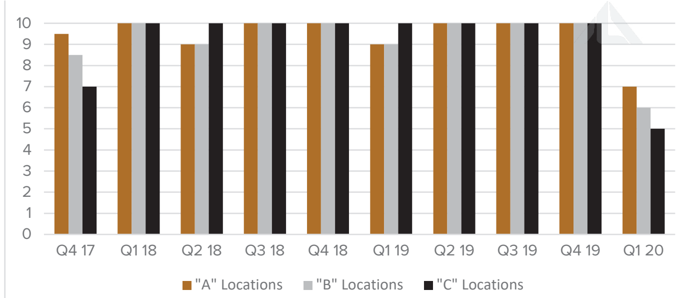
RESIDENTIAL LAND SURVEY - CA - ORANGE COUNTY, RIVERSIDE, SAN DIEGO (1Q20)

Orange County Supply of Finished Lots



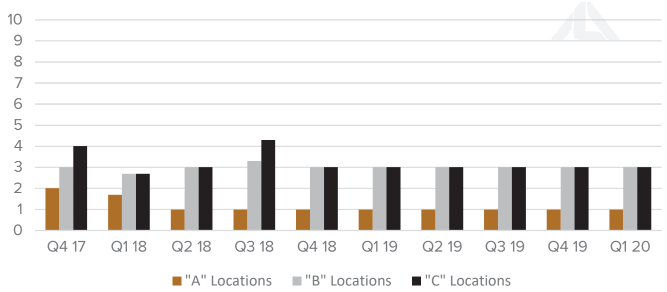
Source: Land Advisors Organization
^^^ OC has only started tracking FLV as of Q3 2019.

Orange County Demand of Finished Lots



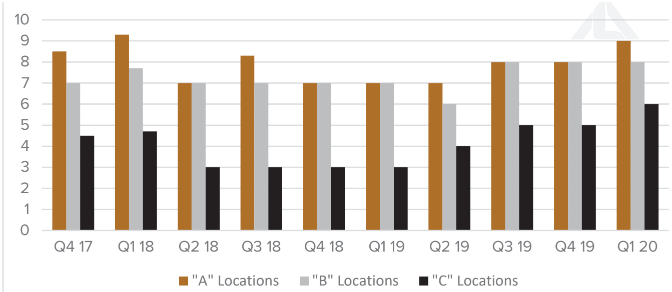
Source: Land Advisors Organization

Riverside Supply of Finished Lots



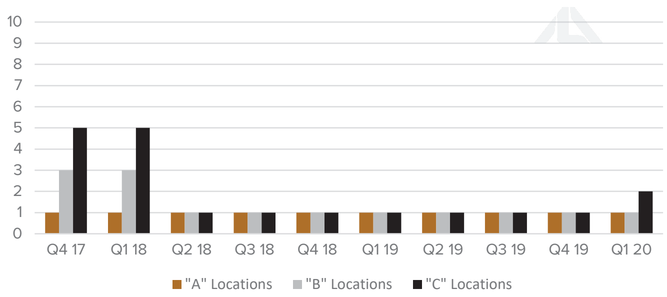
Source: Land Advisors Organization

Riverside Demand of Finished Lots



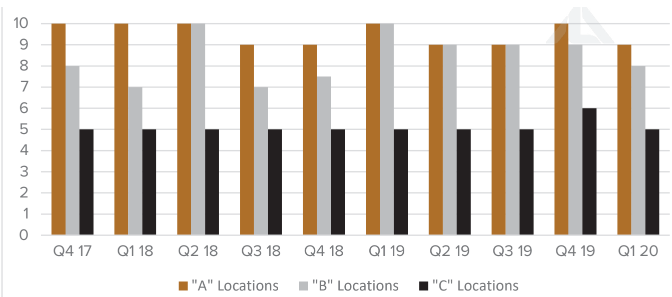
Source: Land Advisors Organization

San Diego Supply of Finished Lots



Source: Land Advisors Organization

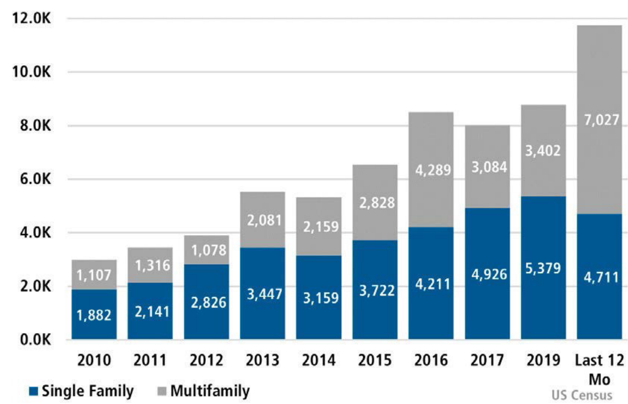
San Diego Demand of Finished Lots



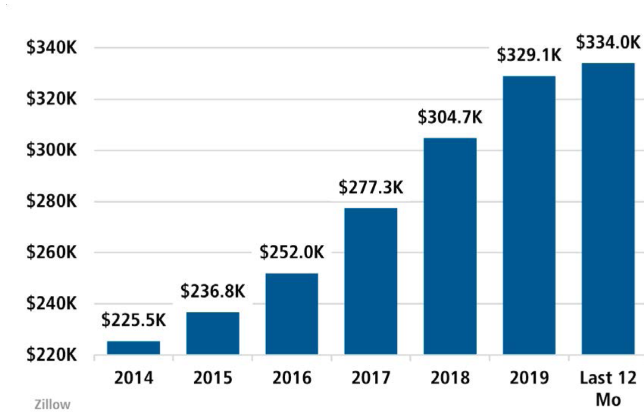
Source: Land Advisors Organization

MARKETS AT A GLANCE - UTAH, BOISE, LAS VEGAS (1Q20)

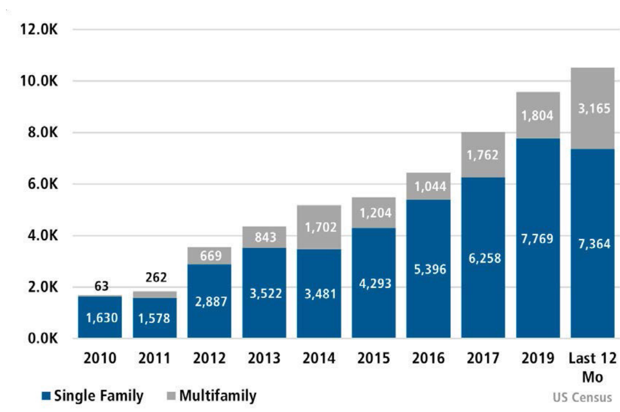
Utah Single Family & Multi-Family Permits



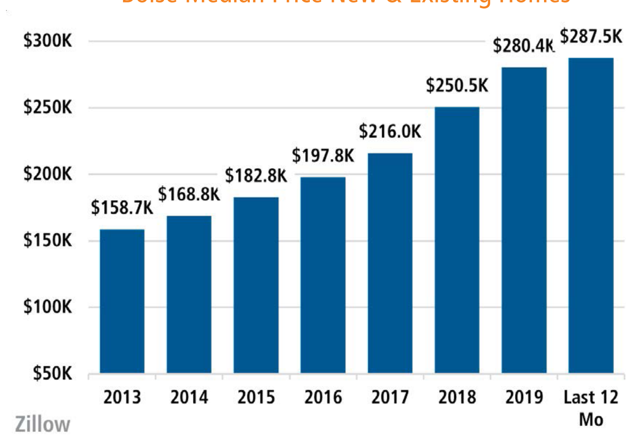
Utah Median Price New & Existing Homes



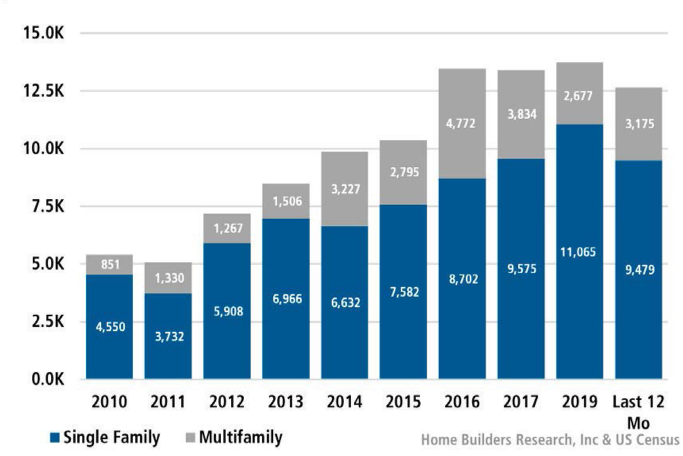
Boise Single Family & Multi-Family Permits



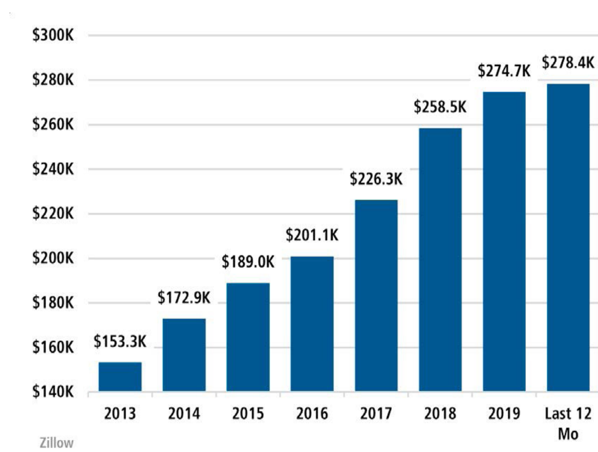
Boise Median Price New & Existing Homes



Las Vegas Single Family & Multi-Family Permits

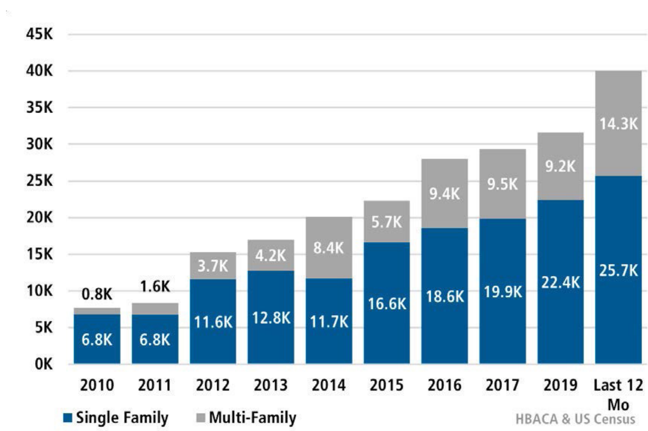


Las Vegas Median Price New & Existing Homes

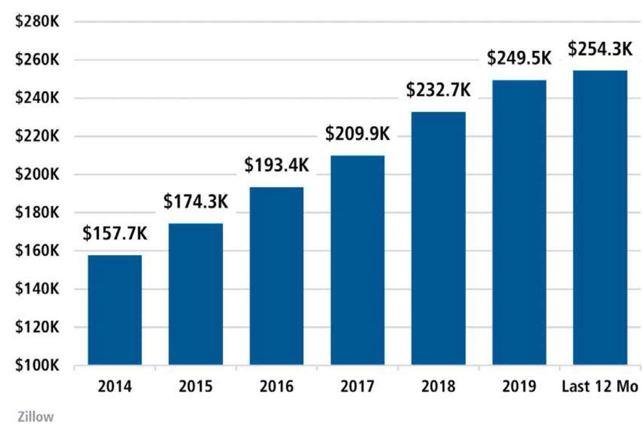


MARKETS AT A GLANCE - PHOENIX, RENO, TUCSON (1Q20)

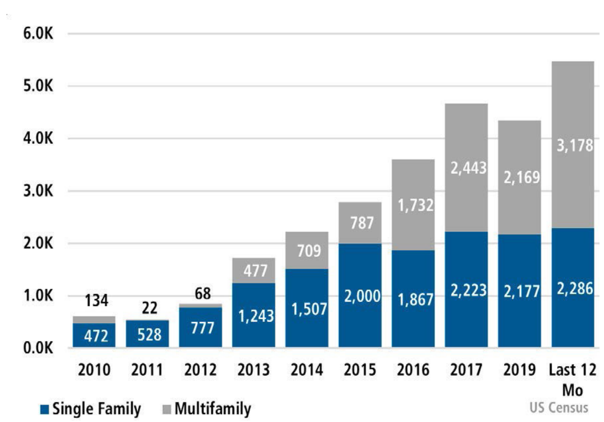
Phoenix Single Family & Multi-Family Permits



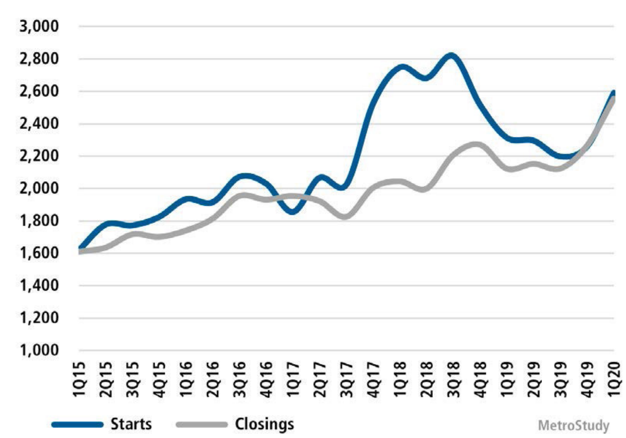
Phoenix Median Price New & Existing Homes



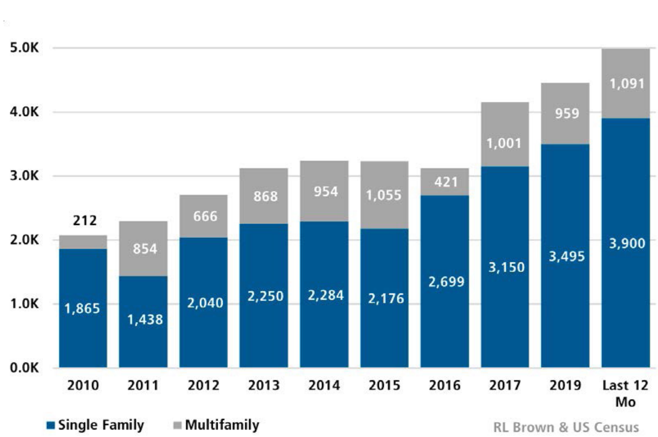
Reno Single Family & Multi-Family Permits



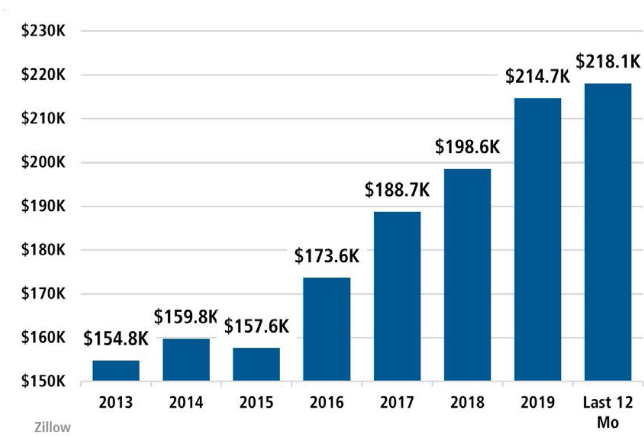
Reno New Vacant Developed Lots & Months Supply



Tucson Single Family & Multi-Family Permits



Tucson Median Price New & Existing Homes



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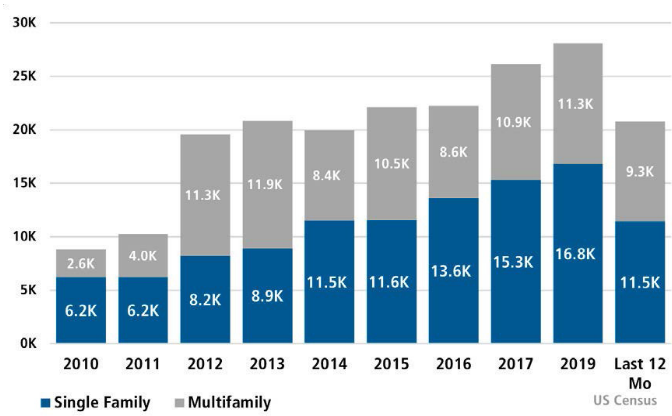
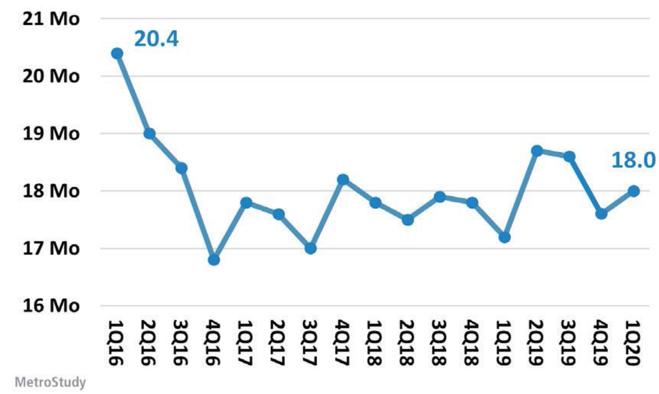
MARKETS AT A GLANCE - AUSTIN, HOUSTON, DALLAS (1Q20)

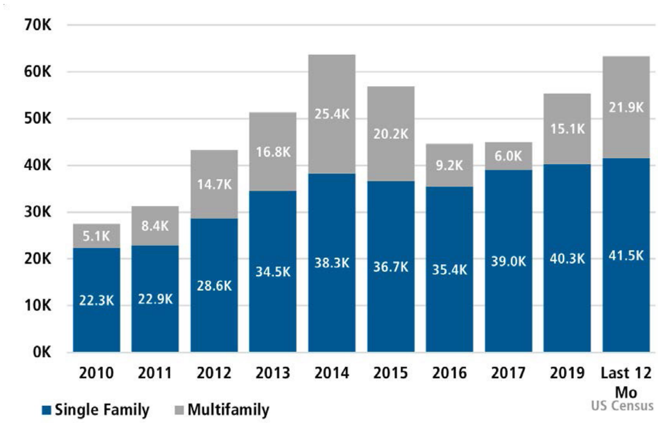
Austin Single Family & Multi-Family Permits



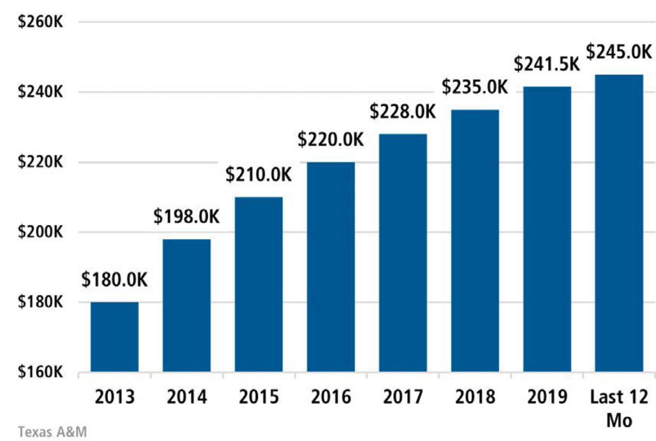
Austin Vacant Developed Lot Supply



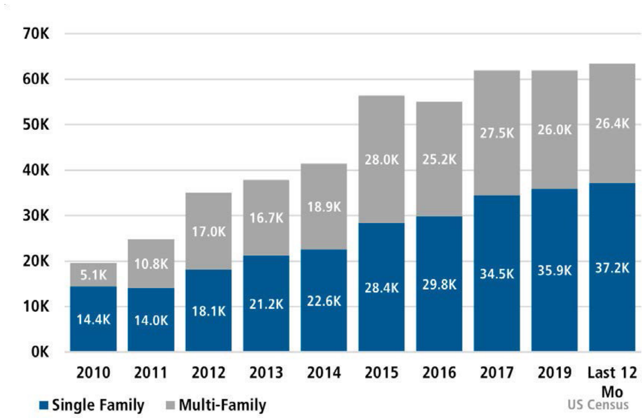
Houston Single Family & Multi-Family Permits



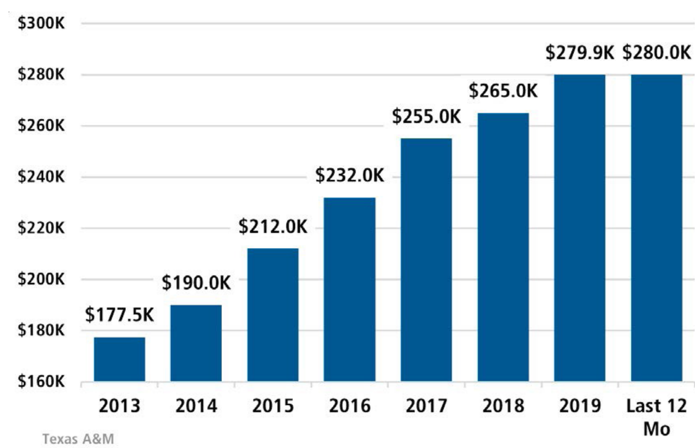
Houston Median Price New & Existing Homes



Dallas Single Family & Multi-Family Permits

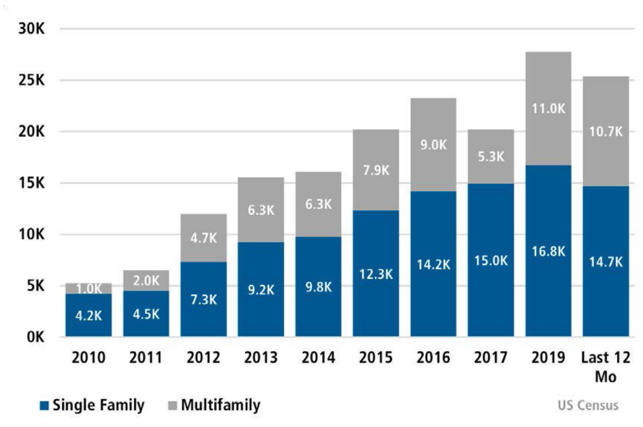


Dallas Median Price New & Existing Homes

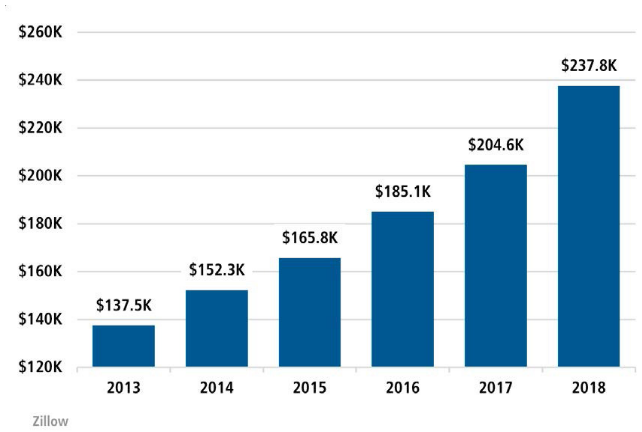


MARKETS AT A GLANCE - ORLANDO, TAMPA, CHARLOTTE (1Q20)

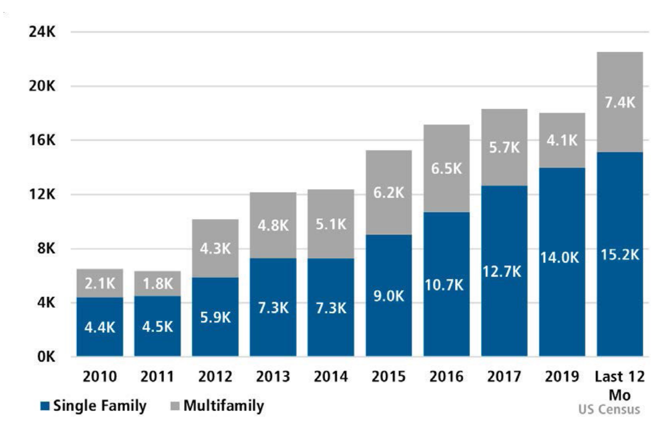
Orlando Single Family & Multi-Family Permits



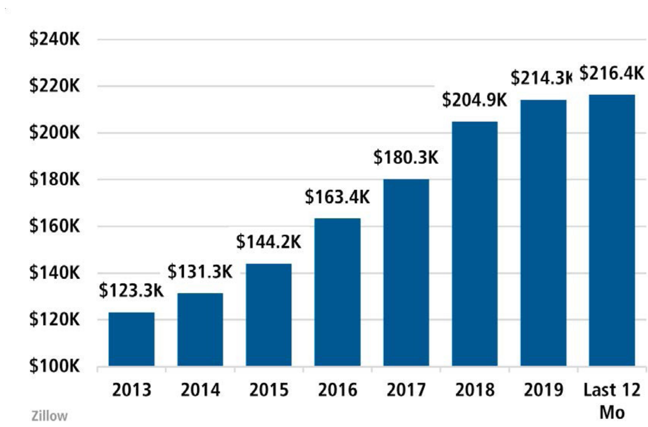
Orlando Median Price New & Existing Homes



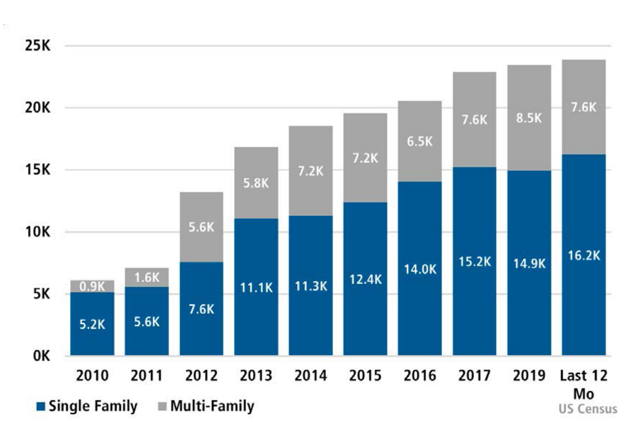
Tampa Single Family & Multi-Family Permits



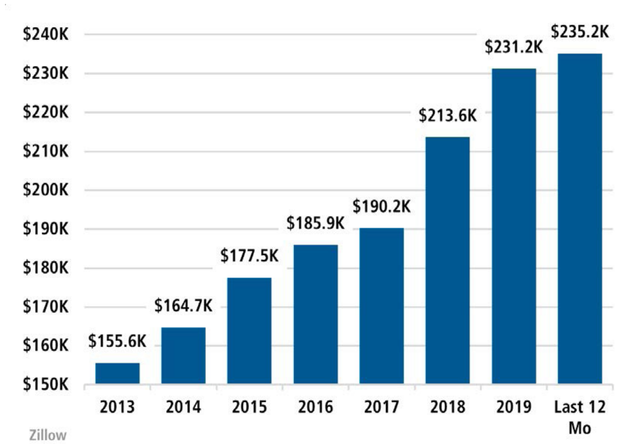
Tampa Median Price New & Existing Homes



Charlotte Single Family & Multi-Family Permits



Charlotte Median Price New & Existing Homes



The Guest Corner

This quarter's Guest Corner contributors are Tripp Davenport and Robert Rivera of FMSBonds. Over the years, FMSBonds has done the lion's share of all PID bond issuances in the state of Texas. In this article, Tripp and Robert explain the advantages of using PID bonds to finance public infrastructure.

Public Improvements Districts (PIDs)

Background

Development in America is facing new challenges that will likely prevail for an indeterminate period of time.

Our role as Public Finance Bankers is to provide municipalities and developers the opportunity to maximize their ability to facilitate development. Having worked in this field for decades, we have gained extensive knowledge navigating through the Great Recession and the substantial recovery which followed. Accordingly, we have gained extensive firsthand experience by taking projects from dirt to vertical development.

Municipalities and counties have a variety of tools to offer support to developers. Foremost among these tools is the ability to form Public Improvement Districts (PIDs). Although PIDs are available in several states, Texas is in the forefront. Texas has continually relied on PIDs to provide viable funding for master planned communities, as well as, commercial and mixed use projects.

The Structure

For many years, PIDs were used to fund and maintain public infrastructure by assessments levied against each individual lot or parcel; ultimately making the land or homeowner responsible for the assessment.

Municipalities have found this structure to be an attractive alternative to Tax Increment Reinvestment Zones or 380 Agreements, which subsidize development from the general tax base.

Texas cities of all sizes have employed PIDs to advance their economic goals. This form of financing has been utilized by Fort Worth, Leander, Celina, El Paso, Austin, Lubbock, and Arlington among many others.

Let's examine the Viridian Project in Arlington for example:

Viridian is an "infill" 2,000 acre master planned community, containing five lakes, 500 acres of open space and beautiful homes with proximity to a thriving town square, boasting of retail stores, offices and significant amenities. This crown jewel of Arlington was made possible by the vision and support of its city leaders. The challenge at hand for city leaders was to make their grand vision a reality. They chose PIDs to achieve what became a great success story.

The PIDs provided up-front, non-recourse funds for this project in lieu of equity or other more costly capital. The landowner was able to access capital for a major property while mitigating the risk to the city.

The unique value a PID brings to a city is the funding of a wide variety of public infrastructure that can be financed without the city incurring debt.

Public Improvements Districts (PIDs)
Continued

PIDs Are a Superstar

PIDs have enabled the construction of libraries, pedestrian malls, water, sewers, drainage, distinctive lighting, public fountains, streets, parks and signage. It is easy to see why cities would embrace these developments, especially without the financial burden.

PIDs to the Rescue

In a fiercely competitive Texas marketplace, funding methods can be the difference between a successful project and one that falls short of expectations. Developers choose a project based on a multitude of factors, including partnering with desirable communities. Often the creation of a PID can transform a project from standard "cookie cutter" to a highly amenitized and unique development.

Obviously, each project has its own nuances and idiosyncrasies which cannot all be discussed in this brief article.

That's where we come in.

At FMSbonds, we are always available to respond to any questions or thoughts you may have. We encourage you to contact us to discuss your specific situation in further detail.

We believe with every imposing challenge comes an even greater opportunity. Often PIDs are the solution.

Tripp Davenport and Robert Rivera are Directors at FMSBonds. Mr. Davenport may be reached at (214) 418-1588 or tdavenport@fmsbond.com while Mr. Rivera may be contacted at (817) 240-6371 or rrivera@fmsbonds.com.

Launch Welcomes Managing Principals to Lead the Irvine and Dallas Offices

Launch Development Finance Advisors is pleased to announce that Justin Rich and Steven Saules have joined Launch Development Finance Advisors as the Managing Principals of the Irvine, California and Dallas, Texas offices respectively.

Justin Rich joins the firm with 15 years of experience advising public agencies in all aspects of infrastructure financing, mitigation agreements and impact fees. Justin has a bachelor's degree in Political Science from the University of California, Los Angeles and a master's degree in Public Administration from California State University, Long Beach. Justin may be reached at justinr@launch-dfa.com or by phone at 949-656-8011.

Steven Saules joins Launch having led Development Planning & Financing Group's Denver office providing public finance consulting services to the private sector as well as an extensive background in market analytics, feasibility studies and highest and best use analysis with Metrostudy and THK Associates. Steven has a bachelor's degree in marketing from Michigan State University and a master's degree in Real Estate Finance from the University of Denver. Steven may be reached at stevens@launch-dfa.com or by phone at 469-929-9502.

LAUNCH
DEVELOPMENT FINANCE ADVISORS

Success Manual for Uncertain Times

By Carter Froelich, CPA

The real estate business is a cyclical business with extreme ups and downs. As such, those of us who have been in the business long enough have experienced numerous booms and busts along with other events that have caused climates of fear, anxiety and uncertainty such as the period that followed 9/11.

During uncertain times it is important to concentrate on strategies that keep focus not on what is going on around us, but rather on what opportunities for growth, progress and achievement arise when the world around us becomes turbulent. The strategies outlined below, will help to support your creative thinking, communication and actions as you navigate the months ahead.

1. **Forget About Yourself and Focus on Others.**

   Uncertainty causes people to feel isolated. Expand your connection with your customers, suppliers and contractors and focus on helping them to overcome their challenges. You'll become a source of confidence for all.

2. **Forget About Your Product and Focus on Your Relationships.**

   In uncertain times, developer/builders become frightened about the salability of their products. A more strategic response is to focus on deepening the power and possibility of your relationships with other developer/builders, suppliers, contractors, buyers and prospects. Every time you strengthen a relationship you strengthen the viability of your products.

3. **Forget About Your Losses; Focus on Opportunities.**

   Things that you may have taken for granted can go away. Some leaders never get over this and continue to do what they have always done. A better strategy is to develop an entirely new game - using new ideas, new tools and new resources. When the world changes opportunities suddenly become available.

4. **Forget About the Sale: Focus on Creating Value.**

   Things disappear in challenging times whether its employees, customers, suppliers, buyers or capital. Rather than focus on what was lost and trying to duplicate the same old game, a better strategy is to play a new game. As the environment changes so does the ability to achieve more than you ever did. Look at what has happened so far in our industry related to telecommunicating, virtual city hall meetings, virtual model showings, etc.

5. **Forget About Your Difficulties; Focus on Your Progress.**

   Things are different and there's a lot of new difficulties that didn't exist a few months ago. Difficulties can either overwhelm you or make you stronger. Treat this period as a period of challenge to make your greatest progress.

Success Manual for Uncertain Times
Continued

6. **Forget About the Future: Focus on Today.**

   The future is an abstraction and although it's a positive to know your destination, the only future that has reality is the here and now. Create your own future through each day's achievements, contributions and results. Focus on what you can do to move towards your and your company's bigger future by concentrating on the next 24 hour period.

7. **Forget About Who You Were; Focus on Who You Can Be.**

   Many leaders define themselves by external cues. When these abruptly change they don't know who they are, so they keep on doing what they've always done. In these times, it's important to take your cues from the inside, your dreams, values, operating principals and ideals. These never change. Take advantage of this time period to become self-directed, self-managed and self-motivated.

8. **Forget About Events; Focus on Your Response.**

   When things are going well in our business, we can feel that we are in control of events and making things happen. When things change overnight, we can feel depressed and question our abilities. In my experience, the most consistently successful leaders know that they can't control events. Now is an excellent time to focus you energies and attention on being creatively responsive to all the unpredictable events that lie ahead.

9. **Forget About What's Missing; Focus on What's Available.**

   When things change for the worse, resources including employees, consultants, capital, information, suppliers can go missing. A strategic response is to take advantage of every resource that is immediately available to achieve as many small results as possible. Work with every resource and opportunity you have at your disposal and your confidence will grow.

10. **Forget About Your Complaints; Focus on Gratitutde.**

    When things get bad, we can complain about what we don't have, or we can be grateful for what we have. Complaining only attracts negative energy, thoughts and people. Gratitude on the other hand creates the opportunity for creative thinking, actions and results to emerge.

Should you be so inclined, I've attached an Uncertain Time Success Manual Work Sheet at the back of The Launch Report for you to outline your success strategies.

Financing Diagnostic - How are the Top 15 Selling MPC's Financing Infrastructure?

By Carter Froelich, CPA and Pam Giss

RCLCO Real Estate Advisors has published their year-end 2019 Top Selling Master Planned Communities Report ("Report") and the professionals at Launch Development Finance Advisors have prepared a financing diagnostic matrix to illustrate how the top 15 selling communities are financing a portion of their public infrastructure.

As illustrated below, these communities are employing the use of special purpose taxing districts ("District") to issue non-recourse, long term, tax exempt bonds to finance the construction and/or reimbursement of public infrastructure costs. The amount of funding differs between communities but ranges from $2,900 per unit on the low end to $138,200 per unit on the high end. The average net construction proceeds generated by District financing for the top 15 communities is approximately $27,000 per unit.

While using a Districts will increase the total effective property tax rate for residents in the community, total property taxes expressed as a percentage of home price ranges from 0.85 percent on the low end, and 2.47 percent on the high end. The average property tax rate as a percentage of home price for the top selling master planned communities was 1.43%.

Should you have any questions related to information presented above contact Carter Froelich, CPA at 855-970-0003 ext. 4355 or email at carter@launch-dfa.com or Pam Giss at 480-874-4358 or email at pamelag@launch-dfa.com.

Rank	MPC (1)	MSA (City, State) (1)	Total Units Sold FY 2019	Public Financing / District (Y/N)	Sample Avg. Home Price	Sample Annual Prop. Tax (excluding District)	Sample Annual District Tax Payment (calc)	Sample Annual Total Property Taxes (calc)	Est. Prop. Tax as % of Sample Home Price (calc)	Est. Net. Const. Proceeds for Sample Lot
1	The Villages	The Villages (FL)	2,429	Y	$434,250	$5,709	$1,782	$7,491	1.73%	$23,513
2	Lakewood Ranch	North Port-Sarasota-Bradenton (Sarasota, FL)	1,648	Y	$329,000	$3,034	$1,389	$4,424	1.34%	$15,799
3	Summerlin	Las Vegas-Henderson-Paradise (Las Vegas, NV)	1,320	Y	$559,999	$2,882	$946	$3,828	0.68%	$12,240
4	West Villages	North Port-Sarasota-Bradenton (Venice, FL)	1,273	Y	$403,054	$6,238	$1,660	$7,898	1.96%	$19,301
5	Eastmark	Phoenix-Mesa-Scottsdale (Mesa, AZ)	1,011	Y	$396,428	$3,237	$1,159	$4,395	1.11%	$16,248
6	Nocatee	Jacksonville (Ponte Vedra, FL)	909	Y	$350,000	$4,776	$1,385	$6,162	1.76%	$11,209
7	Irvine Ranch	Los Angeles-Long Beach-Anaheim (Orange County, CA)	850	Y	$1,410,000	$14,811	$10,782	$25,594	1.82%	$138,200
8	Ontario Ranch	Riverside-San Bernardino-Ontario (Ontario, CA)	788	Y	$660,000	$7,179	$5,044	$12,223	1.85%	$18,187
9t	Cadence (3)	Las Vegas-Henderson-Paradise (Henderson, NV)	753	Y	$394,153	$2,944	$0	$2,944	0.75%	$12,859
9t	Daybreak	Salt Lake City (South Jordan, UT)	753	Y	$372,433	$2,509	$1,733	$4,242	1.14%	$2,853
11	Sonterra	Austin-Round Rock (Jarrell, TX)	741	Y	$188,721	$2,872	$1,788	$4,660	2.47%	$28,602
12	Bridgeland	Houston - The Woodlands-Sugar Land (Cypress, TX)	734	Y	$277,489	$2,176	$3,850	$6,026	2.17%	$56,355
13	Inspirada	Las Vegas-Henderson-Paradise (Las Vegas, NV)	645	Y	$335,000	$3,582	$947	$4,529	1.35%	$10,718
14	Cane Bay Plantation	Charleston-North Charleston (Charleston, SC)	628	N	$359,200	$1,797	$0	$1,797	0.50%	$0
15	Stapleton	Denver-Aurora-Lakewood (Denver, CO)	604	Y	$607,800	$2,525	$2,631	$5,156	0.85%	$38,820
	Total Home Sales or MPC's Utilizing Special Taxing Districts / Average Percentage of Home Sales Occurring Within MPC Using Special Taxing Districts		**7405 91.5%**	**14**	**$471,835**	**$4,418**	**$2,340**	**$6,758**	**1.43%**	**$26,994**

Source: RCLCO REal Estate Advisors & Launch Development Finance Advisors

(1) Per RCLCO's Top Selling MPC Report - 2019

(2) Estimates only. Figures are not intended to represent the financing history of the specific MPC. Figures were derived from publicly available information including but not limited to: public offering statements, sales data, developer websites, district website, county treasurer's websites, property tax bilings, and county assessor's websites. MPC's frequently contain multiole financing districts, and the data included in the table assumes a sample property in a single district.

(3) According to the Redevelopment Association of Nevada, the Henderson Redevelopment Agency provided a tax increment subsidy in an amount not to exceed $208 Million to Cadence to finance infrastructure costs.

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Dispelling The Myths About Arizona Community Facilities Districts ("CFDs")

By Pamela Giss

CFDs are financing vehicles that allow Arizona developers to finance public improvements using non-recourse tax-exempt bonds secured by land. Similar financing is available in most states, and these district financing tools are heavily used in Colorado, California, Florida, Nevada and Texas. Many developers have relied on some form of district finance to develop the most successful master-planned communities ("MPC") in the United States. In recent years, Launch has partnered with RCLCO to produce the Financing Mechanisms: Top-Selling MPCs bi-annually.

For a variety of reasons that we will discuss below, Arizona developers have yet to fully take advantage of the benefits of CFDs. In 2019, eight master-planned communities ("MPC") in the Phoenix metropolitan area made the Top-Selling Master-Planned Communities of 2019 list comprised by RCLCO (the "List"). Six of the eight MPCs utilized CFDs to finance infrastructure benefitting the developments that would ultimately be dedicated to public entities. Typical infrastructure financed through CFDs includes public streets, water distribution facilities, sewage collection and transmission facilities, drainage facilities, street lighting, parks and trails.

In this article, we examine common myths about CFDs in light of the six projects on the List. Table 1 to the right provides some basic information regarding the six Arizona MPCs.

TABLE 1

Project	Max. Bond Authorization	GO Target Tax Rate	Representative SA Amount
Eastmark Distrist 1	$ 435,000,000	$ 3.85	$ 3,500
Eastmark District 2	$ 60,000,000		$ 3,500
Verrado District 1	$ 100,000,000	$ 3.30	N/A
Verrado District 2	$ 60,000,000	$ 7.84	N/A
Tartesso West	$ 175,000,000	$ 3.00	N/A
Estrella	$ 200,000,000	$ 1.00	$ 13,000
Vistancia	$ 100,000,000	$ 2.10	N/A
Vistancia West	$ 9,000,000	$ 2.10	N/A
Cadence	$ 45,000,000	$ 3.85	$ 3,500
	$ 1,184,000,000		

Source: Official Statements of each project on emma.msrg.org and Issuer's webpage.

Table 2 below provides information on the type of bonds, the total issuance amount authorized by the jurisdiction, and the estimated bond issued by type.

RCLCO Rank	Project	Developer	Financing Vehicle	Acreage	No. Units Sold 2019	Year of Formation
5	Eastmark	DMB	CFD 1	2,171	1,011	2012
			CFD 2	227		2012
16	Verrado	DMB	CFD 1	8,800	602	2001
			Western Overlay CFD	4,926		2001
19	Tartesso West	Stardust Development	CFD	5,396	545	2004
29	Estrella	Newland	CFD	9,771	452	2000
34	Vistancia	Shea/Stratford	CFD	6,940	431	2002
			Vistancial West CFD	358		2014
44	Cadence	Harvard	CFD	403	390	2015
Total				**38,992**	**3,431**	

Source: Official Statements of each project on emma.msrg.org and Issuer's webpage.

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By Pamela Giss

Myth #1 – Higher Tax Burden Will Drive Arizona Buyers Away

The presence of six MPCs on the List for 2019 with annual sales of approximately 3,431 units across all projects should confirm that buyers are willing to trade the higher property taxes for the high level of master planning, coherent public infrastructure improvements and amenity packages these communities offer. Far from discouraging sales, CFDs free up developer capital for capital intensive amenities such as club houses and recreation clubs, public parks, trails and social programing that drive sales and create high profile developments.

Several projects provide examples of the benefits of CFDs to residents. The Eastmark CFDs (No. 5 on the List) have collectively issued more than $59 million in tax-exempt bonds out of an authorized $495 million to finance public infrastructure, including streets, sewer facilities, storm water facilities, sidewalks, lighting, landscaping and irrigation, among other improvements. This non-recourse financing has enabled the developer, Brookfield Arizona and its predecessor DMB Associates, Inc. to use developer funds that would otherwise be devoted to public infrastructure construction to develop a community center and pool, the Great Park a 90-acre park with a lake, riparian stream, ramada, splash pad, palm plaza, an event pavilion, climbing play structure, a multi-purpose field, lighted basketball and volleyball courts, a dog park and many open spaces, as well as other quality amenities which elevate the project above other regional and national MPCs.

The Verrado CFDs (No. 16 on the List) have issued approximately $61.6 million in tax-exempt bonds out of an authorized $160 million to finance public infrastructure. The net construction proceeds from those bonds can be used to offset the cost of some costly amenities including 2 championship golf courses, trails, public space and other amenities that create demand above what might ordinarily be anticipated with MPCs.

Myth #2 – CFDs Will Bankrupt Projects During Recessions & Jurisdictions Will Be Sued by Bondholders

Four of the six MPCs on the List including Verrado, Tartesso, Estrella and Vistancia were formed prior to the Great Recession in 2007. None of these projects went into default as a result of the economic downturn, although in some cases, the general obligation debt service target tax rose above the originally targeted tax rate at established during formation of the district. Despite this increase in tax rates, no ligation resulted. These projects emerged from the Great Recession to become four of the best-selling projects in the United States.

The only Arizona project to default on bonds during the Great Recession was the East San Luis CFD. Because the City of San Luis is a separate and distinct legal entity from the CFD and not liable for the debts and obligations of the CFD the city was not responsible for the debt obligations of the district. Furthermore, neither the city nor the CFD were sued by bondholders nor was the city's debt rating impacted by the default of the CFD.

Myth #3 – CFDs Are Reserved for Large Scale Projects

There are several smaller CFDs on the List. The CFD formed by Harvard Investments, LLC for Cadence encompasses 403 acres and is authorized to issue $45 million in bonds. Both Eastmark and Vistancia have multiple CFDs including a 227-acre CFD (Eastmark) with authorization for $60 million bonds and a 358-acre CFD (Vistancia West) with authorization for $9 million in bonds. Numerous smaller projects in the Phoenix metropolitan area that did not make the list use CFD financing to create higher quality projects.

While there are economies of scale in larger projects, each project is unique, and the financing designed to suit the project's needs.

Dispelling The Myths About Arizona Community Facilities Districts ("CFDs")

Continued

Myth #4 – CFDs Require Costly Administration for Jurisdictions

Most of the CFDs on the list collect a $.30 tax for administration. Jurisdictions may administer the CFDs internally or may contract with third-party administration firms for the day-to-day management of the CFDs. There is no requirement in the statute that a jurisdiction manage the day-to-day operations internally.

In addition, the CFD Statute permits jurisdictions to appoint five independent directors to serve on the District board in lieu of the City Council or Board of Supervisors ex offico. As such, there are multiple options that public entities my pursue for administering and managing CFDs.

Myth #5 – Bonds Are Issued Too Late to Assist in Construction

Three of the six projects (Eastmark, Estrella and Cadence) combined a general obligation ("GO") bond issuances with a special assessment ("SA") bond issuances. SA Bonds can generate revenue much earlier in the development process allowing developers to access the proceeds much earlier than the GO bonds. Although the CFD Statute allows the CFD to issue bonds to fund construction, in practice most jurisdictions require the developer to fund construction and use bond proceeds for reimbursement. The benefits of the GO bonds accrue over time as the assessed value of the project property increases.

Takeaways

CFDs can be instrumental in financing complex MPCs allowing developers to improve the quality of the infrastructure, accelerate the construction of project infrastructure and/or use developer funds that might otherwise be required to fund infrastructure to increase the quality and quantity of MPC amenities to attract a broader retail audience. In reviewing Table 2 above, no one structure is right for all projects. The developer's objectives and project's unique requirements should define the structure of the financing.

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Infrastructure Costs Post-Coronavirus

By Justin Rich

As lawmakers consider policy solutions to deal with the fallout from the coronavirus pandemic, the topic of infrastructure has surfaced in post-virus recovery plans. The idea of a comprehensive infrastructure bill comes with some partisan controversy and its fate is currently up in the air. Despite any unified federal response, infrastructure will likely be an important element in restarting the economy, particularly at the local level.

Recent Construction Cost Increases and Coronavirus Disruptions

Over the last several years construction costs have risen consistently. Turner Construction's Building Cost Index (non-residential construction projects) showed annual construction cost increases of 5 percent or more from 2017 to 2019 (Source). Going back further to the Great Recession, the same index has averaged annual increases of 4.2 percent.

According to a recent article from the National Association of Home Builders ("NAHB") the decrease of 1.8 percent in building materials prices from March 2019 to March 2020 was the first such year-over-year reduction dating back to the Great Recession (Source). Some individual components also witnessed year-over-year declines.

Additionally, a survey conducted by the Associated General Contractors of America ("AGC") in March, found that nearly half of construction projects experienced project delays or disruptions due to reasons ranging from disruptions in the supply chain (including personal protective equipment) to shortages of skilled workers (Source). AGC's chief economist, Ken Simonson, noted that "investing in infrastructure now…will buy a lot more construction while fuel and materials costs are low." Furthermore, due to the rates of job cancellation as a result of the coronavirus, "construction spending is likely to decline for the foreseeable future."

Construction Cost Trends in the Aftermath of a Recession

Looking back in the not-too-distant-past there is evidence of similar trends in the aftermath of the Great Recession. According to Turner's Building Cost Index, construction costs declined 8.4 percent from 2008 to 2009 (Source). The year over year cost decrease occurred even though the American Recovery and Reinvestment Act was signed in February of 2009, although spending initially got off to a slow start (Source).

For builders and developers required to finance infrastructure as part of their projects, one silver lining of the recession may be lower costs. This, of course, depends on stabilized markets and functioning supply chains that are currently disrupted.

When financing actual infrastructure construction, the aftermath of the coronavirus may provide a favorable bidding environment assuming construction firms that have had job cancellations are eager to fill their project pipelines. Where circumstances allow, it may be of benefit to re-bid projects to take advantage of potentially lower costs.

Impact fees should also be adjusted to reflect current economic realities. Whether the calculation of impact fees is based on actual cost data or relevant cost indices, there should be some adjustment that accounts for current costs.

We are also hopeful that local officials are engaged in issues related to jump starting the economy. Infrastructure projects may be one way to get people back to work after stay-at-home orders are lifted. We believe that engaging local officials directly or through advocacy groups may be a good strategy to get projects moving considering the current economic situation, and local infrastructure projects can act as a stimulus for local economies.

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Boise Housing Market

By Kent Rock

For the past several years the housing market in Idaho, particularly in the Treasure Valley area surrounding Boise, has been one of the fastest growing in the Country. A wide range of people have left their homes in other states to find the mix of urban and outdoors activities available there. As a result, builders, and prices, have been under pressure to keep up with the ever-increasing demand.

So then along comes the COVID-19 pandemic. In Idaho, the Governor, as have governors elsewhere, declared a state of emergency and ordered social distancing, voluntary sequestering and the mandatory closure of all businesses deemed non-essential. Fortunately, the home building businesses have been determined to be essential, so construction continues. So far both builders and their suppliers have not seen a significant drop in demand for houses. However, there are several dynamics that bear watching.

Demand is still high. At the end of March 2020, the 2-month rolling supply inventory in Ada County where Boise is located was only 2.6 months, down from 3.5 months in February, but New Construction Pending Sales were up to 815 in March compared to 766 in February. With houses in such short supply, the demand remains strong for new houses.

Suppliers indicate that the demand remains constant, but that installation may be somewhat slower due to social distancing concerns. Some providers choose not to work in the same house simultaneously with other providers, so some installations are being completed sequentially instead of concurrently. This leads to a lengthen construction period for each home.

Another concern for the market is the availability of buyers. Realtors indicate while there has been a slight decline in buyers, buyers have taken advantage of the lowering interest rates and the availability of online virtual home tours. Additionally, the Governor signed into law a bill that was supported by the Idaho Home Builders Association creating a first-time homebuyer savings account which should bring additional people into the market.

A major concern for the near future that bears watching is the impact of apprehensions related to employment on the ability of potential buyers to obtain mortgage loans. As salaried are reduced and people are furloughed or laid off, some buyers may be required to delay their plans.

All things considered, though, while concerns have been raised due to the pandemic, the impacts on the building and development industry have been minimal and the current outlook is positive. Only time and the future length of the pandemic-related restrictions will tell whether the Boise housing market will continue as strong as it now appears.

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Texas Legislation Impacting Municipal Revenue Generation - Ideas to Consider

By Steven Saules

Nothing has defined 2020 more than COVID19 in terms of lives impacted; employment effected; and revenue constrained across both the private and public sectors. In Texas in particular, the virus happened to arrive on the heels of a tremendous year of legislative fee and property tax reform. This reform – while benefiting Texas citizens – greatly hindered municipality's ability to generate revenue. A few of those legislative bills signed into law are summarized below.

1. **House Bill 852 – Prohibition on value based building permit and inspection fees**

   House bill 852 was signed into law on May 21, 2019 to prevent Texas municipalities from using residential building and construction fees to generate revenues beyond the costs necessitated by their collection. Chapter 214 of the Local Government Code was amended to include Section 214.907, which states, "In determining the amount of a building permit or inspection fee required in connection with the construction or improvement of a residential dwelling, a municipality may not consider (1) the value of the dwelling; or (2) the cost of constructing or improving the dwelling." And the disclosure of such information may not be required as a condition of obtaining a building permit. HB852 effectively eliminated any incentives that may have existed for a municipality to prioritize higher-fee generating residential projects or to produce surplus revenues through the collection of permits and construction fees.

2. **House Bill 347 – Relating to consent annexation requirements**

   Annexations are a powerful city tool used to expand territorial boundaries and generate property and sales tax revenues; especially for Texas cities - which do not collect state tax revenues. House Bill ("HB") 347 was signed into law on May 24, 2019 and further limited Texas city's ability to force annexations. HB347 had the net effect of making all 254 Texas counties equal in their right to consent to vote to annexation. HB347 eliminated the former two-tiered system established in Senate Bill ("SB") 6, the Texas Annexation Right to Vote Act. This former two-tiered system required voter elections before annexation in counties with a population greater than 500,000 people (Tier 2); however, did not apply to the 238 Texas counties with a population of 500,000 or fewer people (Tier 1), unless the county held an election to change its Tier status.

3. **Senate Bill 2 – Texas Property Tax Reform and Transparency Act**

   Senate Bill 2 - the Texas Property Tax Reform and Transparency Act – was signed into law on June 12, 2019 as a means of slowing the growth of property tax bills in Texas. Most of the provisions of the SB 2 became effective over a staggered schedule that started in January 2020, or January 2021 for appraisal districts with a population below 200,000 people. SB2 requires a voter election before a government can increase their property tax revenue by more than 3.5 percent. The "No-New-Revenue Tax Rate" (formally Effective Tax Rate) refers to the tax rate a county would need in order to raise the same amount of property tax revenue after changes in appraised values – this formula did not change. The "Voter-Approval Tax Rate" (formally Rollback Tax Rate) is the maximum tax rate that a county is permitted to set without voter approval – this figure decreased from 8.0 percent to a 3.5 percent threshold with SB2, with exception (i.e. new construction, three-year averaging, etc.).

These municipal revenue constraints are forcing jurisidictions to get creative and to deploy economic development tools that have traditionally been initiated by the private development industry. One such tool being eyed more frequently by municipalities are public improvement districts ("PIDs"). Since their inception in 2007, PIDs have served as a public finance tool for developers to issue tax-exempt bonds to fund infrastructure on the front-end of development. In many cases these developments may not have been feasible and/or may not have occurred in the absence of the PID.

Texas Legislation Impacting Municipal Revenue Generation - Ideas to Consider
Continued

This feasibility is resonating with municipalities as they seek tools that make their departments and municipalities viable. Pursuant to the PID Assessment Act in Chapter 372 of the Texas Local Code, PIDs may be created by cities or counties seeking to deploy long-term bonds secured by special assessment liens levied against all benefiting property within the PID. Texas cities and counties increasingly promote PIDs to their development community to secure property and sales tax revenue growth generated from new real estate development, without impacting that city's statutory debt bonding capacity or credit rating.

Municipalities are also promoting PIDs to incentivize the annexation of development property in unincorporated areas or extraterritorial jurisdictions that may have been previously resistant to incorporating. If the city decides to annex property that already includes a PID into its boundaries, that city is not forced to pay off the assessment bonds. The professionals at Launch Development Finance Advisors anticipate the continued use of PIDs for both the private sector to accelerate cash flow, as well as the public sector to nurture the creation of future property and sales tax revenues during a period of tightening revenue growth.

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Uncertain Times Worksheet

Uncertain Times Worksheet

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Success Strategy		
1	*Forget About Yourself and Focus on Others.*	(a) (b) (c)
2	*Forget About Your Product and Focus on Your Relationships.*	(a) (b) (c)
3	*Forget About Your Losses; Focus on Your Opportunities.*	(a) (b) (c)
4	*Forget About the Sale: Focus on Creating Value.*	(a) (b) (c)
5	*Forget About Your Difficulties; Focus on Your Progress.*	(a) (b) (c)
6	*Forget About the Future: Focus on Today.*	(a) (b) (c)
7	*Forget About Who You Were; Focus on Who You Can Be*	(a) (b) (c)
8	*Forget About Events; Focus on Your Responses.*	(a) (b) (c)
9	*Forget About What's Missing; Focus on What's Available.*	(a) (b) (c)
10	*Forget About Your Complaints; Focus on Your Gratitude.*	(a) (b) (c)

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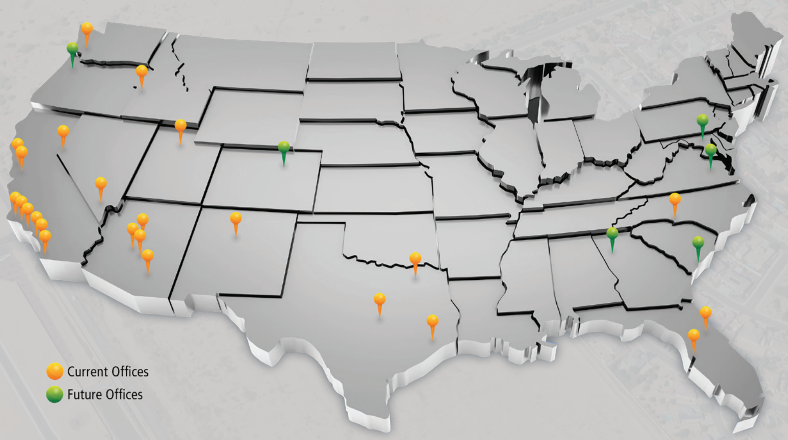

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