Rangely Development Project

Background

An analysis of the general economic conditions of Rangely reveals two primary obstacles to economic growth: 1.) A lack of "sense of place" in the downtown, and; 2.) Growth barriers for one of the Town's most important non-extraction based economic drivers – CNCC.

Broadly defined, economic drivers, also referred to as "primary jobs" are entities that sell goods or services that are produced locally, but are acquired from outside the Town, thereby attracting outside investment and spending. There are many important non-primary jobs and establishments that every community needs; however, they are largely a result of the presence of strong economic drivers. For example, retail establishments, banks[1], municipal services, etc., arise when the local population size is sufficient to support them. However, in order to attract primary jobs, communities must invest proactively to develop themselves into an attractive location that is able to compete in the global marketplace; and that means providing at very least a minimum level of service in the non-primary categories such as municipal services, banks, and essential retail.

Inherently, the need to attract demand drivers at the same time as developing the community creates a "chicken or the egg" problem. But in reality, it's a "chicken AND the egg" problem. Communities must develop their chickens, while simultaneously developing eggs, meaning, that community development and livability issues must be addressed simultaneously with efforts to attract primary jobs. Focusing on one or the other individually is a failed model of economic development. Therefore, the following strategy focuses on addressing quality of life and community development challenges. Simultaneously, although not described in detail in this document, are efforts by both the Town and the County to develop additional primary jobs and economic drivers.

There are no "silver bullets" in economic development, meaning that there are inherent risks involved with any project, but the risks of waiting are greater than the risks of doing something. Proactive communities begin where they are, leveraging existing assets and strategic opportunities to make calculated risks that have the greatest potential of making an impact.

The Challenges

1. Lack of "Sense of Place" Downtown

The downtown Rangely area is lacking the amenity mix needed to create the kind of "sense of place" required to attract employers and employees, increase the weekend population (college students as well as permanent residents), and reduce retail leakage. When a potential employer or student comes to town, the amount and quality of available amenities plays a significant factor in whether or not to locate to Rangely. If a potential Rangely resident is not satisfied with the level of amenities offered, they will likely move to another town that has what they

[1] Banks can be considered primary jobs to the extent that the bank primarily services the local population; it is possible for banks to become economic drivers if they are providing goods and services to other areas, thereby "importing" outside money in exchange for banking services. A good example would be investment banks, whose clients are typically non-local.

are looking for. A perfect example is the Blue Mountain Mine. A significant portion of their workforce commutes from Vernal, due to community development issues. In order compete with other similar communities, the lack of amenity offerings in Rangely must be addressed.

2. Growth Barriers at CNCC

CNCC is one of Rangely's strongest assets and one of Rangely's best opportunities for growth in the community. Through expansion of programs and sports teams, CNCC has the ability to increase the student and staff population in Rangely. College students in particular can be a great boon to the local economy, bringing with them dollars to be spent on housing, retail, and recreational activities. One of the biggest obstacles to growing CNCC programs is the lack of high-quality housing options for students and staff. The existing housing stock available for students and staff is lacking–both in quantity and quality. In order for CNCC to expand, the housing issue must be addressed.

Finding a Solution

When it comes to choosing catalytic real estate development projects, the goal is to pursue projects that will provide the biggest long term economic impact for the least amount of money. This means focusing on highly strategic projects, and carefully considering the size, location, and type of development.

The goal of the development project is to:

1. Create the conditions necessary to recruit employers, employees, and students to Rangely by providing missing amenities;
2. Position the community to attract tourism and highway traffic spending; and
3. Add local spending opportunities to capture retail leakage and feed those dollars back into Rangely economy.

The Project

Project Location

The four project location objectives are to:

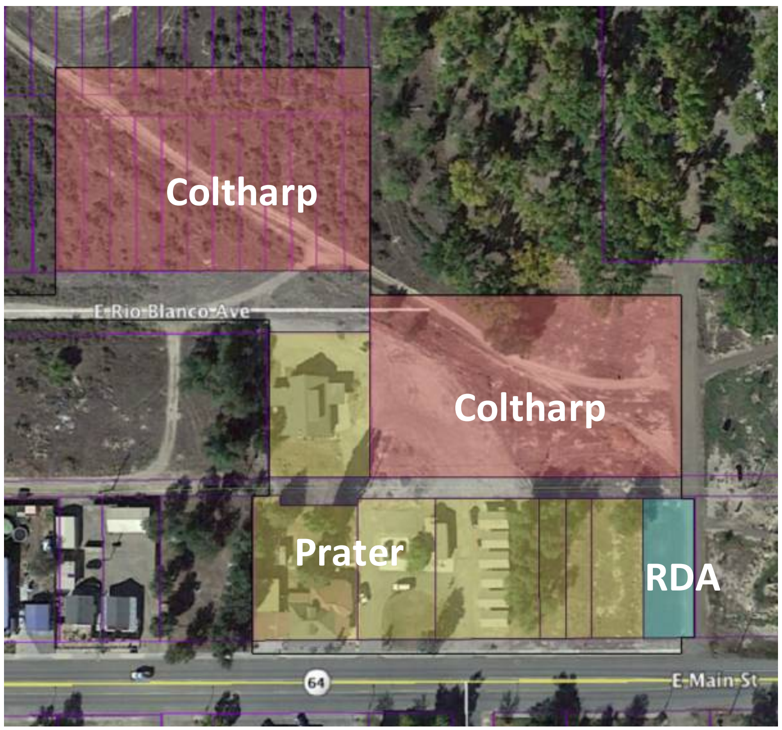
1. **Enhance the existing downtown area** – The project location should provide easy access to other downtown offerings.
2. **Tie in natural assets** – The project location should provide easy access to the White River and Camper Park.
3. **Tie in student base** – The project location should provide easy access to CNCC for students traveling to and from campus.
4. **Catalyze future development** – The project should be located in an area that can support spin-off development nearby.

The area that best satisfies these four objectives is on the east side of the Main Street corridor near the existing Moosehead Lodge and Camper Park. This site provides easy access to the downtown corridor, CNCC, Camper Park, the White River, and is located adjacent to prime undeveloped land.

Property Ownership

The project site is approximately 4.75 AC and consists of three owners, one of which is the Rangely Development Agency, who will be contributing their parcel into the project.

Prater (Moosehead Lodge)	1.52 AC
Coltharp Family Trust	3.07 AC
Rangely Dev. Agency	0.15 AC
Total	**4.75 AC**



Project Type

Prospective employers require certain amenities for them to consider a location for their businesses– at the top of the list are full-service grocery stores, adequate housing options–and strongly prefer others–year round recreation, restaurants, and entertainment options. Prospective employees and students go through a similar process when evaluating where to live, work, and study. By looking at Rangely through the eyes of a prospective employer/student/resident, the shortcomings in the Rangely market become clear. The best way to address these shortcomings is a multi-use retail and housing project.

Given the risk profile of Rangely due to the slowdown of the oil and gas industry, it is anticipated that the developer of the project will require a 15% rate of return on the development. Market rate for new development ranges anywhere from 8-20%, depending on the size, scope, scale, and location of a given project. If the project dynamics of the proposed development in Rangely were able to provide for a 15% rate of return, and given the interest of a potential anchor tenant (Clark's) the community will likely be able to find an investor willing to take on the project.

Retail

The retail component of the project consists of a 12,000 SF full-service grocery store co-located with an entertainment venue tied to a quick service restaurant. In previous decades, the Town has had amenities such as this, including a movie theater at one point, and was a common point of discussion during interviews with local residents. The key to bringing these types of amenities back to Rangely, is to strategically position the development in a way that allows it to capture multiple revenue streams, and minimize overhead costs. Co-location of retail and entertainment is a successful model that allows the entertainment to succeed due to shared overhead, while at the same time the entertainment offerings draw additional patrons to the retail.

To validate this assumption, conversations were held with a successful grocery store operator, that has experience with the retail and entertainment concept in rural communities, Clark's Market. A successful small grocery chain, Clark's operates two establishments in the small town of Blanding Utah. One of which is a convenience store with a bowling alley inside that was created at the request of the local population. During conversations with Clark's, a concept was developed that would combine a full-service grocery store with the entertainment venue, as a hybrid of the two stores they operate in Blanding. Clark's expressed interest in the concept[2], and after conducting an initial brief analysis of the Rangely market, reported that if it were to operate the proposed development, it would support approximately 12,000 sq. ft. of retail space, in addition to the entertainment venue.

The challenge that is preventing them from investing in such as project on their own, is the debt and associated risk of new construction, if they were to take on the project by themselves. However, Clark's would be in a position to enter into a lease agreement with a developer, such as a five-year lease with an option to own. The forthcoming project and pro forma was designed with an operator such as Clark's in mind, and was an exercise to overcome the impediments that are preventing investment, and to allow a new development project to enter the community.

Based on the needs described by Clark's, the retail development project is estimated to cost $2.6 million. Table 1 shows the capital stack, or the breakdown of the sources and uses of the investment required to build the retail portion of the project.

[2] Clark's subsequently signed a letter of interest in the project. Contact Peter Brixius, Rangely Town Manager for a copy of the letter.

Sources	**Amount**	**PSF**	**PCT**
Debt	1,730,495	107.48	65%
Equity	931,805	57.88	35%
Dev'r Equity	*931,805*	57.88	*100%*
Public Participation	*0*	0.00	*0%*
Total	2,662,300	165.36	100%

Uses	**Amount**	**PSF**	**PCT**
Land Acquisition	315,540	19.60	12%
Construction	2,346,760	145.76	88%
Total	2,662,300	165.36	100%

Table 1: Sources and Uses Breakdown for Retail

Clark's market provided estimates on what it would likely be able to pay in terms of leasing the building based on anticipated market demand, and these estimates were used to calculate development performance estimates from the building owner's, or developer's perspective (see Table 2). It is important to note that the pro forma assumes a triple-net, or NNN lease, meaning that expenses such as utilizes, repairs, etc. are passed along to the tenant. As such, the pro forma is simplified and doesn't show expenses such as utility costs.

Retail Pro Forma	**Yr 3**
Retail Lease	149,818
Restaurant Lease	13,733
Bowling Alley Lease	26,530
Net Operating Income	190,081
Cap Rate	7.14%
Debt Service	-104,996
Equity Cash Flow	**85,085**
Levered Cash on Cash	9.13%
Incentives	
Property TIF	39,170
TIF %	*90%*
Sales TIF	23,328
TIF %	*60%*
Equity Cash Flow	**155,359**
Incentivized Cash on Cash Return	**16.67%**

Table 2: Retail Pro Forma, Developer's Perspective

As seen in Table 2, the incentivized cash return is slightly higher than the minimum requirement of 15%. As will be described later, the project overall needs to obtain a return of 15%, but the individual components (retail and housing) will have different individual rates of return.

A portion of the retail building could be used as a watersport rental kiosk, or, depending on the desires of the community, could be expanded allowing for OHV rentals and other outdoor recreation equipment. If these additional offerings were added, the sales tax estimates would change accordingly.

An earlier version of the pro forma that was used in previous discussions with local residents and taxing entities utilized a different approach of estimating property tax. The alternative approach yielded a much lower amount of property TIF, and as a result, the project required a much higher percentage of sales TIF. The pro forma shown in this document utilizes estimates obtained from the County Assessor to determine property TIF, and the percentage of sales TIF was decreased proportionally to achieve a similar rate of return.

Conversations were also held with the owner of the White River Market, to gauge interest in modifying the current grocery store in Town to essentially accomplish the same goal of adding entertainment offerings that would create additional demand drivers that would help capture retail leakage. At the time of the conversation, a significant portion of the grocery store had been converted into a hardware store, much to the chagrin of local residents. Ultimately, the owner was not interested in taking on the proposed project immediately, but did express interest in reviewing, and potentially responding to an RFP that would be issued at a later date seeking developers/operators for the proposed project.

Housing

While not requisite for the retail component, the addition and co-location of a new housing development with the retail development would be mutually beneficial. The proximity of retail offerings adjacent to a housing development would be an attractive amenity to help stabilize and ensure occupancy of the housing, and the housing would help stabilize the entertainment and retail. As described previously, one of the goals of the project is to increase weekend population, and the convenience of living right next to retail will influence the behavior of the residents of the new housing project.

The first phase of the housing development consists of 13 units and 13,750 gross square feet on three floors. The housing available at CNCC is outdated, small, and lacks the variety in floorplan configuration that meets the demands of students and staff with varying familial situations and preferences. The housing project is estimated to cost $1.5 million and includes a mixture of one, two, and three bedroom apartments.

Unit Mix	Units	Rooms	Max Occ
1x1	5	5	10
2x2	4	8	16
3x2	4	12	24
Total	13	25	50

Table 3: Student Housing Mix

If the new housing development were focused on students, maximum occupancy if every room had two occupants would be 50 students. However, because many students prefer to have a single-room, it is anticipated that the full occupancy of the building would be closer to 40. Average rent per unit is assumed to be $413/mo or $1,717/semester, which represents a

14% premium over Ross Hall (CNCC), which charges an average of $364/mo or $1,512 per semester[3] per unit (see Table 4).

Price Summary	**/Mo**	**/ScYr**	**/Sem**	**Prem**
Avg Shared	325	2,700	1,350	11%
Avg Private	502	4,167	2,084	15%
Blended	*413*	*3,434*	*1,717*	14%

Ross Hall	**/Mo**	**/ScYr**	**/Sem**
Avg Shared	292	2,426	1,213
Avg Private	436	3,622	1,811
Blended	*364*	*3,024*	*1,512*

Table 4: Housing Revenue Assumptions

Without any incentives or public participation, the housing project is estimated to generate a stabilized rate of return[4] of 2.7%, which is not sufficient to secure the interest of a developer. Pairing the housing development with the retail development helps to the extent that the returns from the retail project can supplement the lack of return from housing. However, a public private partnership[5] is needed to achieve an overall market rate of return. The partnership and incentive structure required to get the housing to an acceptable rate of return includes tax increment financing, as well as a one-time, direct investment of $350,000 to help cover up-front infrastructure and construction costs. The $350,000 gap, also referred to as the "funding gap" can potentially be filled with a variety of sources, including grants from State and local entities. One potential source of funding could be the Town's Housing Assistance fund, which has a current balance of just under $1 million. Table 5 shows the capital stack, or the breakdown of the sources and uses of the investment required to build the student housing portion of the project.

SOURCES	**Total**	**/NSF**	**/Unit**	**PCT**
Debt	1,073,414	97.58	82,570	65%
Equity	577,992	52.54	44,461	35%
Dev'r Equity	*227,992*	*20.73*	*17,538*	*39%*
Pub Partic	*350,000*	*31.82*	*26,923*	*61%*
Total	1,651,406	150.13	127,031	100%

USES	**Total**	**/NSF**	**/Unit**	**PCT**
Land Acq	61,420	5.58	4,725	4%
Construction	1,589,986	144.54	122,307	96%
Total	1,651,406	150.13	127,031	100%

Table 5: Sources and Uses Breakdown

Table 6 shows the stabilized year three pro forma, including the impact of the public private partnership.

[3] Assumes a mix of shared and private rooms.

[4] Stabilization is defined as the period in time in which occupancy reaches equilibrium, and is anticipated to occur by year three. Year one vacancy is estimated at 25%, year two at 15%, and year three and ongoing at 7%.

[5] Public private partnerships, including the theory, history, and examples will not be further discussed in this document. For additional information please contact the Peter Brixius at the Town of Rangely.

Housing Pro Forma	Yr 3
INCOME	
Sales Proceeds	
Rents	165,488
Other Income	3,530
Gross Potential	169,018
Vacancy (%)	7%
Vacancy	-11,831
Effective Gross Income	157,187
EXPENSES	
Development Costs	
Loan	
Balloon Payment	
Taxes	4,248
Insurance	4,662
Utilities	14,331
Maint & Repairs	11,557
Management Fee	15,719
Trash	932
Admin & Misc	2,590
Cap Ex	1,734
Total Expenses	55,772
Net Operating Income	101,415
Expense Ratio	35.48%
Debt Service	80,022
Net Cash Flow	**21,393**
Levered Cash on Cash Return	3.7%
Property TIF	3,328
Incentivized Net Cash Flow	**24,721**
Incentivized Cash on Cash Return	**10.84%**

Table 6: Housing Pro Forma

Project Impact

The proposed project would bring $4.3 million of investment to Rangely and generate $1.49 million in tax increment through sales and property tax over 15 years. Of the $1.49 million generated, $691,936 would be allocated to the project to help cover debt service, investment costs, etc. to allow the project to meet a market rate of return. The remaining $793,952 would be allocated to the Town, County, and various taxing entities.

Development at the proposed project location would open up new development opportunities along Main St. and Rio Blanco Ave. The increase in the supply of quality student housing would allow for CNCC to expand its programs and add additional sports teams. The housing project–which could also house staff–could be used as a valuable recruiting tool for CNCC.

Financial Summary

When a developer is looking to place capital, they want to invest somewhere that minimizes risk while maximizing returns. Rural markets, like Rangely, are high-risk and tend to generate low market returns. In order for Rangely to attract a developer and retail operator to the Town to begin this path to economic diversification and prosperity, financial incentives must be offered to help compensate a developer for the risk of investing in a rural market.

A new development in a rural community of the size and scope of the proposed project should provide a minimum 15% annual cash on cash return to the developer in order for the project to be attractive. Without incentives, the project would yield an annual cash on cash return of:

Retail	9.13%
Housing	2.74%
Blended	**6.7%**

The amount of money needed to bring that blended cash-on-cash return to 15% is what's known as the "gap," or "shortfall." If the gap can be filled, a developer is much more likely to bring their dollars to Rangely. If the gap can't be filled, a developer will likely invest their dollars somewhere else that can provide them with a market return.

If public funds, including the possibility of grant funds, are contributed to the housing portion of the project in the amount of $350,000 up front, and tax increment financing is utilized at the rate described herein, the project has the potential to achieve the following cash on cash returns by year three:

Retail	16.67%
Housing	8.41%
Blended	**15.05%**

Tax Increment Financing

Once a project is built that utilizes TIF, taxing entities will continue collecting the amount of property tax they collected before the project was built, also known as the baseline tax amount. Additionally, a portion of the tax increment created by the project would flow through to the taxing entities.

Table 7 details the estimated increment that would go to each taxing entity if the project were built utilizing the strategy described herein.

TIF Contributed to Project

Entity	Mil Levy	% of Total Levy	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Total	Annually After Project
Cemetery	0.098	0.2%	$0	$74	$74	$74	$59	$59	$59	$59	$41	$41	$22	$21	$21	$21	$21	$21	$666	$0
Rangely Junior College	6.6	11.8%	$0	$5,004	$5,004	$5,004	$3,979	$3,979	$3,979	$3,979	$2,780	$2,737	$1,455	$1,390	$1,390	$1,390	$1,390	$1,390	$44,854	$0
Colo. River Water Conserv.	0.243	0.4%	$0	$184	$184	$184	$147	$147	$147	$147	$102	$101	$54	$51	$51	$51	$51	$51	$1,651	$0
County	9.05	16.1%	$0	$6,862	$6,862	$6,862	$5,457	$5,457	$5,457	$5,457	$3,812	$3,753	$1,996	$1,906	$1,906	$1,906	$1,906	$1,906	$61,504	$0
Fire General	0.874	1.6%	$0	$663	$663	$663	$527	$527	$527	$527	$368	$362	$193	$184	$184	$184	$184	$184	$5,940	$0
Library	0.5	0.9%	$0	$379	$379	$379	$301	$301	$301	$301	$211	$207	$110	$105	$105	$105	$105	$105	$3,398	$0
Parks and Rec.	6.51	11.6%	$0	$4,936	$4,936	$4,936	$3,925	$3,925	$3,925	$3,925	$2,742	$2,699	$1,436	$1,371	$1,371	$1,371	$1,371	$1,371	$44,242	$0
Rangely Town	10	17.8%	$0	$7,582	$7,582	$7,582	$6,029	$6,029	$6,029	$6,029	$4,212	$4,146	$2,205	$2,106	$2,106	$2,106	$2,106	$2,106	$67,960	$0
Hospital	13.239	23.6%	$0	$10,038	$10,038	$10,038	$7,982	$7,982	$7,982	$7,982	$5,577	$5,490	$2,919	$2,788	$2,788	$2,788	$2,788	$2,788	$89,972	$0
School Bond	4.442	7.9%	$0	$3,368	$3,368	$3,368	$2,678	$2,678	$2,678	$2,678	$1,871	$1,842	$980	$936	$936	$936	$936	$936	$30,188	$0
School General	3.687	6.6%	$0	$2,796	$2,796	$2,796	$2,223	$2,223	$2,223	$2,223	$1,553	$1,529	$813	$777	$777	$777	$777	$777	$25,057	$0
School Transportation	0.181	0.3%	$0	$137	$137	$137	$109	$109	$109	$109	$76	$75	$40	$38	$38	$38	$38	$38	$1,230	$0
Rio Blanco Consv.	0.623	1.1%	$0	$472	$472	$472	$376	$376	$376	$376	$262	$258	$137	$131	$131	$131	$131	$131	$4,234	$0
Total	**56.047**	**100%**	**$0**	**$42,497**	**$42,497**	**$42,497**	**$33,793**	**$33,793**	**$33,793**	**$33,793**	**$23,610**	**$23,240**	**$12,359**	**$11,805**	**$11,805**	**$11,805**	**$11,805**	**$11,805**	**$380,896**	**$0**

TIF Contributed to Taxing Entities

Entity	Mil Levy	% of Total Levy	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Total	Annually After Project
Cemetery	0.098	0.2%	$12	$21	$21	$21	$36	$36	$36	$36	$54	$54	$73	$74	$74	$74	$74	$74	$757	$95
Rangely Junior College	6.6	11.8%	$828	$1,384	$1,384	$1,384	$2,409	$2,409	$2,409	$2,409	$3,608	$3,651	$4,933	$4,998	$4,998	$4,998	$4,998	$4,998	$50,968	$6,388
Colo. River Water Conserv.	0.243	0.4%	$30	$51	$51	$51	$89	$89	$89	$89	$133	$134	$182	$184	$184	$184	$184	$184	$1,877	$235
County	9.05	16.1%	$1,135	$1,897	$1,897	$1,897	$3,303	$3,303	$3,303	$3,303	$4,947	$5,007	$6,764	$6,853	$6,853	$6,853	$6,853	$6,853	$69,888	$8,759
Fire General	0.874	1.6%	$110	$183	$183	$183	$319	$319	$319	$319	$478	$484	$653	$662	$662	$662	$662	$662	$6,749	$846
Library	0.5	0.9%	$63	$105	$105	$105	$182	$182	$182	$182	$273	$277	$374	$379	$379	$379	$379	$379	$3,861	$484
Parks and Rec.	6.51	11.6%	$816	$1,365	$1,365	$1,365	$2,376	$2,376	$2,376	$2,376	$3,559	$3,602	$4,865	$4,930	$4,930	$4,930	$4,930	$4,930	$50,273	$6,301
Rangely Town	10	17.8%	$1,254	$2,097	$2,097	$2,097	$3,650	$3,650	$3,650	$3,650	$5,466	$5,532	$7,474	$7,573	$7,573	$7,573	$7,573	$7,573	$77,224	$9,679
Hospital	13.239	23.6%	$1,660	$2,776	$2,776	$2,776	$4,832	$4,832	$4,832	$4,832	$7,237	$7,324	$9,895	$10,026	$10,026	$10,026	$10,026	$10,026	$102,237	$12,814
School Bond	4.442	7.9%	$557	$931	$931	$931	$1,621	$1,621	$1,621	$1,621	$2,428	$2,458	$3,320	$3,364	$3,364	$3,364	$3,364	$3,364	$34,303	$4,299
School General	3.687	6.6%	$462	$773	$773	$773	$1,346	$1,346	$1,346	$1,346	$2,015	$2,040	$2,756	$2,792	$2,792	$2,792	$2,792	$2,792	$28,473	$3,569
School Transportation	0.181	0.3%	$23	$38	$38	$38	$66	$66	$66	$66	$99	$100	$135	$137	$137	$137	$137	$137	$1,398	$175
Rio Blanco Consv.	0.623	1.1%	$78	$131	$131	$131	$227	$227	$227	$227	$341	$345	$466	$472	$472	$472	$472	$472	$4,811	$603
Total	**56.047**	**100%**	**$7,028**	**$11,750**	**$11,750**	**$11,750**	**$20,455**	**$20,455**	**$20,455**	**$20,455**	**$30,638**	**$31,008**	**$41,888**	**$42,443**	**$42,443**	**$42,443**	**$42,443**	**$42,443**	**$432,818**	**$54,248**

Table 7: Increment Flow Through