



Valbridge
PROPERTY ADVISORS

Fiscal Impact Analysis

Calumet Subdivision
Town of New Market
Frederick County, Maryland

FOR
Miller & Smith, Inc.
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Valbridge

PROPERTY ADVISORS

Lipman Frizzell & Mitchell LLC

MEMORANDUM

DATE: January 15, 2015

TO: Tom Hyde/Miller and Smith, Inc.

FROM: Joe Cronyn *JMC*

**SUBJECT: Calumet Subdivision
Town of New Market Fiscal Impact**

Valbridge Property Advisors/Lipman Frizzell & Mitchell LLC (Valbridge/LF&M) has been retained by Miller and Smith, Inc. to update our earlier analyses of the impact of the Smith/Cline annexation and build-out of the Calumet subdivision on the budget of the Town of New Market in Frederick County, Maryland.

We find that they offer significant benefits to the residents of New Market and pay for themselves as regards the net revenues produced for the Town's annual budget. The Town can extend services to 925 new households and increase capital reserves appropriately, while yet increasing its annual unappropriated reserves to accommodate unexpected expenses, enhancement of existing service levels and discretionary spending by the Mayor and Town Council.

Valbridge Property Advisors/Lipman Frizzell & Mitchell finds, therefore, that the annexation of the Smith/Cline property and development of the Calumet subdivision are favorable for the Town of New Market. We project the net benefit (the excess of revenues over expenses) of annexation to the Town's operating budget and reserves as at least \$334,523 annually in 2015 dollars.

Sincerely,

VALBRIDGE PROPERTY ADVISORS/LIPMAN FRIZZELL & MITCHELL LLC

Joseph M. Cronyn

Joseph M. Cronyn

Senior Managing Director

CALUMET SUBDIVISION SMITH/CLINE PROPERTY ANNEXATION

FISCAL IMPACT on the TOWN OF NEW MARKET

Valbridge Property Advisors/Lipman Frizzell & Mitchell LLC (Valbridge/LF&M) has been commissioned by Miller and Smith, Inc. to examine the potential tax revenue and expense impact of the annexation and development of the Smith/Cline property for the Town of New Market in Frederick County, Maryland. Miller and Smith is planning a residential subdivision named "Calumet" on the 266 acre property. The subdivision is expected to consist of 925 upscale single family homes in detached and attached formats.

Organization of Report

This report is organized in four sections: an explanation of Valbridge/LF&M's methodology and assumptions in Section I, followed by analyses of revenue and expense implications in Sections II and III respectively, then a calculation of net fiscal impact on the Town of New Market budget in Section IV.

Underlying Assumptions and Limiting Conditions

The conclusions reached in a fiscal analysis are inherently subjective and should not be relied upon as a determinative predictor of results that will actually occur in the marketplace. Thus a fiscal analysis is not a substitute for Town administration's ultimate decision-making responsibilities. There can be no assurance that the estimates made or assumptions employed in preparing this report will in fact be realized or that other methods or assumptions might not be appropriate. The conclusions expressed in this report are as of the date of this report, and an analysis conducted as of another date may require different conclusions. The actual results achieved will depend on a variety of factors including the performance of administration, the impact of changes in general and local economic conditions and the absence of material changes in the regulatory or competitive environment.

Consultant Qualifications

Valbridge/LF&M is a multifaceted real estate consulting and appraisal firm serving the Mid-Atlantic since 1977. We are the largest real estate advisory firm headquartered in the region, with 25 professionals in our Columbia, MD offices. The principal-in-charge of this assignment has been Joseph Cronyn. He has over 35 years of real estate development, finance and consulting experience. Mr. Cronyn has often conducted real estate feasibility, fiscal and economic impact analyses in Frederick County. Additional information on Valbridge/LF&M and Cronyn are found at the firm's websites at "valbridge.com" and "lfmvalue.com".

I. METHODOLOGY & ASSUMPTIONS

Valbridge/LF&M evaluates the Town of New Market's Fiscal Year 2015 budgeted revenues and expenses, projecting them forward in order to forecast the impact of planned residential development on the budget as of the date of complete build-out of the Calumet subdivision.

Methodology

Two basic approaches are typically used to measure fiscal impact: average costing and marginal costing.

Average Cost Approach

The average costing approach assumes maintenance of existing levels of service. Proposed development is, therefore, gauged by the same service standards which already exist in the community. Average costing does not consider excess or deficient service capacity, or the threshold at which the needs of the community-at-large may require additional capital improvements.

In an average costing methodology, the costs for municipal services are estimated using the per capita multiplier (the amount of local funds which are spent for the service, divided by the relevant population of the jurisdiction). The per capita multiplier recognizes that development takes several years and that inflation will increase both revenues and costs. It also assumes, however, that today's revenue and expenditure averages provide accurate estimates of future fiscal needs. The average costing method is the most widely used and accepted methodology for fiscal impact analysis due to its consistent data inputs and its avoidance of subjective service cost estimates.

Marginal Cost Approach

Marginal costing methodology requires that specific information on numerous service areas be defined and that elaborate models be created to predict when increased service capacity needs will be triggered by new development. The marginal cost approach typically adds complexity and cost but does not necessarily add appreciable improvement in forecasting the potential impact of development. In this case, input from the Mayor has provided revenue and expense information regarding revenues/expenses associated with major service enhancements.

Valbridge/LF&M Approach

In the case of the Smith/Cline property annexation, we judge it is appropriate to use a modified average cost approach in evaluating the fiscal impact of the project on the Town. Budget line items are determined to be in one of three categories:

- Fixed Revenues/Expenses - Since most revenue and expense items in the Town budget are relatively fixed or are discretionary, we assume they will increase only at the rate of inflation or will change based on annual decisions by the Town. These line items are not directly influenced by the size of the Town.
- Proportionate Revenues/Expenses - Certain budget items are directly proportionate to the size of the Town (particularly the number of households or extent of public roads) and an average cost approach is applicable. Property and income tax revenues are in this category, for example, as are general administration and public works expense lines.
- Marginal Revenues/Expenses - Certain budget items will be affected by a qualitative leap in the Town's expectations as it grows. In particular, police protection (with associated expenses and off-setting revenues) is in this category.

It must be emphasized that our methodology assumes no inflation in costs or revenues during the study period. We assume that inflation in revenues and expenses will offset each other, enabling us to focus on the core benefits/costs of providing public services through the Town's build-out.

General Assumptions

We have reviewed the Town of New Market budget for FY 2015 in order to establish baseline revenue and expense figures. We have also consulted Town various sources in deciding on the assumptions which drive our forecast. Those sources include: 2010 U.S. Census, New Market Master Plan 2012, Maryland Department of Assessments and Taxation (SDAT) tax records, Miller and Smith marketing plan and others.

We make the following forecasting assumptions concerning key variables as follows:

- New Market Demographics - The 2010 U.S. Census stated the New Market population at 656 persons and its household count at 231 households. The Town's FY 2015 budget assumes an average household count for the year of 451 households; we use that number in our calculation of average revenues and expenses.
- Home Prices/Assessed Values - Miller and Smith propose a mix of 457 attached and 468 detached single family homes. Current average pricing for new construction homes is \$346,412 for townhomes and \$468,111 for detached homes in Frederick County—which we consider reasonable for the subdivision. We calculate the weighted average price for a Calumet home to be \$407,987. SDAT analysis indicates that the average residential

assessment in Frederick County is 89.6% of its sales price—so we calculate the average assessed value of a home in the subdivision to be \$365,556 in 2015 dollars.

- Household Incomes - The typical household can currently afford to purchase a home priced at approximately three times its annual household income. At an average price of \$407,987 for their homes, households conservatively need to earn an average of \$136,000 annually.
- Police Protection - We assume that the Town will increase police protection by one officer to service household growth attributable to Calumet. It is our understanding that there will be offsets to the expenses for the service: a State of Maryland grant of \$5,000 per officer and a Frederick County grant of 75% of the remaining cost. The net cost to the Town for the one officer is calculated at \$28,750 and is reflected in our expense estimates.

Our projections do not include the changes in the Town revenues and expenses which will occur due to the addition of new homes other than in the Calumet subdivision. The FY 2015 budget anticipates 2.5 new homes per month during at least this fiscal year.

Revenues

The principal revenue lines in the Town budget which will be directly affected by new residential development will be: real estate taxes, income taxes, State shared taxes. Those items account for over three-fifths (60.7%) of total Town revenues in FY 2015. We have assumed that all tax rates are held constant.

Expenses

Most expense lines are held constant, meaning that they will grow only with inflation. The Town may decide to spend more on certain items, but those increases will be at the option of the Mayor and Town Council—not driven directly by growth. Increases in those expenses will be covered by excess revenues (i.e., over-and-above direct expenses) generated by the Calumet development.

Other expense lines are increased with the anticipated increases in Town services. Some increases are proportionate to household or staff growth; some are factors of completely new service levels in police protection or responsibility for roads.

Timeframe

We forecast all fiscal impacts as of the date of complete build-out of the Calumet subdivision. We judge that this approach is straightforward and communicates certain critical long-term data needed for informed decision-making by the Town. This approach focuses on the important structural elements of the Town's operating budget and de-emphasizes the effect of one-time revenues/expenses during the development period for residential subdivisions.

Limitations

It is impossible to totally isolate revenues and expenses attributable to one subdivision. Though we have estimated fiscal impacts caused by Calumet as best we can, we acknowledge the possibility that other factors may create cumulative budgetary impacts which exceed our method's ability to fully forecast—due to the Town's quantum leap in scale.

Valbridge/LF&M has evaluated matters conservatively. It is likely that new revenues will exceed our projections and that expenses will be lower than our projections, especially when it is understood that all projections are made in 2015 dollars.

II. TOWN REVENUES

Valbridge/LF&M assumes that Town revenues will increase with the expansion of its assessable real property tax base and the advent of new taxpaying resident households. Most revenue line items are considered to be fixed, meaning that they will not be increasing proportionate to household growth.

As outlined on the following page, we find the revenue line items which will increase substantially are:

- Real Property Tax - Based on an average \$365,556 assessed value for homes to be sold, we estimate an average Town real estate tax bill of \$439 annually for each new Calumet home. We judge that the stated pricing is conservative and note that real estate tax revenues realized may be higher, depending on pricing actually supported by market conditions.

At build-out, we calculate total annual property tax revenues attributable to Calumet at \$406,075. The Calumet real property tax revenues at build-out are projected at more than double the Town's FY 2015 level for that line item.

- Income Tax - Based on the average home values stated above, the average household income for new homebuyers is expected to be \$136,000. We have used that figure in our estimates in order to be conservative, though many households will earn more. Estimating taxable income at 75% of gross wages and the Town's share of the Frederick County income tax levy at 17%, the average income taxes paid by each household to the Town are \$513 annually.

At build-out, we forecast that Calumet will contribute another \$474,525 for its 925 homes—more than three times the \$150,000 line item in the FY 2015 budget.

- Shared Highway Taxes - At an average payment level of \$29 per household in FY 2015, we project this revenue line at \$21,240 for the Calumet subdivision at its build-out.
- Cable TV Fee - At a payment level averaging \$14 per household in FY 2015, we project this revenue line at \$13,331 for Calumet at build-out.
- Renovation, Zoning & HDC Fees - At a payment level averaging \$4 per household in FY 2015, we project this revenue line at \$4,102 for Calumet at build-out.
- Interest & Dividends - We forecast interest earnings on the Town's reserves held in bank accounts conservatively at 1.0% per year based on an average balance of \$1 million at Calumet build-out.

Anticipated Revenues
TOWN OF NEW MARKET
Fiscal Year 2015 & Hazelnut Run Projected

	FY 2015 Budget Revenues	Annual Cost Basis	per Unit	Hazelnut Run Increment	Total Budget
Local Taxes					
Real Property	\$182,196	\$439	New Household	\$406,075	\$588,271
Personal Property (Unincorporated Business)	\$250	Fixed		\$0	\$250
Business Corporations (Incorporated)	\$4,500	Fixed		\$0	\$4,500
Railroad & Public Utilities	\$8,500	Fixed		\$0	\$8,500
Bank Shares	\$50	Fixed		\$0	\$50
Amusement Taxes	\$90,000	Fixed		\$0	\$90,000
Income Tax	<u>\$150,000</u>	\$513	New Household	<u>\$474,525</u>	<u>\$624,525</u>
	\$435,496			\$880,600	\$1,316,096
State Shared Taxes					
Governor's Transportation Grant	\$23,437	Fixed		\$0	\$23,437
Highways	<u>\$10,356</u>	\$23	Household	<u>\$21,240</u>	<u>\$31,596</u>
	\$33,793			\$21,240	\$55,033
Licenses & Permits					
Liquor Licenses	\$0	Fixed		\$0	\$0
Town Business Licenses	\$500	Fixed		\$0	\$500
Traders Licenses	\$100	Fixed		\$0	\$100
Cable TV Fees	<u>\$6,500</u>	\$14	Household	<u>\$13,331</u>	<u>\$19,831</u>
	\$7,100			\$13,331	\$20,431
Intergovernmental					
County-City Tax Equity Program	<u>\$87,803</u>	Fixed		<u>\$0</u>	<u>\$87,803</u>
	\$87,803			\$0	\$87,803
Service Charges for Current Services					
Orchard DRRA Contributions	\$19,000	Build-Out Complete		\$0	\$19,000
Subdivision Fees	\$5,000	Build-Out Complete		\$0	\$5,000
New Construction Permit Fees	\$7,750	Build-Out Complete		\$0	\$7,750
Renovation, Zoning & HDC Fees	\$2,000	\$4	Household	\$4,102	\$6,102
Sale of Maps & Publications	<u>\$0</u>	Fixed		<u>\$0</u>	<u>\$0</u>
	\$33,750			\$4,102	\$37,852
Miscellaneous Revenue					
Interest & Dividends	\$5,400	Fixed		\$4,600	\$10,000
Rents & Concessions	<u>\$0</u>	Fixed		<u>\$0</u>	<u>\$0</u>
	\$5,400			\$4,600	\$10,000
Total Anticipated Revenue	\$603,342			\$923,874	\$1,527,216

Other individual revenue line items will increase incrementally due to inflation and decisions of the Mayor and Council of the Town, but they are not now and are not likely to be significant revenue producers for the Town.

We project that revenues available to the Town are likely to increase from approximately \$603,342 in FY 2015 to \$1,527,216 at build-out of the Calumet subdivision.

The Calumet subdivision is, therefore, responsible for an increase in revenues estimated at \$923,874 over-and-above the Town's current budgeted levels. All revenues are stated in 2015 dollars.

III. TOWN EXPENSES

Valbridge/LF&M assumes that certain Town operations will be expanded in order to accommodate the service demands of substantial new residential development. Most operating expense line items are considered to be fixed, meaning that they will not be increasing proportionate to household growth.

As outlined on the following page, we find the expense line items which will change substantially are:

- General Administration - We assume that Town staff and services will need to be increased proportionately to deal with the demands created by Calumet households. Most line items are increased on a "per household" basis, which we judge to be very conservative—since we assume that staff efficiencies to be realized will enable personnel increases to be moderated somewhat. Staff is unlikely to be tripled on account of Calumet. Social Security & Medicare expenses are calculated at 7.65% of Clerk Treasurer/etc. staff salaries.
- Police Protection - At a net cost of \$28,750 per position, it is anticipated that this service will increase by one full-time deputy for the Calumet build-out. Revenue offsets to those expenses have been discussed above.
- Public Works - The Town currently maintains approximately 2.26 miles of roads. We estimate that the Town will be responsible for plowing and maintenance for approximately 6.35 miles of roads in Calumet. The Snow & Ice Removal and Street Maintenance lines are increased proportionate to the Town's new responsibilities for roads. Further, we estimate the Town's 20% share of the annual maintenance costs of the 1.95 mile Hazelnut parkway road at \$24,000—with the remaining 80% to be borne by Frederick County.
- Waste Collection - At a current cost averaging \$269 per household, this line item increases by \$249,217 for Calumet at build-out.

We project that Town operating expenses are likely to increase from approximately \$383,469 in FY 2015 to \$972,820 at build-out of the Calumet subdivision.

The Calumet subdivision is, therefore, responsible for an increase in operating expenses estimated at \$589,351 over-and-above the Town's current budgeted level. All expenses are stated in 2015 dollars.

**Anticipated Expenses
TOWN OF NEW MARKET
Fiscal Year 2015 & Projected**

	FY 2015 Budget Expenses	Annual Cost Basis	per Unit	Hazelnut Run Increment	Total Budget
General Administration					
ADA Survey	\$5,000	Fixed		\$0	\$5,000
Advertising	\$2,000	Fixed		\$0	\$2,000
Age 65 Rebate	\$500	Fixed		\$0	\$500
Auditing & Accounting	\$13,460	\$30	Household	\$27,606	\$41,066
Board of Zoning Appeals	\$850	Fixed		\$0	\$850
Clerk Treasurer, Clerk to HDC/ARC etc.	\$69,093	\$153	Household	\$141,710	\$210,803
Code Enforcement Officer	\$2,000	\$4	Household	\$4,102	\$6,102
Conferences & Continuing Education	\$250	Fixed		\$0	\$250
Donations	\$250	Fixed		\$0	\$250
Dues & Subscriptions	\$5,000	Fixed		\$0	\$5,000
Employee Benefits	\$0	Fixed		\$0	\$0
Engineering	\$7,500	\$17	Household	\$15,382	\$22,882
General Maintenance Labor	\$1,500	Fixed		\$0	\$1,500
General Maintenance Supplies	\$250	Fixed		\$0	\$250
HDC/ARC Guidelines	\$250	Fixed		\$0	\$250
Insurance	\$3,100	\$6.87	Household	\$6,358	\$9,458
Legal Counsel	\$40,000	Fixed		\$0	\$40,000
Mayoral Expense Account	\$250	Fixed		\$0	\$250
Mayoral Salary	\$3,800	Fixed		\$0	\$3,800
MML Meeting	\$200	Fixed		\$0	\$200
Municipal Building Utilities	\$5,000	Fixed		\$0	\$5,000
Office Supplies & Technology	\$8,000	\$17.74	Household	\$16,408	\$24,408
Permitting & Inspections	\$3,400	\$7.54	Household	\$6,973	\$10,373
Planning Commission Master Planner	\$6,300	Fixed		\$0	\$6,300
Printing	\$0	Fixed		\$0	\$0
Public Restroom Labor	\$5,175	Fixed		\$0	\$5,175
Public Restroom Supplies	\$250	Fixed		\$0	\$250
Social Security & Medicare	\$5,576	7.65%	of Payroll	\$10,841	\$16,417
Telephone	\$2,000	\$4.43	Household	\$4,102	\$6,102
Tourism	\$500	Fixed		\$0	\$500
Maryland Unemployment Insurance	\$500	Fixed		\$0	\$500
Website/Newsletter	\$0	Fixed		\$0	\$0
Workman's Compensation	\$723	\$1.60	Household	\$1,483	\$2,206
	\$192,677			\$234,966	\$427,643
Public Safety					
Police Protection	\$10,400	Marginal		\$28,750	\$39,150
Volunteer Fire Department	\$14,508	Fixed		\$0	\$14,508
	\$24,908			\$28,750	\$53,658
Public Works					
Mowing	\$7,168	Fixed		\$0	\$7,168
Snow & Ice Removal	\$13,656	\$6,042	Mile	\$38,370	\$52,026
Street Maintenance	\$5,000	\$2,212	Mile	\$14,049	\$19,049
Sidewalk Maintenance	\$0	Fixed		\$0	\$0
Hazelnut Parkway Maintenance	\$0	Marginal		\$24,000	\$24,000
Street & Park Lighting	\$6,550	Fixed		\$0	\$6,550
Tree Management	\$4,000	Fixed		\$0	\$4,000
Waste Collection	\$121,510	\$269	Household	\$249,217	\$370,727
	\$157,884			\$325,635	\$483,519
Recreation & Culture					
New Market Days	\$3,000	Fixed		\$0	\$3,000
Christmas in New Market	\$3,000	Fixed		\$0	\$3,000
Parks & Recreation	\$2,000	Fixed		\$0	\$2,000
	\$8,000			\$0	\$8,000
Total Anticipated Expenditures	\$383,469			\$589,351	\$972,820
UNAPPROPRIATED RESERVE	\$219,873			\$334,523	\$554,396

Unappropriated Reserves

Net revenues over expenses in the Town's operating budget, then, change from \$219,873 in FY 2015 to \$554,396 at Calumet build-out. Calumet contributes \$334,523 to that swing in net revenues—over three fifths (60.3%) of the total.

Above and beyond its annual operating costs, the Town's Unappropriated Reserves (net revenues) offer the Town administration the opportunity to accommodate unexpected expenses, enhance existing service levels and make discretionary spending decisions on a year-to-year basis. Equally importantly, they enable the Town to set aside reserves against the capital expense of replacing public assets (e.g., roads, sidewalks, public buildings, Town equipment) over time.

IV. IMPACT OF ANNEXATION

Valbridge/LF&M has outlined the principal changes in the Town of New Market's operating revenues and expenses attributable to the Calumet subdivision. The same format and line items as the Town's FY 2015 approved budget are used in order to clarify the impact of the build-out of the Town and to facilitate comparison.

We find that the Smith/Cline annexation and Calumet development offer significant benefits to the residents of New Market and pay for themselves as regards the net revenues produced for the Town's annual budget. The Town can extend services to 925 new households and increase capital reserves appropriately, while yet increasing its annual unappropriated reserves to accommodate unexpected expenses, enhancement of existing service levels and discretionary spending by the Mayor and Town Council.

Valbridge Property Advisors/Lipman Frizzell & Mitchell finds, therefore, that the annexation of the Smith/Cline property and development of the Calumet subdivision are favorable for the Town of New Market. We project the net benefit (the excess of revenues over expenses) of annexation to the Town's operating budget and reserves as at least \$334,523 annually in 2015 dollars.