THE LAUNCH REPORT
2Q23 NEWSLETTER

IN THIS ISSUE:
HOW TO GET YOUR COMPLIMENTARY COPY OF CARTER FROELICH'S BOOK "LAND TO LOTS - HOW TO BORROW MONEY YOU DON'T HAVE TO PAY BACK AND LAUNCH MASTER PLANNED COMMUNITIES";
TEXAS FUNDING INNOVATION - MUD FOWARD FUNDING CAPITAL APPRECIATION BOND;
PAVING THE WAY FOR A MPC

LAUNCH
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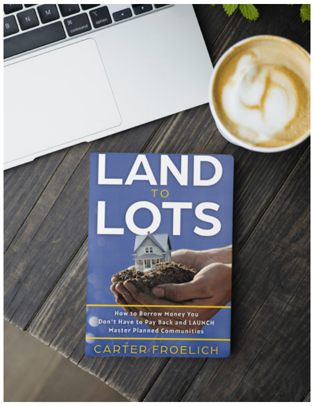
Get Your Complimentary Copy of Land To Lots – How To Borrow Money That You Don't Have To Pay Back to LAUNCH Master Planned Communities



In Launch's continued effort to provide meaningful strategies to the development industry, we are happy to provide a complimentary copy (only pay shipping) of Carter Froelich's new book: Land to Lots™ How to Borrow Money You Don't Have to Payback to Launch Master Planned Communities by clicking on the link below:

www.launch-mpc.com

In the book you'll learn:

- How to access non-recourse, low costs, long term, infrastructure financing that will be ultimately repaid by others;
- Strategies to create certainty and flexibility with jurisdictions to allow you to adapt your project and financing to address changes in the market;
- How to lower your overall cost of capital;
- Strategies to reduce, eliminate and/or defer project costs; and
- Tactics to increase project profitability and returns.

Secondly, and in order to demonstrate the power of these financing tools, you can also request **a complimentary bond sizing analysis of your project** by providing us with your project information. If you're interested, click on the link below and follow the instructions.

www.launch-mpc.com

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Texas Funding Innovation - Closing of First Ever MUD Forward Funding Capital Appreciation Bond By Ryan Mills

By listening to our Texas developer client's Project DOS™ (Dangers, Opportunities, and Strengths), we are happy to announce the successful closing of the first ever non-recourse, tax-exempt Municipal Utility Districts ("MUD") Forward Funding Capital Appreciation Bond ("MUD Forward Funding CAB"), marking the addition of a game changing financial product that **will allow Texas developers and builders utilizing MUDs to accelerate the receipt of future MUD bond proceeds.**

MUDs have long been a vital tool for Texas developers for years to finance water, sewer, flood control, roadway and recreational facilities (collectively, "Infrastructure") for decades. By our account, there have been over 1,200 MUDs created to assist in the financing of Texas' growth. The challenge with MUD financing, however is that developers have to expend tens of millions of dollars to turn on the first tap, flush the first toilet, sell lots to builders, have builders sell and construct the homes and place the homes on the tax rolls before MUD bonds can be issued to provide reimbursements for the costs of the Infrastructure.

Should the developer want to monetize the future MUD income stream, until the creation of the Mud Forward Funding CAB, the only available solution was to "sell" the future income stream to a private investor at a discount rate ranging from 12% to 16%. **The MUD Forward Funding CAB allows us to assist our clients to monetize the future MUD income stream at a tax-exempt interest currently in the 7.5% to 8% range.**

Launch Development Finance Advisors ("Launch") working with other professionals, has created and closed its first ever MUD Forward Funding CAB that monetizes future MUD receivables during the earlier stages of development through a tax-exempt bond issuance.

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Terms of the recently closed transaction follow:

- **Par Amount** - $35.5 million
- **Net Proceeds** - $33.2 million
- **Coupon Rate** - 7.50%
- **Yield** - 7.76%
- **Closing Date** - June 28, 2023
- **Maturity** - December 1, 2029
- **MUD Eligible Improvements Constructed as of Closing** - $42.4 million

The following components make the MUD Forward Funding CAB a unique real estate financing tool:

- **Accelerates cash flow into the Proforma** - The MUD Forward Funding CAB allows the developer to receive funds in the early periods of development instead of waiting for the certified tax assessment value growth necessary to issue bonds, which positively impacts the project's internal rate of return (IRR).

- **Non-Recourse to the developer** - The bonds are collateralized solely by the assignment of future MUD bond proceeds until the principal and accrued interest is retired. The bonds do not require encumbrance of the land or letters of credit, cash or guarantee from the developer.

- **Issued outside of Texas Commission on Environmental Quality ("TCEQ") rules** - Launch was able to secure a conduit issuer thereby bypassing requirements for MUD bond issuance. Additionally, the MUD Forward Funding CAB does not impact or alter the way that MUD Bonds are issued in Texas and the TCEQ maintains all of its oversight related to this process.

- **No scheduled debt service payments until the bonds mature** - The structure of the MUD Forward Funding CAB creates flexibility for the developer by delaying scheduled debt service payments until the bonds mature or are paid off prior to maturity by the issuance of the BANs and/or Bonds by the MUD.

- **The developer retains all future cash flows after the MUD Forward Funding CAB is repaid** - After the principal and accrued interest of the MUD Forward Funding CAB are repaid, the developer retains the right to future MUD reimbursements. The assignment of MUD bond proceeds directed to the repayment of the MUD Forward Funding CAB is released after repayment.

- **Tax-exempt status** - Launch spent three years collaborating with other professionals in the public finance world to secure a tax-exempt status of the MUD Forward Funding CAB Bond. The tax-exempt status significantly lowers the cost of funding infrastructure thereby increasing profitability.

- **Timing** - From start to finish, Launch can complete the MUD Forward Funding CAB within 3 to 4 months.

If you are interested in learning how the MUD Forward Funding CAB can accelerate the receipt of your future MUD Bond proceeds, contact Carter Froelich, CPA at carter@launch-dfa.com or Ryan Mills at ryanm@launch-dfa.com, respectively.

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Paving the Way for a Master Planned Community

By Pam Giss

Background

A developer is presented with a $90 million infrastructure plan by a local water company to construct water infrastructure facilities for a 10,000 unit master planned community ("MPC"). In addition, the project requires significant sewer and stormwater infrastructure as well as parks, public services, arterial and collector roads in excess of $230 million. There is nothing unusual about this fact pattern in 2023 – the project could be in Nevada, Arizona, Texas, Idaho or any number of other states where growth has pushed development well past the reaches of existing infrastructure. **The question is, what can builders and developers do to offset exorbitant development costs making positive returns more likely?**

Creating a financing Path & Plan™ at the outset of each project not only better ensures the success of the project, but it creates a financing framework for segregating, financing and tracking of public infrastructure costs throughout the development of the project. Some of the costliest mistakes in project public financing occur when developers or builders: (i) wait to consider public finance mechanisms and structures until entitlements are in place and preliminary plat approval is imminent and, (ii) fail to develop and implement a process for tracking reimbursement documentation.

Recommendation #1

Develop a Project Path & Plan™ & outline the Key Provisions in Your Project Development Agreement.

Too often, developers and builders focus on their development needs and believe that negotiating for public finance tools in a project development agreement jeopardizes their position on other items. However, a failure to address financing at this stage frequently results in the refusal by the jurisdiction to discuss financing alternatives later in the development process or the approval of public financing tools that do not adequately meet the developer's or builder's needs.

Tools common for financing MPCs in the majority of states include:

1. **Development Impact Fees (DIF).** MPCs are uniquely positioned to benefit in jurisdictions which have enacted DIF's due to the size of the projects and scale of the infrastructure requirements. As a matter of law, builders and developers are entitled to credit for all infrastructure that the developer or builder constructs that is a part of the capital improvement plan enacted by the jurisdiction. MPC developers should have a discussion with the jurisdiction regarding the jurisdiction's willingness to modify the capital improvements plan to include additional infrastructure that the developer is required to build so that all DIF dollars generated by lots in the MPC pay for infrastructure in the MPC. In some cases, it makes sense to create a new service area that only comprises the MPC to streamline tracking.

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2. **Special District Financing.** Most states enacted legislation that provides mechanisms for builders and developers to finance public, and in some cases private, infrastructure. This is money borrowed by the builder/developer that is paid back by the end user. While district finance rarely covers all costs of infrastructure, many developers will not consider large land purchases in jurisdictions that refuse to form special districts. The decision about whether to use special assessment ("SA") and/or general obligation ("GO") bonds, the amount of the additional tax or assessment per lot, the timing of the bond issuance and the choice of team members and consultants are a function of jurisdiction, project specific needs and limitations, product offerings, financing options (internal and external costs of capital), target homebuyer and the competitive market surrounding the project.

    a. Special Assessment / Special Levy Bonds – For builders with higher internal costs of capital and borrowing costs, special assessments can replace higher priced alternatives providing a source of funding from which to build a portion of the eligible infrastructure. This type of financing, which can be generated at the outset of construction, will boost the developer's internal rate of return.

    b. Ad Valorem Tax / General Obligation Bonds – GO bonds generate revenue as the project is built out and the assessed value grows resulting in greater nominal dollars. GO bonds typically do not provide a source of funding to build infrastructure out of bond proceeds but reimburse the developer/builder for public infrastructure already constructed. Many projects use a combination of SA and GO bonds to finance infrastructure in MPCs.

    c. Tax Increment Financing – Tax increment is more commonly used in commercial projects; however, certain markets such as Texas, occasionally combine tax increment redevelopment districts ("TIRZ") with other special districts. While Arizona does not permit tax increment financing, Launch has developed a mechanism for receiving the jurisdiction's share of annual property taxes that has been accepted by a number of jurisdictions in the Phoenix MSA.

3. **Cost Sharing Agreements.** Large investments in infrastructure often serve property outside of the MPC. Some jurisdictions have cost recovery ordinances that specify what infrastructure is eligible for cost recovery and how reimbursement of shared or oversized infrastructure occurs. Better yet, is if the devloper/builder can partner with other developers/builders in the area and work together to construct the infrastructure and share the costs of construction via a well thought out Cost Sharing.

4. **Launch Bonds.** In jurisdictions where special assessments are not available, MPCs may qualify for a Launch Bond and avoid the jurisdiction's approval process altogether. Launch Bonds replace a portion of the construction loan, are land secured and paid off using the proceeds of lot sales. Alternatively, Launch Bonds can be used to monetize the proceeds of Texas MUD bonds to accelerate cash into the proforma. We recently completed the Launch Bond – A Texas Municipal Utility District Forward Funding Capital Appreciation Bond which is outlined further in this issue of The Launch Report.

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Because developers can only be reimbursed for a particular cost once, it is critical that the developer have a strategy outlined as to which financing vehicles (e.g., DIF, Special Districts, Reimbursement Agreements, Cost Sharing Agreements, Jurisdiction, etc.) will fund the particular costs and how these specific costs will be tracked from the start of the project and accounted for in a format required by the jurisdiction, bondholders or other stakeholders. Launch relies upon a cost segregation analysis to identify and segregate costs (shown below):

COST SEGREGATION ANALYSIS

				Special District Eligible				
Item No.	**Description**	**Total Infrastructure Costs**	**DIF Reimbursements(1)**	**SA Bonds (2)**	**GO Bonds (2)**	**Cost Sharing Agreements (3)**	**Total Reimbursed**	**Unfunded Costs**
1	Water Distribution (Lines)	$ 4,550,000	$ -	$ 4,550,000	$ -	$ -	$ 4,550,000	$ -
2	Water Booster/ Treatment (Campus)	$ 42,000,000	$ -	$ 6,793,136	$ 26,445,594	$ 8,761,270	$ 42,000,000	$ -
3	Water Production (Wells)	$ 47,700,000	$ -	$ 47,700,000	$ -	$ -	$ 47,700,000	$ -
4	Wastewater Collection	$ 10,500,000	$ -	$ 10,500,000	$ -	$ -	$ 10,500,000	$ -
5	Reclaimed Water	$ 62,530,000	$ -	$ -	$ 62,530,000	$ -	$ 62,530,000	$ -
6	Streets (4)	$ 145,600,000	$ 139,710,000	$ 5,890,000	$ -	$ -	$ 145,600,000	$ -
7	Parks and Recreation	$ 22,300,000	$ 19,000,000	$ -	$ -	$ -	$ 19,000,000	$ 3,300,000
8	Fire	$ 4,100,000	$ 3,640,000	$ -	$ -	$ -	$ 3,640,000	$ 460,000
9	Police	$ 2,860,000	$ 2,860,000	$ -	$ -	$ -	$ 2,860,000	$ -
	Total	**$ 342,140,000**	**$ 165,210,000**	**$ 75,433,136**	**$ 88,975,594**	**$ 8,761,270**	**$ 338,380,000**	**$ 3,760,000**

Footnotes:

(1) Impact fees include $13,382 for streets, $1,820 for Parks and Recreation, $349 for Fire and $274 for Police.
(2) Assumes SA bonds are used to finance local infrastructure and GO bonds are used to finance regional infrstructure that not otherwised financed through DIF.
(3) Assumes oversizing costs for the Water Treatment Campus benefiting neighboring landowners are recovered through a cost sharing/recovery agreement with the jusidiction, whereby benefiting landowners pay the builder/developer upon filing a preliminary plat (or alternatively the jurisdiction will reimburse the builder/devleloper through DIF.
(4) Assumes SA bonds will be used to finance collector roads and DIF will be used to finance arterial roads.

Recommendation #2

Develop a plan for segregating and tracking your project documentation and insist that key personnel and consultants implement that plan.

Typically, the financing challenge is not limited to segregating infrastructure costs into separate reimbursement "buckets", but also to track the costs and associated documentation during construction. Failing to adequately prepare prior to the start of construction can easily result in hundreds of thousands of dollars in costs later in the project. Launch, utilizing our Launch Reimbursement System ("LRS") has tracked hundreds of millions of dollars of MPC reimbursable costs for years, and the key to cost efficient timely turnarounds on reimbursable project costs is developing a cost tracking game plan that engineers, project managers, project accountants and other key personnel understand and follow throughout the development process.

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Documentation requirements will vary slightly by state and jurisdiction; however, systems should be developed across jurisdictions to streamline processes as much as possible. A typical project tracking dashboard for a LRS is shown below.

Special District No. 64 Reporting Dashboard

Description	Amount
Acquisition Fund Beginning Balance	$ 30,580,867
Reimbursements Received	$ 8,370,968
Remaining Balance	$ 22,209,900
Pending:	
Submitted to City	$ 2,524,128
Binders In-Process	$ 11,369,425
Total Pending	$ 13,893,553
Balance after Pending	**$ 8,316,346**

Reimbursement Packages	
Completed / Reimbursed	2
Submitted to City	1
Binders In-Process	5
Total	**8**

Project #	Project	Eligible Amount	Reimbursed	Submitted to City	Binders In-Process	Reimbursed (Savings / Overrun)
1	Grand Teton Wet Utilites (Including Aviary Outfall)	$ 7,984,059	$ 6,865,540	$ -	$ -	$ 1,118,519
2	Grand Teton Dention Basin (within Parcel 2.1)	$ 1,911,990	$ -	$ -	$ 141,571.33	$ -
3	Grand Teton Drive (Decatur Boulevard to Aliante Parkway)	$ 6,042,675	$ -	$ -	$ 3,995,951.81	$ -
4	Elkhorn Road (Club Alliante to Decatur)	$ 6,687,595	$ -	$ -	$ 4,194,484.18	$ -
5	Decatur Boulevard (Elkhorn Road to Farm Road)	$ 3,701,356	$ -	$ 2,524,128.48	$ -	$ -
6	Farm Road (Decatur Boulevard to Aviary Way)	$ 4,790,613	$ 1,505,428	$ -	$ -	$ 3,285,185
7	Aviary Way (Elkhorn Road to Farm Road)	$ 5,411,038	$ -	$ -	$ 1,896,798.47	$ -
8	Aviary Way (Farm Road to Grand Teton Drive)	$ 4,848,458	$ -	$ -	$ 1,140,618.79	$ -
	Total	**$ 41,377,782**	**$ 8,370,968**	**$ 2,524,128**	**$ 11,369,425**	**$ 4,403,704**

Developers and builders with multiple projects need to preserve its institutional knowledge of its reimbursable costs given turnover in key positions. We recommend having a third-party track reimbursements across projects in different jurisdictions to ensure the focus on reimbursement of costs is not lost through attrition, boom and bust and the LRS provides the institutional knowledge and expertise for the company.

Launch is prepared to assist on any issues or problems related to structuring, financing or tracking public infrastructure for MPCs or commercial/industrial projects. For questions related to establishing a Project Path & Plan™ for your project, contact Pamela Giss at pamelag@launch-dfa.com.

Land to Lots™ Podcast

By Carter T. Froelich, CPA

Land to Lots™ - The Podcast

Over the last quarter we have added the following Land to Lots™ podcasts to our library.

New

Episode 30 – MUD Forward Funding Capital Appreciation Bond
Episode 29 – Interview with Carter Froelich on Carter's Book - Land to Lots™ (Part 2 of 2)
Episode 28 – Interview with Carter Froelich on Carter's Book - Land to Lots™ (Part 1 of 2)
Episode 27 – Recouping Oversizing Costs

Episode 26 – Show me the Money
Episode 25 – NAHB Podcast
Episode 24 – An Interview with Tripp Davenport of FMS Bonds
Episode 23 – The Project Diagnostic™ (Part 3 of 3)
Episode 22 – The Project Diagnostic™ (Part 2 of 3)
Episode 21 – The Project Diagnostic™ (Part 1 of 3)
Episode 20 – Launching MPCs with the Launch Sequence™ (Part 2)
Episode 19 – Launching MPCs with the Launch Sequence™ (Part 1)

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