STIFEL | Public Finance

To: Town of Johnstown (the "Town")
From: Stifel
Date: September 15, 2020
Subject: Stifel's Review of the Johnstown Farms East Metropolitan District Financial Plan

MEMO

Stifel has been retained by the Town of Johnstown to review the Financial Plan included in the Service Plan for Johnstown Farms East Metropolitan District (the "District"), submitted on July 20, 2020 (the "Service Plan").

Stifel's review is based on the assumptions provided within the Service Plan to the Town. Our report should not be viewed as an independent economic forecast or as a confirmation of the Developer's assumptions relating to the real estate market, residential or commercial development cycles, property values, or home sales within the District or in competing developments.

Johnstown Farms East Metropolitan District: Expected Development

The Service Plan includes 366 residential units with property values ranging from $375,000 to $440,000, to be constructed between 2022 - 2025. Assuming development occurs as projected, the assessed value at full buildout for collection year 2025 is expected to be $11,160,075, using the current assessment ratio of 7.15% for residential property. The assessed value is additionally inflated by 4% biennially, based upon the original value.

Project Cost and Requested Bonding Capacity

Redland has provided an estimated cost of the public infrastructure of approximately $17 million. The District is requesting bonding capacity up to $12.5 million to finance the improvements within the District boundaries. This would include all amounts needed to fund the required project funds, the debt service reserve fund and financing costs. The District is asking for the authority to levy property taxes in an amount up to 40.000 mills, to be adjusted for any assessed valuation calculations made on or after January 1, 2020.

The Proposed Financing Plan

The projected financing plan shown in Exhibit F includes $9.685 million of bonds issued in 2026, including $8.51 million of senior bonds and $1.175 million of subordinate bonds. Total net proceeds generated is estimated to be $8.577 million. The 2026 transaction is structured with a 30-year amortization and projected interest rates of 4.00% on the senior bonds and 7.25% on the subordinate bonds. The bonds will be secured by a debt service reserve fund. The senior bonds are structured with 1.20x coverage and the subordinate bonds are structured as a cash flow bond to be paid with excess revenue annually after senior debt service is paid.

The model shown anticipates that the District would need to levy the maximum mill levy of 40.00 to cover debt service. All of the bonds are to be repaid by 2056, which is within the current Service Plan limitation stating that the debt service mill levy can be imposed for a period of 40 years after the initial imposition.

Comments and Conclusions

As true with financial projections included in any model for a metropolitan district, these financial projections do not constitute a commitment to construct any specific housing units, nor do they obligate the Developer to begin new construction on any specific timetable. The timing, amounts, and interest rates of the individual debt issues will be subject to market conditions and to the credit analysis performed at the time of issuance by institutional investors, or by the Developer for any debt of the District they purchase directly. The ability to issue debt in the future will also depend on the level of development achieved within the District, and on the rate of taxes imposed by the District within to the limits created by the Service Plan.

The interest rate assumption used for the 2026 transaction is 4.0% for the senior bonds and 7.25% for the subordinate bonds. Since the District is anticipated to be built out at that time, the interest rates presented seem reasonable for current market conditions; however, investors and the market environment at the time of pricing will ultimately dictate the interest rate. Due to the timeframe of the proposed issuance, Stifel understands that the interest rate used is an estimate since market conditions will likely be different in at that time. If growth and development do not occur as projected, the District may not be able to issue the bonds in 2026. If all projections and the financing occurs as shown, the District's maximum mill levy of 40.00 mills will be imposed in every year through 2056.

In summary, the Financial Plan shows debt service coverage of approximately 1.20x on the senior bonds and 1.00x coverage on the subordinate bonds, which is not unusual for this type of credit and structure. Similar to the interest rate, ultimately, institutional investors will dictate what debt service coverage amount they are comfortable with. If the coverage amount required on the senior bonds is higher, the District may end up issuing fewer senior bonds and more subordinate bonds, which may lower the net proceeds received. Within the Financial Plan, there is little room for shortfalls, higher interest rates, or other negative influences. If the full amount of debt is actually issued, and the subsequent financial performance falls short, a full repayment may require the maximum debt service mill levy to be applied for a longer period, or to extend the repayment term, or both. However, all of these are subject to the restrictions provided in the Service Plan. Alternatively, if growth occurs faster than projected, prices are higher than expected, or inflation is greater shown, there is a chance the District could issue more bonds than shown (within the Service Plan and election capacity limits), the District may be able to levy less than 40.00 mills for debt service, or the District may be able to repay the subordinate bonds faster since they are structured as a cash flow bond.

<u>Based on the assumptions made within the Service Plan and Exhibit F</u>, development should be adequate to cover the bonding capacity analysis shown. Stifel does not feel it unreasonable for the District to request the additional bonding capacity (up to $12.5 million) to cover the revised public infrastructure costs and any additional contingencies as market conditions are always changing. Whether or not the full amount of the requested debt is issued will be influenced by actual development, market conditions, and investor preferences.

<u>Additional Comments/Suggested Edits Compared with August 2020 Memo</u>

Stifel believes the Financial Plan presented is reasonable; however, below are a few suggested changes:

- The detailed numbers packet beginning on page 86 of the PDF appears to be inserted a second time beginning on page 114 of the PDF. *Corrected*
- Consider removing or adding additional detail to the graph on page 104 (i.e., does the graph only relate to the 2021 Senior Bonds?) *The graph on page 10 appears to only be representative of the senior bonds. In addition, it references Current DS tax revenue and Projected New DS Revenue started in 2021 and 2022, respectively. The Plan on Finance does not have the District issue bonds until 2026.*
- Consider removing references to commercial property/values throughout the model since the District is 100% residential. *Corrected*
- The Operations and Maintenance on page 113 is only tied to Phase I, Phase II assessed value should be added in to calculate the full operations and maintenance revenue. *Corrected*
- Consider adding in a page showing the total assessed value for both Phase I and Phase II. *Corrected*
- *The assessed value listed on page 5 of the Service Plan should be updated to $11,160,075*

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