

LEADERS IN
INFRASTRUCTURE
FINANCE



D.A. DAVIDSON & CO.
SPECIAL DISTRICT GROUP



CITY OF HERRIMAN:

Fiber Optic Infrastructure Financing Considerations

December 2023

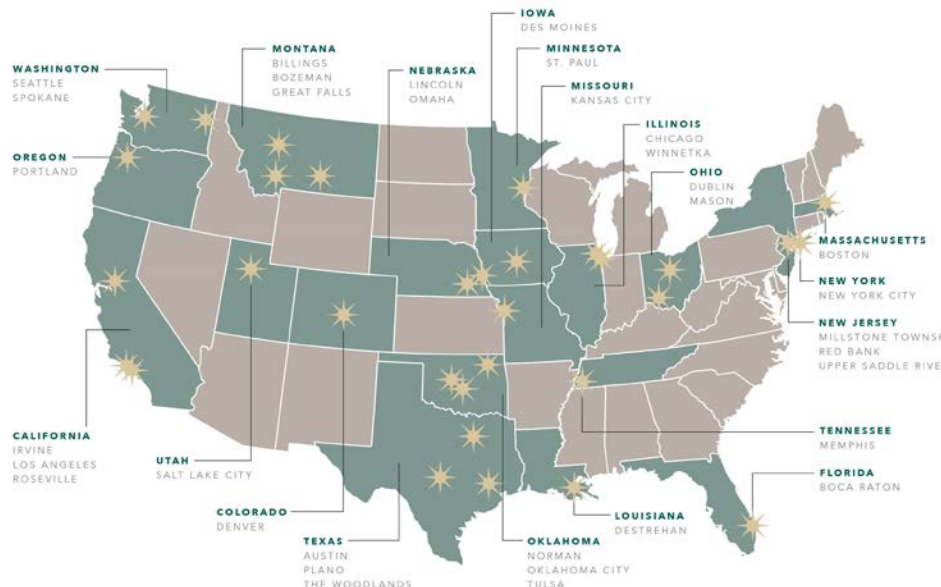
Michael Maloney, Managing Director
(515) 471-2723
mmaloney@dadco.com

Samuel Elder, Senior Vice President
(801) 994-3167
selder@dadco.com



- **D.A. Davidson knows Utah because our team serves clients in the State from our Salt Lake City office.**
 - ✓ We are further leveraging our industry experience for the City by collaborating with our broadband infrastructure lead from our National Utility Team.
- D.A. Davidson ranked fifth nationally by number of negotiated municipal bond transactions underwritten in 2022 (292 negotiated municipal bond transactions totaling \$3.602 billion in par amount nationwide).

Source: Refinitiv



- In the past two years our group has successfully closed nearly 200 transactions equating to more than \$3.5 billion in debt financing for infrastructure and real estate development in the Intermountain West region and more than \$1.1 billion in Utah alone.

Bond Financings

~\$800 million

In real estate infrastructure financing through the capital markets in Utah.

CPACE Financing

~\$350 million

In C-PACE debt raised in the past year alone—including the largest transaction ever in United States.

MARKET LEADER IN UTAH



Project Overview – Fiber-optic ‘Open Access’ System

- Strata is proposing an ‘open access’ system concept to the City where they would be the operator of a network owned by a new entity (that would issue the debt).
 - ✓ This is ‘start-up’ utility concept that would be entering a competitive business.
 - ✓ There would be no operating history and no monopoly control by the municipality (different from the City’s water utility).
 - ✓ The ‘opt-out’ consideration with a baseline level of service is a novel concept, but does not provide sufficient revenues on its own to service related debt payments.
 - Sufficiency will be dependent on customers taking service and reaching certain ‘take-rates’.



Municipal Bond Market Requirements

- For a bond market transaction, the following would be necessary for the security pledge:
 - ✓ Pledge of net revenues of the system.
 - ✓ Lien on constructed assets of the system (or similar legal arrangement, first mortgage, lease, etc.).
 - ✓ Debt service reserve fund.
- For a bond market transaction, the following would be useful to support the City's desired financing plan:
 - ✓ Potential for a more refined (or known) level of 'opt-in'/'opt-out' premises to more clearly define revenue streams.
 - ✓ Potential reserve fund replenishment from City sources (Local Sales and Use Taxes, Energy Sales and Use Taxes, Telecommunications License Taxes) in the event of early year shortfalls.



Prior discussion between the City and D.A. Davidson started with a project cost estimate around \$40 million and an interest rate expectations in the 6% range for a non-recourse (to the City) financing.

- ✓ Both project costs (~\$70 million) and interest rates (8%) are now at higher levels than 18 months ago.
- ✓ The November work session presentation by Strata outlined the limitations regarding 'take-rate' requirements needed to repay debt based on updated project costs and interest rates for non-recourse debt.
 - D.A. Davidson has run numerous financial model scenarios but has similar conclusions.
 - We are also presenting an alternative option.

Scenario A – Non-Recourse Debt (Base Case) Assumptions



- Revenue constraints would provide only \$40 million towards project costs.
- Three years capitalized interest (borrowing includes amounts necessary to make interest only payments).
- Fully funded reserve fund by bond proceeds.
- 30-year term for final repayment.
- Call Feature: 5-year @ 103, 6-year @ 102, 7-year @ 101, 6-year @ Par (no pre-payment penalty).
- At an interest rate of 8.00%, projected revenues would likely be insufficient to meet coverage requirements on financing the full \$70 million of construction costs.

Scenario B – City Reserve Backstop (Alternative) Assumptions



- \$61.5 million financed (balance from future subscriber revenues).
- Three years capitalized interest (borrowing includes amounts necessary to make interest only payments).
- Fully funded reserve fund by bond proceeds.
 - ✓ ***Additional pledge for City to appropriate funds to replenish reserve funds if necessary in future years.***
- 30-year term for final repayment.
- Call Feature: 5-year @ 103, 6-year @ 102, 7-year @ 101, 6-year @ Par (no pre-payment penalty).
- Projected interest rate of 5.50% would provide debt service that is more likely to be covered in full during start-up period.
 - ✓ City would be responsible for any potential shortfalls from subscriber revenue until project is stabilized.

Projected Bond Market Financings by Scenario

Assumptions:

- A) Conceptual interest rates as of December 2023.
- B) Projected closing March 2024.
- C) Scenarios based on publicly provided information from Strata.

MATCHED DEBT SERVICE

Scenario	Project Costs Financed	Term of Financing	Average Interest Rate	ANNUAL Debt Service
Base Case - Non-recourse	\$40,000,000	30-year	8.00%	\$6,091,000
Alternative - City Reserve Backstop	70,000,000	30-year	5.50%	6,091,000

MATCHED PROCEEDS

Scenario	Project Costs Financed	Term of Financing	Average Interest Rate	ANNUAL Debt Service
Base Case - Non-recourse	\$70,000,000	30-year	8.00%	\$8,495,000
Alternative - City Reserve Backstop	70,000,000	30-year	5.50%	6,091,000

- The project cost estimates, projected ‘take-rates’ and current interest rates create a math problem to manage.
 - ✓ At current projections for a non-recourse option, more aggressive ‘take-rate’, service cost or other assumptions would be necessary to achieve sufficiency, which are likely not supported by current data.
 - ✓ D.A. Davidson’s alternative option would provide a path to a more attractive interest rate that could close the gap on sufficiency with limited recourse to the City.
- The potential for City reserve replenishment by future appropriation would improve the credit quality for investors, but could also be limited to the start-up period.
 - ✓ Bond covenants could make this pledge expire once certain milestones are reached on the project.
 - ✓ City exposure could also be eliminated when the debt is refinanced or restructured in as soon as five years.

- D.A. Davidson regularly underwrites development financings and understands investor demand for these products.
 - ✓ Having navigated different State law limitations along with local Council/Board desires, it is important to know what is available to offer potential investors at the earliest point in the financing process.
- In our experience, it is better to start with what the issuer is willing to accept than to backpedal to complete the project later.
 - ✓ ***In short, if the City is inclined to make this project happen and would ultimately be willing to make a pledge like the reserve backstop, it will be beneficial to simply start with that concept.***
 - Under current projections, that also provides the best path to a financing at this time.
- If any kind of City support is off the table, we can evaluate alternative financing options, but the bond market path is not likely to be workable under current cost estimates and market conditions.

Questions?



D | A | DAVIDSON

D.A. Davidson & Co. member SIPC

Michael Maloney, Managing Director
(515) 471-2723
mmaloney@dadco.com

Samuel Elder, Senior Vice President
(801) 994-3167
selder@dadco.com

Neither this material nor any of its contents may be disclosed, sold, or redistributed, electronically or otherwise, without prior written consent of D.A. Davidson Companies. The information presented herein is based on public information we believe to be reliable, prevailing market conditions, as well as our views at this point in time. We make no representation or warranty with respect to the accuracy or completeness of this material. Past performance is not necessarily indicative of future results. Davidson Companies does not assume any liability for any loss which may result from the reliance by any person upon such material. We make no representations regarding the legal, tax, regulatory, or accounting implications of entering into a Transaction.

Required Disclosure Pursuant to MSRB Rule G-23: An underwriter's primary role will be to purchase as principal, or arrange for the placement of the securities in a commercial arm's length transaction with the issuer, and may have financial and other interests that differ from those of the issuer. In its capacity as underwriter and not as financial advisor, an underwriter may provide incidental financial advisory services at the issuer's request, including advice regarding the structure, timing, terms and other similar matters concerning the issuance. However, an underwriter does not assume any financial advisory or fiduciary responsibilities with respect to the issuer.

D.A. Davidson & Co. is providing the information contained herein for informational purposes only in anticipation of being engaged as underwriter. The primary role of an underwriter is to purchase securities with a view to distribution in an arm's-length, commercial transaction with the issuer. In providing this information, we: (i) are acting for our own financial and other interests that may differ from yours; (ii) are not acting as your municipal advisor or financial advisor and have no fiduciary duty to you in connection with these materials; and (iii) are not recommending any action with respect to the information contained in this document. Before acting on this information, it should be discussed with the financial and/or municipal, legal, accounting, tax and other advisors you deem appropriate. If you would like a municipal advisor that has legal fiduciary duties to you, then you are free to engage a municipal advisor to serve in that capacity.