



Colorado Springs City Council and Budget Committee
107 N Nevada Ave, Colorado Springs, CO 80903
719-385-5986

March 30, 2022

RE: Special Improvement District Formation – CO Crossing Metro District No. 2

Grays Development Company, Inc. (Grays) is excited to share additional details surrounding our proposed Special Improvement District (SID) inside of the CO Crossing Metro District No. 2. As mentioned in our meeting with the budget committee on March 22, 2022, an SID, in the structure we are proposing, is utilized to replace expensive private traditional financing, and, in turn, fight increasing housing costs.

To finance residential land development projects, a developer will typically utilize private traditional financing sources which boast borrowing costs for capital of 15-20%. This proposed SID, if approved, would allow Grays to finance the installation of a large portion of the project's public improvements through the SID proceeds. The cost of capital resulting from the SID is currently estimated to be 5-6% per annum, far less expensive than private traditional financing sources. To complete the private infrastructure, it is anticipated that the SID proceeds will be paired with either bank or private debt. The cost of capital for private improvements is estimated to fall between 6-9%. Therefore, if the SID is approved, the project's blended cost of capital can be expected to be reduced to 5.5-7.5%. For a project of this size, the decrease in financing costs resulting from the SID can be expected to create approximately \$15,000 of savings per-lot. This decrease in cost will allow Grays to sell developed lots to the homebuilder (Lokal Homes) at a lower price. Thus, allowing Lokal to sell homes at a lower price.

Mechanically, once the SID is approved and bonds are issued, Grays will have access to bond proceeds that will fund the cost of the public infrastructure for their projects within the SID boundaries. Simultaneously with issuance of the bonds, an assessment will be imposed, and an assessment lien placed on each lot within the boundaries of the SID residential project. This lien acts as a security mechanism ensuring that Grays cannot sell these lots without paying the assessment, clearing the outstanding assessment lien which will result in payment of the bond principal and interest. As public infrastructure is installed, Grays will draw the available bond project funds which will be managed closely by the district officials. Furthermore, within the bond covenants, language will be included ensuring that these assessment liens cannot be passed on to homeowners. Grays will pay the SID assessment as it sells their finished lots to Lokal. Unlike traditional ad valorem tax bonds where homeowners are burdened through increased property taxes, this SID, and the assessment that will support repayment of the bonds, is purposefully structured to never impact any end-user. Instead, it merely acts as an alternative source of public financing for the developer.

The successful implementation of this SID within the CO Crossing Metro District No. 2 will allow the homebuilder flexibility to deliver homes at a lower price than they could with private traditional financing. Grays and Lokal share a vision of providing attainable housing to Colorado. Over the past two years, we have all experienced unprecedented inflationary pressure. Colorado Springs is no exception to this, experiencing home price increases of approximately 40%. These cost increases have made homeownership incredibly difficult for many members of the Colorado Springs community. Approving this SID will allow Grays and Lokal the opportunity to alleviate pricing pressure and deliver attainable housing to a community in desperate need of additional housing supply.

We look forward to hearing your comments and questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Ryan Lantz", is written over a light blue horizontal line.

Ryan Lantz
Managing Principal
Grays Development Company, Inc.