For Public and Private Sector Clients

Residential Development on Pitt and Lippe Parcels

Fiscal Impact Study

Isle of Wight County, Virginia

Prepared by

Ted Figura Consulting

for

EH2 LLC

Midlothian, Virginia

August 1, 2018
Revised March 7, 2019 and August 8, 2019

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Pitt and Lippe: Fiscal Impact Analysis

Executive Summary

The applicant, EH2 LLC, is seeking a rezoning of 114.59 acres south and east of U.S 17/258 (Carrollton Blvd.). Altogether, 340 single-family units are proposed for residential development on the Pitt and Lippe parcels ("Pitt and Lippe" or "the proposed development"), with 165 proposed as single-family detached units and 175 proposed as single-family attached townhouses All units will be age-restricted to age 55 years and older.

As proposed, this development is projected to have a highly positive fiscal impact on the general fund and the enterprise funds of Isle of Wight County ("the County") over its initial ten-year analysis period and in the stabilization year. In the stabilization year, net new revenues for the County (revenues minus costs) are projected to be more than $1.6 million annually. Over the ten-year analysis period, cumulative net new revenue is projected to be almost $14.2 million.

Starting prices for the proposed units are expected to range from $300,000 for the townhouse units to $400,000 for single-family detached units. Based on these prices, the average income for the proposed development's households was estimated to be $87,125 compared to the County's estimated 2020 average household income of $83,600 (2020 being the first year in which units would be sold).

As the proposed development is age restricted with no-one under 19 allowed to permanently reside there, it will generate no students attending Isle of Wight County Public Schools. Due to the well developed public infrastructure in the Carrollton area, other public facilities are not expected to exceed their service capacities due to the construction of the proposed development.

The table below summarizes the fiscal impact measures for the proposed development.

Pitt and Lippe Fiscal Impact Measures, Combined General and Enterprise Funds	
Stabilization Period (FY 2026 and ongoing)	
Annual Revenues	$1,723,650
Annual Costs	$ 112,850
Cash Flow	$1,610,800
Benefit-to-Cost Ratio	15.27-to-1
Cumulative Measures (FY 2020-FY 2029)	
Total Revenues	$14,983,850
Total Costs	$812,325
Cumulative Cash Flow	$14,171,525
Benefit-to-Cost Ratio	18.45-to-1

Figures rounded to the nearest $25

A more detailed analysis follows.

Background

EH2 LLC (the "applicant" or the "developer") has proposed a 340-unit single-family development consisting of a mix of single-family detached dwellings and single-family attached townhouse. The residential development being proposed by EH2 LLC, or "Pitt and Lippe" or "the proposed development," will be located on 114.59 acres located between to the east of Carrollton Boulevard (US 17/258) north of its intersection with Brewers Neck Boulevard in the Carrollton district of Isle of Wight County ("the "Site"). The entire proposed development will be age-restricted to 55 years of age and older within the parameters of federal housing law.

Of the 340 planned units, 165 are planned to be single-family detached units and 175 are planned to be townhouses. The proposed housing units are expected to range in size from 1,600 to 2,400 square feet for the single-family detached units and from 1,400 to 2,100 square feet for the townhouses. It is expected that units will have three bedrooms and two ½ baths. Prices are expected to start at $400,000 for the single-family units and $300,000 for the townhouse units.

Based on the asking sales prices and typical ratios of selling price to income, annual household income for the proposed development's households is projected to average $75,000 and $100,000 for the single-family detached units, with the annual household income for the entire proposed development averaging $87,125, compared to a projected 2020 average household income of $83,600 for Isle of Wight County.

Development of the townhouse product is expected to occur first, with construction of the single-family detached units following less than a year later. Sitework is expected to begin early in FY 2020, with construction of the first townhouse units beginning by the start of the first quarter of 2020 (the third quarter of FY 2020). The first townhouse units are anticipated to be occupied in August 2020. Construction of the first single-family units is expected to begin in the third quarter of 2020 (the first of FY 2021). Occupancy of the first detached units is expected to occur by April 2021. All units are expected to be sold and occupied by the end of the second quarter of 2026 (fourth quarter of FY 2026). Thus, the stabilization year--the year following completion of the proposed development beyond which revenues and costs, measured in constant dollars, do not change—is expected to be FY 2027.

These parameters are best estimates of the scope of the proposed development made by the applicant at this point in time. The specifics of the proposed development are subject to change based upon final determinations of site constraints and/or market conditions. Descriptions of the proposed development contained herein are not guarantees by the applicant that the proposed development will be constructed exactly as described above. However, the basic elements of the proposed development are those outlined above. Any change in the fiscal impact of the proposed development on the County due to minor changes in the scope of the proposed development are expected to be in the magnitude of projected revenues and costs and are expected to be in practically the same proportion of revenues to costs as estimated in the fiscal impact analysis report.

Methodology

The fiscal impact of the proposed development on Isle of Wight County was calculated using the methodology described below. Fiscal impact is defined as the difference between all revenues to the County generated by the development and all costs to the County attributable to the proposed development. Revenues and costs are described in further detail below. The fiscal impact of a by-right development was not calculated as this is deemed not to be necessary by County planning staff.

The fiscal impact was calculated over a ten-year period. This period was chosen for convenience because the stabilization year falls within the second five-year increment following the initial year of the analysis period. The proposed development is expected to be fully developed with the last units occupied in the last quarter FY 2024. Fiscal year 2025 will be the first full fiscal year in which costs and revenues from the proposed development are stabilized.

All fiscal impacts are presented in constant 2019 dollars, (i.e., inflation is not applied to either revenues or costs throughout the analysis period). A constant in 2019 dollars was chosen because the analysis is substantially based on the revenue, cost and tax rate assumptions contained in the *Isle of Wight County, Virginia Adopted Operating and Capital Budget, Fiscal Year 2018-2019* ("the *Budget*"). **This was the budget in effect at the time this fiscal impact analysis was drafted.**

The constant dollar approach means that no assumptions are made about rates of increase in real estate assessments in the County. Also, no assumptions are made about increasing tax revenues from sales, meals or business license taxes based upon retail price increases. Neither are assumptions made about future increases in the unit costs of government. The practical implication of this approach is that any future systemic imbalances between rising revenues and rising costs are assumed to be adjusted through changes in the County's tax rate, either upward or downward.

A marginal revenue/marginal cost approach was used to calculate expected revenues and costs to the County attributable to the proposed development. This is opposed to an average revenue/average cost approach, in which estimates of a project's revenues and costs are based upon a jurisdiction's per-capita total revenues and total costs. The marginal revenue/marginal cost methodology counts only variable costs and revenues and, thus, does not count fixed costs and revenues that would be spent or received by the County whether additional development occurs or not. It counts only revenues and costs attributable to an increase in the number of households from the development being analyzed.

It is, thus, a more accurate estimate of future revenues and costs resulting from a development than is the average revenue/average cost approach. The average revenue/average cost approach actually calculates a project's "fair share" of public costs, rather than the incremental impact of a project on a locality's fiscal position. A more detailed description of the methodology used in this analysis is presented in the Appendix.

Revenues estimated for the proposed development fall into three categories: one-time direct revenues, recurring direct revenues and additional tax revenues generated by households. The methodology does not use multipliers to calculate revenues that could be generated through a project's secondary impacts, as such multipliers are considered to be unreliable for small geographic areas. The methodology does not include revenues generated from spending by construction workers at the proposed development, as such spending cannot reliably be said to occur within the County.

One-time direct revenues are revenues to the County derived from the construction of the proposed development. They include all plan review fees, building permit and associated fees (electrical, mechanical and plumbing), other development fees, including water and sewer connection fees, the local recordation tax and grantor's tax. No cash proffers are calculated in the fiscal impact of the proposed development.

Recurring direct revenues consist of real estate property taxes, personal property taxes (car tax), car rental tax, electric and natural gas utility taxes, water consumption charges, sewer collection charges, and other fees paid by households to the County. These are taxes and fees paid directly to the County by households and/or property owners. Taxes currently paid on the assessed value of the Site's land were deducted from real estate property tax calculations. Taxes were calculated based upon estimates of the assessed property values, the County's per-household user fees or other methodologies explained in the Appendix.

Additional tax revenues generated by households are estimates of taxes paid by Isle of Wight County businesses due to purchases made by the proposed development's residents. These include the local sales tax option, meals tax, and the business license fees paid by businesses on gross receipts from these sales.

Purchases by the proposed development's residents are estimated based upon spending patterns according to estimated household income. Spending patterns are derived from the most recent U.S. Bureau of Labor Statistics Consumer Expenditure Survey. Adjustments were made for spending patterns by age and for the distribution of local option sales taxes to the towns of Smithfield and Windsor and for meal purchases made outside the County or in the towns of Smithfield and Windsor. The methodology for estimating these revenues is presented in the Appendix. No generated taxes were estimated for construction workers or employees of businesses located in Isle of Wight County, as these employees were assumed either to be already living and spending in Isle of Wight County or living outside the County and, thus, spending most of their income outside the County.

Costs were divided into three categories: variable operating costs of government per household, general government capital costs (if any) and public utilities (enterprise fund) costs. Cost data and assumptions were derived from the *Budgets*.

Per household and per business costs were calculated for various budget line items. State and federal revenues supporting various budget line items were deducted to leave only the County's operating cost. Certain government functions, such as public assistance and public health services, that would not serve the proposed development's population were not included in the calculations.

Chief executive, legislative and administrative functions, which would be performed regardless of population size, were not included in the calculations. A percentage of certain administrative support services, to the extent that they support operations which have variable costs, were included in the calculations. The methodology for estimating the cost of government, including, public utility costs (the per-customer cost of billing and the per-gallon cost of water sewer treatment) is presented in more detail in the Appendix.

Three measures of fiscal impact were used—cash flow, cumulative cash flow and the benefit-to-cost ratio. Cash flow shows the annual surplus or deficit of revenues less costs through the stabilization year. Because revenues and costs are reported in constant dollars, there is no change in the projected cash flow after the stabilization year.

Cumulative cash flow is the sum of annual cash flows over the analysis period. Another way of explaining cumulative cash flow is that it is derived by subtracting total costs to the County attributable to a project from total revenues to the County derived from a project over the analysis period, leaving the County's total net revenue from a project.

Finally, the benefit-to-cost ratio is the ratio of total project revenues to the County and total project costs to the County. A benefit-to-cost ratio greater than 1.0-to-1 signals a net fiscal benefit. The magnitude of the benefit-to-cost ratio signals the strength of the fiscal impact on the County. For instance, a benefit-to-cost ratio of 1.5-to-1 indicates that for every additional dollar of spending a project costs the County, the County is expected to receive $1.50 in additional revenue.

Fiscal Impact: Pitt and Lippe

EH2 LLC is seeking a rezoning from agricultural use (A) to mixed-use planned development, (PD-MX) to permit the proposed development on the Pitt and Lippe parcels. The derivation of the revenues and costs attributed to the proposed development are described in the Methodology section, above, and in the Appendix. The revenues projected for the proposed development are listed in the Table 1 on the following page. Costs generated by the proposed development are displayed in Table 2, located on page 9. Both revenues and costs are shown for the stabilization year and for the total ten-year analysis period (FY 2019-FY 2028).

It should be noted that, while the County's Public Utilities fund contains substantial costs, these are nearly all fixed costs that will not change with the addition of new households to the County. Particularly, the County's obligation to purchase water at fixed quantities and prices results in water being available to new households effectively at no additional cost except the initial cost of water meter installation and the costs of water treatment and billing. In other words, the County's commitments to purchase water from other localities will not increase due to the proposed development. Adding households actually provides new revenues to help the County defray these fixed costs.

Table 1 **Pitt and Lippe** **Projected Revenues**		
Revenue Type	Annual Revenues, Stabilization Year (FY 2027)	Ten-Year Total (FY 2020- FY 2029)
Existing Real Estate Property Tax on Land	$ (5,450)	$ (54,550)
Real Estate Property Tax, Land	$ 0	$ 700,450
Real Estate Property Tax, Improvements	$ 956,875	$ 5,514,075
Personal Property (Car) Tax, Car Rental Tax, Motor Vehicle Registration Fees	$ 168,025	$ 1,000,225
Other fees	$ 4,400	$ 26,450
Electric and Natural Gas Utility Tax	$ 24,475	$ 146,950
Subtotal Direct Taxes	*$1,148,325*	*$ 7,333,600*
Additional Revenues Derived from Households	$ 45,800	$ 271,775
General Fund Annual Revenues	***$1,194,125***	***$ 7,605,375***
Sewer Collection Fee	$ 163,300	$ 980,300
Water Consumption and Meter Fees, including Fire Hydrant	$ 366,225	$ 2,269,725
Enterprise Fund Annual Revenues	***$ 529,525***	***$ 3,250,025***
Subtotal Annual Revenues	**$1,723,650**	**$10,855,400**
Building Permit and Review Fees (including electric, mechanical and plumbing)		$ 235,100
Development Review and Other Fees		$ 17,700
Recordation Tax & Grantor's Fee		$ 1,046,750
General Fund One-time Revenues		***$ 1,299,550***
Sewer Connection, Service Fees		$ 1,277,525
Stormwater and Erosion Control Fees		$ 166,150
Water Connection, Service Fees		$ 1,385,225
Enterprise Fund One-time Revenues		***$ 2,828,900***
Value of On & Off-site Improvements		$ 0
Subtotal One-time Revenues		**$ 4,128,450**
Total Revenues	**$1,723,650**	**$14,983,850**
Total General Fund Revenues	***$1,194,125***	***$ 8,904,925***
Total Enterprise Fund Revenues	***$ 529,525***	***$ 6,078,925***

Figures rounded to the nearest $25.

Table 2 Pitt and Lippe Projected Costs		
Cost Type	Annual Costs, Stabilization Year (FY 2027)	Ten-Year Total (FY 2020-FY 2029)
General Government Service Operating Costs	$ 99,800	$612,650
General Government Capital Costs		$ 70,000
Total General Fund Costs	***$ 99,800***	***$682,650***
Enterprise Fund Costs	***$ 13,050***	***$129,675***
Total Operating Costs	**$112,850**	**$812,325**

Figures rounded to the nearest $25.

Besides Public Utilities, the County's Stormwater operations costs were included in the Enterprise Fund calculations (annual stormwater fees were excluded from revenue per the direction of County staff). Some special funds (Emergency Communications and Risk Management) were included in the general fund calculations while other special funds represented fixed or excluded costs.

Subtracting projected costs from revenues yields a positive overall cash flow (or revenues net of costs) for the development. The County is expected to receive more than $1.7 million annually in new revenue from the construction of the proposed development while incurring less than $115,000 in new annual costs. The methodologies for estimating the cost of education are presented in more detail in the Appendix.

Annual cash flow from the proposed development is shown in Table 3 on the following page. In the stabilization year, the County is expected to see net new revenues (revenues less costs) of more than $1.6 million annually. Of this revenue surplus, almost $1.1 million is projected to enter the County's general fund and the County's enterprise fund can be expected to receive more than $500,000 in surplus revenues annually from FY 2027 going forward. The County's enterprise funds, though separate for accounting purposes, ultimately impact the County's general fund. An increase in net revenues would reduce the amount of funds transferred from the general fund to cover enterprise fund deficits or the funds would be used to enable a faster repayment of debt service, which could result in surpluses transferred to the general fund in the future.

Table 4, on the following page, shows the fiscal impact measures for the proposed development. These are very positive with the overall benefit-to-cost ratio in the stabilization year exceeding 15-to-1, meaning that the County is expected to receive $15.27 in revenue for every dollar of cost attributed to the proposed development. Over a ten-year period, the County can expect to receive more than $14.1 million in net new revenue from the proposed development. The extremely high benefit-to-cost ratios shown, particularly for the general fund, are due primarily to the combination of the high quality of the proposed development, reflected in robust revenues generated, and the significantly lower costs to the County of serving an older population. Benefit-to-cost ratios are very strong for the County's enterprise funds, as well, indicating that much of the new enterprise fund revenue to be received by the County can be applied to covering fixed costs (water purchase contracts and/or debt service).

Table 3 Pitt and Lippe Projected Cash Flow						
	FY 2020+ FY 2021	FY 2022	FY 2023	FY 2024	FY 2026	Stabilization Year FY 2027
General Fund Revenues	$ 411,825	$ 547,825	$ 841,225	$1,061,275	$1,257,100	$1,194,125
Enterprise Fund Revenues	$ 657,950	$ 768,375	$ 871,425	$ 949,675	$ 508,700	$ 529,525
Total Revenues	$1,069,775	$1,316,200	$1,712,650	$2,010,950	$1,765,800	$1,723,650
General Fund Costs	$ 11,200	$ 23,350	$ 38,400	$ 61,550	$ 95,750	$ 99,800
Enterprise Fund Costs	$ 11,500	$ 14,275	$ 16,900	$ 19,250	$ 12,525	$ 13,050
Total Costs	$ 22,700	$ 37,625	$ 55,300	$ 80,800	$ 108,275	$ 112,850
General Fund Cash Flow	$ 400,625	$ 524,475	$ 802,825	$ 999,725	$1,161,350	$1,094,325
Enterprise Fund Cash Flow	$ 646,450	$ 754,100	$ 854,525	$ 930,425	$ 496,175	$ 516,475
Total Cash Flow	$1,047,075	$1,278,575	$1,657,350	$1,930,150	$1,657,525	$1,610,800

Figures rounded to the nearest $25.

It should be noted that real estate taxes alone are more than enough to cover all of the expected new costs to the County's general fund generated by the proposed development and that water and sewer charges more than cover the variable costs incurred by the enterprise fund due to the proposed development. Other tax and fee revenues simply add to the revenue surplus for the County's general and enterprise funds.

Table 4 Pitt and Lippe Fiscal Impact Measures, General and Enterprise Funds		
	Stabilization Year (FY 2027)	Ten-Year Total FY 2020- FY 2029)
Cumulative Cash Flow		
General Fund	N/A	$ 8,222,275
Enterprise Funds	N/A	$ 5,949,250
Total	N/A	$14,171,525
Benefit-to-Cost Ratio		
General Fund	11.97-to-1	13.04-to-1
Enterprise Funds	40.58-to-1	46.88-to-1
Combined	15.27-to-1	18.45-to-1