STIFEL | Public Finance

To: Town of Johnstown (the "Town")
From: Stifel
Date: August 20, 2021
Subject: Stifel's Review of the Granary Metropolitan District Nos. 1-9 Financial Plan

MEMO

Stifel has been retained by the Town of Johnstown to review the Financial Plan included in the Consolidated Service Plan for Granary Metropolitan District Nos. 1-9 (collectively the "Districts"), submitted on May 28, 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:

- 580 single family units with property values starting at $485,000, to be constructed between 2022-2035; and
- 348 single family units with property values starting at $510,000, to be constructed between 2022-2030.

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 residential assessed value at full buildout for collection year 2037 is expected to be $45,733,461.

Project Cost and Requested Bonding Capacity

The Districts are requesting bonding capacity up to $49,000,000 to finance the costs of the Public Improvements related to Districts', as stated in the Service Plan. The estimated costs of the public improvements is approximately $66 million. Costs of required Public Improvements that cannot be financed by the Districts within the parameters of the Service Plan and the financial capability of the Districts are expected to be financed by the Developer of the project. 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. The date of the mill levy adjustment needs to be added to the service plan. The Districts are also asking for 10.000 mills for operations and maintenance, for a total aggregate mill levy of 50.000.

The Proposed Financing Plan

The projected financing plan shown in Exhibit G includes one series of bonds to be issued in 2031. A par amount of $42.575 million is issued to generate $34.918 million in net proceeds. The 2031 transaction is structured with a 30-year amortization and a projected interest rate of 4.00%. The bonds are additionally secured by a debt service reserve fund. Fu

The 2031 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 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 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 interest rate assumption used for the 2031 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 in 2031, or the financing may occur in a different year. If all projections and the financing occurs as shown, the Districts' maximum debt service mill levy of 40.00 mills on residential property will be imposed in every year through 2061.

In summary, the Financial Plan shows debt service coverage of approximately 1.00x on the transaction in 2031. For the transaction in 2031, capitalized interest is used for the first three years of debt service until the property tax is anticipated to be sufficient to cover the debt service payments. The coverage on the transaction; however, is below than what we see in the market for similar transactions; however, the District also has a surplus fund if approximately $3.2 million that can be used to assist with debt service payment. If investors require a higher debt service coverage amount, 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% biennial on the residential 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.

<u>Based on the assumptions made within the Service Plan and Exhibit G</u>, 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 $49 million) to cover the 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.

<u>Additional Comments/Suggested Edits:</u>
Stifel's previous comments to the Financial Plan were made in the current version.

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General Information Exclusion Disclosure

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