

MORGAN HILL METROPOLITAN DISTRICT NO. 3

2020 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.

In 2017, the District's Board of Directors authorized the issuance of Limited Tax Revenue Bonds, Series 2018A ("Bonds") in an aggregate principal amount not to exceed \$4,000,000. A portion of the proceeds from the Bonds will be held by the District in order to fund debt service on the Bonds for a period of two years. The remainder of the proceeds will be transferred to District No. 1 in order to defray the cost of all or a portion of the public improvements within the Districts. In connection with the issuance of the Bonds, District Nos. 1 and 2 pledged certain revenues to the District for the required debt service on the Bonds.

In 2018, the District issued Subordinate Limited Tax Revenue Notes ("Subordinate Notes") to CDG Morgan Hill, Inc. (the "Developer") in a principal amount not to exceed \$20,000,000. The Subordinate Notes are intended to memorialize the agreement of the District to repay any current and future Developer advances.

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

Developer Advances

The District expects to receive approximately \$11,500,000 in advances from Developer in 2020, which it will transfer to District No. 1 to pay for capital improvements that are expected to be constructed in 2020.

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 increased to 55.663 mills. The District adopted a mill levy of 55.663 mills for general fund obligations in 2020.

The total taxable assessed value within the District in 2019 was \$47,916,800, an increase of \$11,265,180 from the 2018 valuation. This increase in valuation was due to a significant increase 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 6.75% of the ad valorem property taxes collected in 2020.

Expenditures

Transfers to District No. 1

The District projects that it will transfer \$1,550,000 in revenue from ad valorem property taxes and \$4,700,000 from Developer advances to District No. 1 in 2020 to fund expenditures on public improvements.

Administrative

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

Reserve Funds

The District has provided for an emergency reserve equal to \$2,471,686, which is intended for use on any unanticipated expenditures in 2020. Such emergency reserve is an integral part of the Ending Fund Balance.

Leases

The District has no operating or capital leases.