STIFEL | Public Finance

To:	Town of Johnstown (the "Town")	
From:	Stifel	**MEMO**
Date:	September 13, 2021	
Subject:	Stifel's Review of the Riverbend Estates Metropolitan District Nos. 1-3 Financial Plan	

Stifel has been retained by the Town of Johnstown to review the Financial Plan included in the Consolidated Service Plan for Riverbend Estates Metropolitan District Nos. 1-3 (collectively the "Districts") (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.

Expected Development and Assessed Valuation:

The expected development within the Districts is anticipated to include:

- 118 single family units with property values starting at $475,000, to be constructed between 2022-2024 located in District No. 2; and
- 269 single family units with property values starting at $475,000, to be constructed between 2024-2027 located in District No. 3.

The residential assessed valuation is inflated by 6% biennially. Assuming development occurs as projected, the residential assessed valuation at full buildout for collection year 2029 is expected to be $14,874,288.

Project Cost and Requested Bonding Capacity

The estimated costs of the Public Improvements is approximately $25,956,406, as noted in Exhibit E. The Districts are requesting bonding capacity of $25,075,000. This amount includes all funded needed for the required project funds, capitalized interest, the surplus fund, and financing costs. The Districts are asking for the authority to levy property taxes for debt service in an amount up to 40.000 mills on all residential property and 50.000 mills on all commercial property, both of which convert to unlimited after debt to assessed is equal to or less than 50%. We would like to note that no commercial development is anticipated within the Districts at this time. The mill levy may also be adjusted for changes in the assessment ratio occurring after January 1, 2021. The Districts are also asking for an additional 10.000 mills for operations and maintenance, for a total aggregate mill levy of 50.000 on residential property. If the Districts' Board constructs, acquires, finances, owns, operates and maintains the Enhanced Amentias, the Maximum Operations and Maintenances Mill Levy will be 15.000 mills. Under this circumstance, the total aggregate mill levy on residential property will be 55.000 mills.

The Proposed Financing Plan

The projected financing plan shown in Exhibit E includes two series of bonds to be issued in 2021 and 2031. For the initial financing in 2021, $7.340 million of bonds are issued to generate estimated net proceeds of $5.180 million. The 2021 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 only secured by a surplus fund, which is anticipated to be used for debt service in years 2025-2026. The remaining amount of the surplus fund ($1.27 million) is contributed towards the refinancing that is anticipated to occur 2031. There is no debt service reserve fund for the 2021 bonds and it is unusual to see this type of transaction (non-rated metropolitan district) structured without a debt service reserve fund and for the surplus fund to be anticipated to be used for 2-years of debt service.

The second transaction in 2031 includes a refinancing of the 2031 bonds and new money proceeds. A par amount of $19.305 million is issued to generate $7.165 million in proceeds to refund the 2021 bonds and an additional $11.789 million in net project funds. Between the 2021 bonds and the 2031 bonds, $16.969 million in net proceeds are funded. The 2031 transaction is structured with a 30-year amortization and a projected interest rate of 3.00%. The bonds are secured by a debt service reserve fund.

The 2021 bonds are structured with debt service coverage between 0.40x – 1.52x, and the 2031 bonds are structured with 1.05x coverage. The model shown anticipates that the Districts would need to levy close to the maximum mill levy of 40.000 mills in residential districts to cover debt service. The 2031 bonds are to be repaid by 2061, 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.

Comments to the Financing Plan

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 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.

The inflation assumption used for the residential and commercial property is 6% biennial, which seems reasonable based upon recent growth trends for residential property in Colorado.

The interest rate assumption used for the 2021 transaction is 5.0%. Since the Districts are in the initial development stages, the interest rate presented seems reasonable based upon 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 2031 transaction is 3.0%. Since the Districts are anticipated to be built out at that time, the interest rate presented seem reasonable for current market conditions and for an investment grade credit. However, if the Districts can obtain an investment grade rating, investor preference, 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, or if market conditions change, the Districts may not be able to issue the bonds in 2021 or in 2031, or the financings may occur in different years. If all projections and the financing occurs as shown, the Districts' maximum residential debt service mill levy and commercial debt service mill levy will be imposed in every year through 2061.

In summary, the Financial Plan shows debt service coverage of approximately 0.40 to 1.52x on the initial transaction in 2021 and 1.05x on the second transaction in 2031. For the first transaction in 2021, capitalized interest is used for the first three years of debt service and the surplus fund is used to cover debt service for years 2025 - 2026, until the property tax is anticipated to be sufficient to cover a portion of the debt service payments. The coverage on the second transaction is lower than what we see for similar transactions. Similar to the interest rate, institutional investors will dictate if they are comfortable with only a surplus fund or if they require a debt service reserve fund. If investors require a higher debt service coverage amount on one or both series of bonds, 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 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% biennially, 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 E, development as shown should be adequate to cover the bonding capacity analysis shown; however, Stifel would like to emphasize that there is little room for shortfalls within the Financial Plan shown and the surplus fund is being used to cover debt service. Stifel would like to note the 2021 bonds and 2031 bonds have total aggregate par amounts for new money proceeds of $20,757,000; however, this amount does include a refunding, which does not count against the District's bonding capacity. The requested bonding capacity is $25,075,000, calculated as 121% of the total par amount. 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.

Additional Comments/Suggested Edits:

- Stifel's previous additional comments and suggested edits were made to the Financial Plan.

General Information Exclusion Disclosure

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