

SWEETGRASS METROPOLITAN DISTRICT NO. 2

2018 BUDGET

SUMMARY OF SIGNIFICANT ASSUMPTIONS

Services Provided

In accordance with its Service Plan, Sweetgrass Metropolitan District No. 2 (the "District"), was formed to provide funding to Sweetgrass Metropolitan District No. 1 for the construction, operation and maintenance of public improvements within the property known as "Sweetgrass," which is located in Dacono, Colorado. Such public improvements include, but are not limited to, storm drainage, water, sewer, utilities, streets, traffic and safety controls, and parks and recreation improvements.

The Service Plan, as modified in 2009, provides the ability for the District to impose a maximum mill levy for the combined debt service and operational and maintenance requirements of the District. The Service Plan also provides limits on the issuance of general obligation debts for the District of \$31,295,000.

In 2005, District No. 1 authorized the issuance and sale of Subordinate Bond Anticipation Notes ("Notes") in an aggregate principal amount not to exceed \$8,000,000 to Dacono Properties, LLC, the Developer of Sweetgrass, and to Sweetgrass Investors, LLC. The 2005 Notes are to be paid from the proceeds of subsequent debt issuance(s), or from any revenues made available to District No. 1 by the District and District No. 3.

In 2016, the District entered into a Loan Agreement with ZB, N.A. d/b/a Vectra Bank Colorado, to obtain a not to exceed \$8,000,000 2016 Limited Tax General Obligation Loan ("2016 Loan") for the purpose of refunding certain amounts due under prior debt issuances by District No. 1 and the District. The Loan is payable solely from ad valorem property tax revenues and specific ownership tax revenues collected by the District and District No. 3.

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

Transfers from District No. 3

The District expects to receive revenues of approximately \$47,634 from District No. 3 in 2018, which will mainly be derived from ad valorem property taxes collected by District No. 3. This revenue will be used to fund the debt service obligations under the 2016 Loan.

Ad Valorem Property Taxes

Another 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.

Commencing on January 1, 2018, the residential assessment ratio was reduced from 7.96% to 7.20%. Pursuant to the Service Plan and the Gallagher Amendment, the mill levy cap was automatically adjusted by the same ratio, to a maximum of 55.275 mills. The District adopted a mill levy of 44.220 mills for debt service and 11.055 mills for operating expenses in 2018.

The total taxable assessed valuation within the District in 2017 was \$9,049,989, an increase of \$3,277,819 from the 2016 valuation.

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 5% of the ad valorem property taxes collected in 2018.

Expenditures

Transfers to District No. 1

The District projects that it will transfer approximately \$94,829 in revenue derived from ad valorem property taxes to District No. 1 in 2018 to fund operating expenses and the debt service obligations of the Districts.

Administrative

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

Debt Service

The District will fund its 2018 debt service obligations under the 2016 Loan, which includes the payment of \$131,540 in principal, \$280,550 in interest and \$4,913 in fees.

Reserve Funds

The District has provided for an emergency reserve equal to \$33,727, which is intended for use on any unanticipated expenditures in 2018. Such emergency reserve is an integral part of the Ending Fund Balance.

Leases

The District has no operating or capital leases.