



**Economic & Planning
Systems, Inc.**

The Economics of Land Use

August 10, 2023

Mr. Jeffrey Jewell
Director of Economic and Community Development
City of New Braunfels
New Braunfels, TX 78130
jjewell@newbraunfels.gov

Subject: Mixed-Use Development Scenarios and Feasibility Analysis; EPS #233063

Dear Mr. Jewell:

This letter provides a specific Scope of Work related to the 16-acre site that the New Braunfels Economic Development Corporation (EDC) agency secured several years ago and is now preparing for a developer solicitation process. The purpose of the Scope of Work that follows is to establish a range of development scenarios for the EDC and City with a process to refine the options in preparation for a developer solicitation. The analysis will include a financial model that will enable the EDC to test different development programs and select the optimal combination of land uses and appropriate level of financial return. As you know, there are many project variables that affect the outcome of this analysis, and the work products described below are robust with sufficient functionality to test a wide range of assumptions.

To enable the EDC and City to see the larger process, the way these task support the larger mission is shown below. The initial tasks included in this scope provide the foundation for the following actions:

- Establish preliminary Term Sheet (TS) framework
- Define criteria for evaluation and select developer
- Issue a developer solicitation RFP and select the team that best fulfills the goals of the EDC and City
- Execute the Exclusive Negotiating Agreement (ENA)
- Draft the Developer Agreement (DA) and negotiate with selected developer
- Schedule the project groundbreaking and commence with construction

EPS is available to help you with the future work, recognizing that you may have internal resources for many of them. The scope shown below provides the incremental step for the EDC that will advance the project and create a focus on the most relevant issues at this time. We look forward to working with you.

Sincerely,

ECONOMIC & PLANNING SYSTEMS, INC.

A handwritten signature in blue ink that reads 'Andrew Knudtsen'.

Andrew Knudtsen
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Scope of Work

Task 1: Project Initiation

To begin the project, EPS will meet with New Braunfels staff on-site to understand the vision of the community, to walk the parcel, and to establish a basis for the balance of the work program. As part of this two-day trip, EPS will review the scope of work and ensure the deliverables associated with each task align with the goals of the Economic Development Corporation (EDC) as it relates to this site. Additionally, EPS will lead a comprehensive visioning process for the site, engaging with key stakeholders. The objective is to create a shared vision that aligns with the community's values, maximizes the land's potential, and promotes sustainable development while addressing the needs and aspirations of all involved parties.

Team Workshop #1: EPS will facilitate an in-person workshop with selected representative from the City and the EDC in which we will listen to members discuss objectives for the site, identify key questions for additional research, and establish parameters for the larger sequence of actions that will lead to an effective P3.

Task 2: Demographic and Economic Framework

EPS will document trends in the New Braunfels market area to establish the degree of change that has occurred in the recent past, as well as to forecast the change anticipated in the next 10 years. EPS will collect demographic data to cover all attributes of the population, including age, race, educational status, income distribution, and commuting characteristics. The data will be portrayed relative to the metropolitan areas of San Antonio and Austin to clarify how the local market area contrasts with those within the larger region.

Economic trends will include job formation by two-digit NAICS sector by location, with trends back to 2010 to show the rate of growth over the past decade. An emphasis will be placed on impacts from the pandemic, noting how quickly recovery occurred and in which sectors. EPS will use the local Council of Government factors to develop an employment forecast, isolating the TAZ geographies most relevant to New Braunfels. If needed, EPS can provide a floor area projection for industrial, office, and retail uses that is based on the job forecast.

The purpose of this section is to frame the potential for development on the 16-acre parcel that the EDC has identified for a public private partnership. The information collected in this section will be used to inform development program options as well as used in the Developer Solicitation, to be conducted later in the process.

Task 3: Market Trends and Potentials

EPS will identify market trends for residential and commercial uses. The commercial will include office, flex, light manufacturing, and retail and EPS will track trends by land use within the New Braunfels market area to document the momentum of the market. The data will include trends since 2010 in rents, vacancy levels, and deliveries relative to total inventory by asset class. The data can be used to understand the degree of market pressure that exists for any asset category and how the prospective EDC project fits within the commercial real estate market context.

The data will be broken out by subarea, to show relative market performance by location. The information will be depicted in charts and tables to easily convey the degree of change that has occurred and where opportunity exists. Once EPS has collected the information, we will conduct key stakeholder interviews to vet the data with local brokers and calibrate findings based on local insights. EPS will work with EDC staff to identify the brokers most capable of offering perceptions on the trends as well as development potentials for the site under consideration and will compile them to further inform that data set.

For the residential uses, EPS will analyze market trends related to the housing market and will capture the activity for ownership and rental product, with an emphasis on the breath of pricing available within the market. From this context, EPS will document the household income for which housing is readily available and will note any segments for which housing needs are not represented by the market.

The purpose of this task is to gauge the level of market demand for residential development as a potential component of any future development and with a particular focus on units (for sale or rent) affordable to households earning between 60%-120% of Area Median Income (adjusted for household size).

Team Workshop #2: At the completion of Task 3, EPS will present its findings to the Board in a virtual workshop. The purpose will be to listen to the Board's direction as to certain land uses that will need to be emphasized in the financial feasibility modeling to be conducted in the following tasks.

Task 4: Development Scenarios and Financial Feasibility Analysis

Task 4.1 - Financial Feasibility Model

EPS will construct a financial feasibility model to account for costs and revenues for the project. The model will be dynamic and capable of testing various density and development program concepts. The model will include static and dynamic components to enable the team to test metrics such as Return on Cost (ROC) as well as Internal Rate of Return (IRR). The construction of the model will include a number of sensitivities, such that development programs can be tested under a wide range of scenarios. These will include factors for density, land use type, parking assumptions (structured or surface), cost escalation, and opportunistic/conservative rates pertaining to rents, absorption, vacancies, etc. The goal is to build a robust tool that enables City staff to understand the full extent of development concepts and the corresponding financial implications.

Task 4.2 - Public Revenue Potentials

As part of the financial feasibility work, EPS will incorporate layers of public revenues that can be pledged to the development. More common examples include a commitment of property tax and/or sales tax. Alternatively, there are agreements that can be structured to direct revenue streams that are based on additional fees that can be paid by end users (tenants and/or customers) that can act as an incentive, independent of current public revenues. These can be incorporated into the model with the ability to toggle them on or off during sensitivity testing.

Task 4.3 - Sources and Uses of Funds

Based on the iterations developed in Task 4.1 and 4.2, EPS will provide a summary of Sources and Uses for up to three development programs. Based on past experience with communities forming P3 projects, some stakeholders like to see development programs focused on civic benefit, while some prioritize economic viability. The goal is to show the financial performance under different assumptions, with a summary of the net returns to the City and/or net incentives required of the City under different assumptions.

Team Workshop #3: EPS will facilitate an on-site team workshop with stakeholders from the EDC and City to review alternative development programs and financial implications and arrive at a desired set of land uses.

Task 5: Findings, Recommendations, and Refinements

EPS will provide results of each of the tasks as well as a summary of the Team Workshops that will provide a basis for the EDC and City to move forward with the project. The culmination of this effort will be the clarity and consensus needed to advance the P3 on this site. EPS will advise the EDC as to the need for tax increment financing or related forms of incentives. In addition to quantifying the financial parameters, EPS will also advise the City as to development program elements that are particularly influential on the financial performance and how to leverage them. The findings will include a summary of key project components, revenue estimates, and suggested refinements to include in the plan prior to issuing the developer solicitation.

Budget

EPS proposes to complete the requested analysis on a time and materials basis not to exceed \$89,160. The approximate allocation by task and staff level is shown in **Table 1**.

Table 1. Proposed Budget by Task and Staff

Description	Principal-in-Charge	Project Manager	Associate	Production	Total
Billing Rate	\$270	\$195	\$145	\$95	
Task 1: Project Initiation	16	16	2	0	\$7,730
Task 2: Demographic and Economic Framework	8	20	10	0	\$7,510
Task 3: Market Trends and Potentials	24	32	32	0	\$17,360
Task 4: Development Scenarios and Financial Feasibility Analysis	36	72	72	0	\$34,200
Task 5: Findings and Recommendations, and Refinements	20	36	24	8	\$16,660
Total Hours	104	176	140	8	
Dollars by Person	\$28,080	\$34,320	\$20,300	\$760	\$83,460
Direct Costs					
Data Acquisition (CoStar)					\$1,500
Travel and Misc.					\$4,200
Total Direct Costs					\$5,700
Total Project Budget					\$89,160

Source: Economic & Planning Systems