STIFEL | Public Finance

To: Town of Johnstown (the "Town")
From: Stifel
Date: April 20, 2021
Subject: Stifel's Review of the Revere at Johnstown Metropolitan District Financial Plan

MEMO

Stifel has been retained by the Town of Johnstown to review the Financial Plan included in the Amended and Restated Service Plan for High Plains Metropolitan District No. 2 and Consolidated Service Plan for Revere at Johnstown Metropolitan District Nos. 2-9 (collectively the "Districts"), submitted on January 26, 2021 and resubmitted on April 12, 2021 (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 costs of the public infrastructure, real estate market, residential or commercial development cycles, property values, or home sales within the Districts or in competing developments.

Revere at Johnstown Metropolitan Districts Nos. 2-9: Expected Development

The Service Plan includes:

- 450 duplex residential units with property values starting at $325,000, to be constructed between 2023-2034.
- 1,050 single family residential units with property values starting at $380,000, to be constructed between 2022-2033.
- 500 multi-family residential units with property values starting at $250,000, to be constructed between 2025-2026.
- 554,955 square feet of office space, with an estimated value starting at $212 per square foot to be constructed between 2024-2026.
- 1,395,227 square feet of mixed-use commercial space, with an estimated value starting at $150 per square foot to be constructed between 2024-2027.

The residential assessed value is inflated by 6% biennially and the commercial assessed value is inflated by 2% biennially. Assuming development occurs as projected, the combined residential and commercial assessed value at full buildout for collection year 2036 is expected to be $180,152,570.

Project Cost and Requested Bonding Capacity

The Districts are requesting bonding capacity up to $265,333,137 to finance the improvements within and outside the Districts' boundaries, as stated in the Service Plan. This would include all amounts needed to fund the required project funds, the debt service reserve fund and financing costs. The Districts are asking for the authority to levy property taxes in an amount up to 40.000 mills on all residential property. The mill levy may be adjusted for changes in the residential assessment ratio occurring after January 1, 2021. The Districts are asking for the authority to levy property taxes in an amount up to 50.000 mills on all commercial property. In mixed-us areas, the maximum residential mill levy shall apply. Both mill levies would convert to an unlimited mill levy once aggregate Debt is equal to or less than 50% of the assessed valuation.

The Proposed Financing Plan

The projected financing plan shown in Exhibit F includes two series of bonds to be issued in 2022 and 2032. For the initial financing in 2022, $32.820 million of bonds are issued to generate estimated net proceeds of $23.786 million. The 2022 transaction is structured with a 30-year amortization and projected interest rates of 5.00%. To cover debt service payments during the initial construction period, three full years of capitalized interest is funded with bond proceeds. The bonds are secured by a debt service reserve fund, and additionally fund a surplus fund with excess revenues in an amount up to $3.282 million (10% of par amount). Both the reserve fund and the surplus fund are contributed towards the refinancing that is anticipated to occur 2032.

The second transaction in 2032 includes a refinancing of the 2022 bonds and new money proceeds. A par amount of $173.210 million is issued to generate $31.705 million in proceeds to refund the 2022 bonds and an additional $146.375 million in net project funds. Between the 2022 bonds and the 2032 bonds, $170.161 million in net proceeds are funded. The 2032 transaction is structured with a 30-year amortization and a projected interest rate of 4.00%. The bonds are not secured by a debt service reserve fund.

The 2022 bonds are structured with debt service coverage between 1.01x – 3.80x, and the 2032 bonds are structured with 1.00x coverage. The model shown anticipates that the Districts would need to levy the maximum mill levy of 40.000 mills in residential and mixed-use districts and 50.000 mills in commercial districts to cover debt service. The 2032 bonds are to be repaid by 2062, which is within the current Service Plan limitation stating that the residential debt service mill levy can be imposed for a period of 40 years after the initial imposition. There is no mill levy imposition term on mixed-use or commercial districts.

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 or commercial 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 Districts they purchase directly. The ability to issue debt in the future will also depend on the level of development achieved within the Districts, and on the rate of taxes imposed by the Districts within to the limits created by the Service Plan.

While the plan is for development to occur in multiple districts, due to the length of the buildout, we often see development within all of the districts combined for purposes of the Financial Plan. Regarding this, Stifel does not see any issues with how the Financial Plan was compiled for the Service Plan.

The inflation assumption used for the residential property is 6% biennial. While 6% biennial inflation seems reasonable based upon historical growth trends for residential property in Colorado, is slightly higher than what we normally see in similar financial models. The inflation assumption used for the commercial property is 2% biennial, which is in line with growth assumptions we traditionally see for commercial property in similar financial models.

The interest rate assumption used for the 2022 transaction is 5.0%. Since the Districts are in the initial development stages, the interest rate presented seems reasonable for current market conditions; however, investors and the market environment at the time of pricing will ultimately dictate the interest rate.

The interest rate assumption used for the 2032 transaction is 4.0%. Since the Since the Districts are anticipated to be close to built out at that time, the interest rate 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 Districts may not be able to issue the bonds in 2022 or in 2032, or the financings may occur in different years. If all projections and the financing occurs as shown, the Districts' maximum mill levies of 40.00 mills on residential property and 50.00 mills on commercial property will be imposed in every year through 2062.

In summary, the Financial Plan shows debt service coverage of approximately 3.80x on the initial transaction in 2022 and 1.00x on the second transaction in 2032. The coverage on the first transaction is in line or above with what we see in the market based on the long buildout schedule. The coverage on the second transaction; however, is lower than what we see for just a senior lien structure. Similar to the interest rate, 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 Districts may end up issuing fewer 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 (subject to the mill levy imposition term on the residential property). 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 than 6% biennial on the residential property and 2% biennial on the commercial property, there is a chance the Districts could issue more bonds than shown (within the Service Plan and election capacity limits), or the Districts may be able to levy less than the maximum debt service mill levy.

Based on the assumptions made within the Service Plan and Exhibit F, development as shown should be adequate to cover the bonding capacity analysis shown; however, Stifel would like to emphasize that there is no room for shortfalls within the Financial Plan shown. Stifel does not feel it unreasonable for the Districts to request the additional bonding capacity (up to $265.333 million) to cover the revised public infrastructure costs and any additional contingencies as market conditions are always changing, which may increase the Districts bonding capacity. Whether or not the full amount of the requested debt is issued will be influenced by actual development, market conditions, and investor preferences. Ultimately, this is a large project in a high profile, desirable location. The assumptions made in the service plan may differ from what is actually built over time.

General Information Exclusion Disclosure

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