STIFEL | Public Finance

To:	Town of Johnstown (the "Town")	
From:	Stifel	**MEMO**
Date:	August 23, 2021	
Subject:	Stifel's Review of the Podtburg Metropolitan District Nos. 1-6 Financial Plan	

Stifel has been retained by the Town of Johnstown to review the Financial Plan included in the Service Plan for Podtburg Metropolitan District Nos. 1-6 (collectively the "Districts"), submitted on May 7, 2021, and resubmitted on July 23, 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.

Expected Development and Assessed Valuation:

The expected development within the Districts is anticipated to include:

- 480 single family units with property values starting at $450,000, to be constructed between 2023-2031;
- 300 apartments with property values starting at $240,000, to be constructed in 2031;
- Three 8,000 square feet retail pad sites with property values starting at $200 per square foot to be constructed between 2026-2028; and
- A 290 acre golf course, valued at $21,000 per acre.

The assessed valuations are inflated by 6% biennially. Assuming development occurs as projected, the residential assessed valuation at full buildout for collection year 2033 is expected to be $25,579,671, the commercial assessed valuation at full buildout for collection year 2030 is $1,536,498, and the golf course assessed valuation for collection year is $1,819,615.

Project Cost and Requested Bonding Capacity

The estimated costs of the Public Improvements is approximately $48,597,200. The Districts are requesting bonding capacity up to $33,376,567 to finance the costs of the Public Improvements related to Districts', as stated in the Service Plan. This would include all amounts needed to fund 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%. The mill levy may also be adjusted for changes in the assessment ratio occurring after January 1, 2021. The Districts are also asking for 10.000 mills for operations and maintenance, for a total aggregate mill levy of 50.000 on residential property, or 60.000 mills on commercial property. There is additionally a golf course mill levy, subject to 10.000 mills on that property.

The Proposed Financing Plan

The projected financing plan shown in Exhibit F includes two series of bonds to be issued in 2023 and 2033. For the initial financing in 2023, $12.280 million of bonds are issued to generate estimated net proceeds of $10.556 million. The 2023 transaction is structured as a convertible capital appreciation bond, with a 30-year amortization and projected interest rates of 5.00%. The bonds are secured by a debt service reserve fund.

The second transaction in 2033 includes two series of bonds, a refinancing of the 2023 bonds and new money proceeds. The refinancing has a par amount of $13.920 million to refund the 2023 bonds. The new money series has a par amount of $16.57 million to generate additional new money proceeds of $16.387 million. Between the 2023 bonds and the 2033 bonds, $26.943 million in net proceeds are funded. The 2033 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 2023 bonds are structured with debt service coverage between 1.10x, and the 2033 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 districts,50.000 in the commercial districts to cover debt service, and 10.000 mills in the golf course district. The 2033 bonds are to be repaid by 2063, 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 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 and commercial property is 6% biennial. While 6% biennial inflation seems reasonable based upon historical growth trends for residential property in Colorado, it is slightly higher than what we normally see for commercial property in Colorado.

The interest rate assumption used for the 2023 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 2033 transaction is 4.0%. 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, 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 2023 or in 2033, 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 2063.

In summary, the Financial Plan shows debt service coverage of approximately 1.10x on the initial transaction in 2023 and 1.00x on the second transaction in 2033. For the first transaction in 2023, –the bonds are structured as convertible capital appreciation bonds, which is a structure used for early stage development transactions. The coverage on the first transaction is below what we see in the market for similar transactions. The coverage on the second transaction; however, is lower than what we see for similar transactions. Similar to the interest rate, institutional investors will dictate if the debt service coverage amount they are comfortable with, or if they require a debt service reserve fund on the second transaction. If investors require a higher debt service coverage amount on 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 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 would like to note the 2023 bonds and 2033 bonds have total aggregate par amount of $28.85 million for new money proceeds; refunding par amount does not count against the District's bonding capacity. The District's requested bonding capacity is 115% of the new par amount to provide for some contingency..

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 previous suggested comments/edits to the Financial Plan were made in the most recent version.

General Information Exclusion Disclosure

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