STIFEL | Public Finance

To: Town of Erie (the “Town”)
From: Stifel
Date: March 27, 2019
Subject: Stifel’s Review of Erie Farm Metropolitan District’s Amended Service Plan

MEMO

Stifel has been retained by the Town of Erie to review the Amended and Restated Service Plan for Erie Farm Metropolitan District (the “District”), dated March 12, 2013 (the “Service Plan”), and the Petition to the Town of Erie, dated December 28, 2018 (the “Petition”).

Stifel’s review is based on the assumptions provided within the Petition 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.

Erie Farm Metropolitan District: Expected Development

The Service Plan from 2013 included 497 homes with property values ranging from $540,000 to $800,000, to be constructed between 2014 and 2021. The Petition includes updated development projections of 513 lots with property values from $400,000 to $650,000. As of the date of the Petition, 98 homes were constructed in 2017 and 48 in 2018, leaving 367 lots to still be developed 2019 and 2023, assuming development occurs as projected. The assessed value at full buildout in 2023 (for collection year 2025) is expected to be $20,798,875, using the current assessment ratio of 7.2% for residential property.

Debt and District Funding Sources

Manhard Consulting, Ltd. has provided an estimated cost of the public infrastructure of approximately $30 million. As such, the District is requesting bonding capacity up to $30 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 Proposed Financing Plan

Exhibit B presents the amended financing structure. The District currently has Series 2016A, Series 2016B, and Series 2017C Bonds outstanding. The Series 2016A Bonds are senior lien bonds, and the Series 2016B and 2017C Bonds are subordinate lien bonds. The projected financing plan includes $27.11 million of bonds issued in 2021. The 2021 transaction is structured with a 30-year amortization and a projected interest rate of 4.0%. The financing would fund approximately $10.48 million of new project funds and refinance all outstanding bonds (Series 2016A, 2016B, and 2017C). Under this scenario there would no longer be subordinate bonds outstanding after 2021. The model shown anticipates that the District would need to levy the maximum mill levy of 55.277 to cover debt service and operations.

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 transaction is 4.0%. Although the District should be near 85% of build-out by 2021, given the tight coverage, Stifel usually sees interest rates closer to 5.0% for similar 30-year transactions. However, 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 two years.

The model is presented with one new financing in 2021 to restructure the outstanding debt and fund new net proceeds. If growth and development do not occur as projected, the District may not be able to support the additional debt under the presented assumptions. If the financing occurs as shown, the District’s maximum mill levy of 55.277 mills will be imposed in every year through 2051.

In summary, the Petition shows debt service coverage of approximately 1.0x; Stifel usually sees coverage of approximately 1.2x on similar transactions. Ultimately, institutional investors will dictate what debt service coverage amount they are comfortable with, which may ultimately lower the total par amount that is issued. Within the Petition, 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 and the Petition.

<u>Based on the assumptions made by the Developer in the Petition</u>, development should be adequate to cover the requested maximum authorization of $30 million as presented in the model. Stifel does not feel it unreasonable for the District to request the additional bonding capacity 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.

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Stifel is providing information and is declaring to the proposed municipal issuer and any obligated person that it has done so within the regulatory framework of MSRB Rule G-23 as an underwriter (by definition also including the role of placement agent) and not as a financial advisor, as defined therein, with respect to the referenced proposed issuance of municipal securities. The primary role of Stifel, as an underwriter, is to purchase securities for resale to investors in an arm's- length commercial transaction. Serving in the role of underwriter, Stifel has financial and other interests that differ from those of the issuer. The issuer should consult with its' own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate.

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