

MORGAN HILL METROPOLITAN DISTRICT NO. 3

2022 BUDGET

SUMMARY OF SIGNIFICANT ASSUMPTIONS

Services Provided

In accordance with its Service Plan, Morgan Hill Metropolitan District No. 3 (the "District") was formed to provide for the planning, design, acquisition, construction, installation, redevelopment, maintenance and financing of the public improvements for a portion of the property known as "Morgan Hill," which is located in Erie, Colorado. Such public improvements include, but are not limited to, streets, traffic and safety controls, water, storm and sanitary sewer, utilities and parks and recreation improvements.

The Service Plan, as amended in 2017, permits the District to impose a maximum mill levy on the taxable property within its boundaries as a primary source of revenue for the construction and maintenance of public improvements, repayment of debt and operational costs. The Service Plan also provides a combined total debt issuance limitation in an aggregate principal amount not to exceed \$35,000,000 for Morgan Hill Metropolitan District Nos. 1, 2 and 3.

On November 10, 2021, the District issued the (i) Series 2021A, General Obligation Refunding and Improvement Bonds in the aggregate principal amount of \$20,030,000 (the "2021A Senior Bonds"); and (ii) Series 2021B, Subordinate General Obligation Refunding and Improvement Bonds in the aggregate principal amount of \$5,850,000 (the "2021B Subordinate Bonds") for the purposes of (i) refunding all amounts on the District's Series 2018B Limited Tax Revenue Note Payable; (ii) funding a Project Fund for future capital improvements (iii) funding a Reserve Fund for the 2021A Senior Bonds (iv) funding a Capitalized Interest Fund for the 2021A Senior Bonds; and (v) paying costs of issuance in connection with the 2021A Senior Bonds and 2021B Subordinate Bonds. Pursuant to the Pledge Agreement dated November 1, 2021, District Nos. 1 and 2 remit pledged revenue to the District for debt service payments on the 2021A Senior Bonds and 2021B Subordinate Bonds.

On December 9, 2021, the District issued the Series 2021C Junior Lien draw down facility in the maximum aggregate amount of \$5,000,000 (the "2021C Junior Lien Bonds") for the purpose of funding the remaining costs of public improvements. The 2021C junior Lien Bonds will be repaid from ad valorem revenue associated with oil and gas revenue and a pledge of oil and gas revenue from District Nos. 1 and 2.

The District prepares its budget on the modified accrual basis of accounting, and the budget has been adopted after proper postings, publications and public hearing.

Revenue

Ad Valorem Property Taxes

The primary source of revenue for the District is property taxes. Property taxes are assessed and collected based upon the assessed value of all of the non-exempt property located within the District. The District adopts mill levies for debt service and for operations which, when combined with the District's other sources of revenue, provide sufficient resources to pay the required debt service, if any, capital purchases and the estimated costs of operations for the calendar year.

Pursuant to the Service Plan and the Gallagher Amendment, the maximum mill levy limit is 55.663 mills. The District adopted a mill levy of 55.663 mills for debt service in 2022.

The total taxable assessed value within the District in 2021 was \$5,606,690, a decrease of \$13,038,950 from the 2020 valuation. This decrease in valuation was due to a significant decrease in oil and gas assessments.

Specific Ownership Tax

Specific ownership tax revenue is collected on annual motor vehicle registrations within Weld County and is distributed based upon the proportion of property taxes levied within the County during the preceding calendar year. The specific ownership tax revenue is estimated to be 6.00% of the ad valorem property taxes collected in 2022.

Transfers from District Nos. 1 and 2

The District expects to receive revenues of approximately \$86,887 from District No. 1 and \$1,637,571 from District No. 2 in 2022, which will mainly be derived from ad valorem property tax and specific ownership tax revenues.

Expenditures

Capital Outlay

The District anticipates expenditures of \$14,254,845 for capital improvements in 2022.

Debt Service

Debt service payments on the 2021A Senior Bonds are interest only for the first three years. The 2022 interest payment will be \$796,131 and paid entirely from the Capitalized Interest Fund. The District also expects to pay \$102,082 in interest on the 2021B Subordinate Bonds and \$547,072 in interest on the 2021C Junior Lien Bonds.

Administrative

Administrative expenditures have been estimated based upon the level of expenditures incurred by the District in prior years.

Reserve Funds

The District is projecting an ending fund balance of \$5,121,623, including \$1,465,994 in the Capitalized Interest Fund (for the benefit of the 2021A Senior Bonds only), a Reserve Fund of \$1,375,954 (for the benefit of the 2021A Senior Bonds only) and an emergency reserve, which is intended for use on any unanticipated expenditures in 2022. Such emergency reserve is an integral part of the Ending Fund Balance.

Leases

The District has no operating or capital leases.