For Public and Private
Sector Clients

The Grange at 10Main

Fiscal Impact Study

Town of Smithfield, Virginia
Isle of Wight County, Virginia

Prepared by

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For

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Smithfield, Virginia
and

Venture Realty Group
Virginia Beach, Virginia

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The Grange at 10Main: Fiscal Impact Analysis

Executive Summary

The applicant, LSMP, LLC., is seeking a rezoning of 57.17 acres along Main Street, the Route 10 Bypass, Cary Street and Grace Street in downtown Smithfield ("the Site"). The Site is currently zoned Commercial/Industrial, Suburban Residential and Agricultural/Undeveloped. The applicant is seeking a rezoning to Mixed-Use to permit the development of The Grange at 10Main (or "the proposed development"). The Grange at 10Main is planned to contain 299 residential dwellings, 49,975 square feet of commercial space, a 70 room hotel and five short-term rental cottages. Included in the commercial space is the Smithfield Market that is anticipated to be sold to the public sector, most likely the Isle of Wight County Economic Development Authority.

The Smithfield Market will contain a restaurant, as will the hotel. The Market will also house three retail/restaurant tenants, one of which would have a take-out menu, as well as sell specialty grocery items. The remaining commercial space at The Grange is programmed to be occupied by a mix of retail and professional offices. These will be located in two stand-alone medical buildings, a two-story commercial building and a one-story retail building. The Grange at 10Main is also planned to have a public green that will provide overflow for the Smithfield Market. Parking is also provided by a 34-space parking lot near the Christian Outreach building and a 24-space surface parking lot opposite the Smithfield Market on Grace Street. The commercial area is served by ample parking.

The residential component of The Grange at 10Main is planned to consist of 53 single-family detached dwellings, 34 duplex units, and 212 apartments in a mix of one, two and three-bedroom units, including 15 premium "carriage house" units. The residential units will be upscale with premium finishes, as will the commercial buildings. Each residential community will be served by a clubhouse and pool, along with other amenities.

As proposed, this development is projected to have a positive fiscal impact for all funds of both Isle of Wight County ("the County") and the Town of Smithfield ("the Town" and collectively "the Localities") over an initial ten-year analysis period and in its stabilization year. Annual cash flow is projected to be almost $560,000 annually for the County and more than $470,000 annually for the Town. For the County, all of this annual net revenue will enter its general fund and for the Town, about 85% of this net revenue will be enter its general fund. This annual revenue surplus from the proposed development can be expected to be received by the Localities each year after the proposed development is built out. Over the ten-year analysis period, the cumulative positive cash flow is projected to be more than $4.3 million for the County and more than $5.5 million for the Town, including the value of donated land.

Average prices for the residential units to be developed on the site are expected to be about \$575,000 for the single-family units and about \$505,000 for the duplex units. Apartment rents are expected to range from \$1,475 per month for a one-bedroom apartment to \$2,100 per month for a three-bedroom carriage house apartment. Additionally, 35 garage spaces will be available for apartment dwellers to rent for \$175 per month. Average household incomes are projected to be about \$81,125 for apartment dwellers and about \$109,650 for residents of the single-family community.

Using the County's student generation formula, the proposed development is expected to add 114 students to the County's school system. Counting only students expected to be generated by The Grange at 10Main, Hardy Elementary School, Westside Elementary School and Smithfield High School can all be expected to have sufficient capacity to absorb those students. When students expected to be generated due to development that has already been approved are added, the elementary schools exceed their instructional capacity by only a few students. Smithfield Middle School would already exceed its instructional capacity due to development that has already been approved by the County, with students from The Grange adding to this deficit, but not to the extent that a new middle school would be necessitated. However, though not calculated in this fiscal impact analysis, it is likely that The Grange at 10Main will generate fewer public school students per household than other residential communities in the County.

The applicant and the developer are requesting the County and the Town to enter into a public-private partnership to make the development of The Grange at 10Main possible. The Grange at 10Main would have a transformative impact on Smithfield. The applicant and related parties are willing to make substantial contributions as part of this public-private partnership. This would include a \$1 million contribution from the Luter family, donation of the land for the Smithfield Market, donation of the public green or its land lease at an extremely favorable rate, and the donation of the 34-space and 24-space parking lots. The Smithfield Market land and parking lot have been valued by the applicant at almost \$1.4 million. Additionally, the restauranteur who will occupy space in the Smithfield Market will construct and build out this space at their own cost, which reduces the cost of the Market for the Localities.

In turn, the applicant and the developer are requesting that the Localities purchase and operate the new Smithfield Market, provide an economic development incentive for the hotel, and purchase the development's infrastructure and utilities through a participation agreement. It is confidently projected that The Grange at 10Main will generate sufficient revenue to support this public participation, after all variable costs of government service to the new development are paid. In fact, based on the accompanying analysis, there should be sufficient revenue to purchase and operate the Smithfield Market, provide the requested economic development incentives, and retain a portion of the revenue as a return on investment for public use.

The tables on the following page summarize the fiscal impact measures for The Grange at 10Main for the County and the Town. The fiscal impact is presented in constant 2022 dollars. However, it should be noted that normal inflation will increase future revenues so that revenues available after all government costs associated with the proposed development have been paid will continue to increase over time.

The Grange at 10Main Fiscal Impact Measures, Combined General and Enterprise Funds, Isle of Wight County	
Stabilization Period	
Annual Revenues	$1,120,550
Annual Costs	$ 562,400
Cash Flow	$ 558,150
Benefit-to-Cost Ratio	1.99-to-1
Cumulative Measures	
Total Revenues	$7,944,025
Total Costs	$3.589,850
Cumulative Cash Flow	$4,354,175
Benefit-to-Cost Ratio	2,21-to-1

Figures rounded to the nearest $25

The Grange at 10Main Fiscal Impact Measures, Combined General and Enterprise Funds, Town of Smithfield	
Stabilization Period	
Annual Revenues	$725,200
Annual Costs	$254,975
Cash Flow	$470,225
Benefit-to-Cost Ratio	2.84-to-1
Cumulative Measures	
Total Revenues	$7,315,375
Total Costs	$1,801,850
Cumulative Cash Flow	$5,513,525
Benefit-to-Cost Ratio	4.06-to-1

Figures rounded to the nearest $25

A more detailed analysis follows.

Background

LSMP, LLC, the applicant, and Venture Realty Group, the developer, have proposed a mixed-use development to be known as The Grange at 10Main ("the proposed development"). The centerpiece of The Grange at 10Main will be a new, indoor Smithfield Market and public green. Commercial development will include retail, dining, professional office space and a boutique hotel, as well as five cottages to be developed and managed for short-term rental/extended stay. Both the hotel and the Smithfield Market are proposed to include a full-service restaurant. Retail and office space will be located in two stand-alone medical office buildings, a two-story commercial building and a one-story retail building. Additionally, the Smithfield Market is planned to have three retail/restaurant tenants, one of which will offer a take-out menu and specialty grocery items. Altogether, 49,975 square feet of commercial space is planned, which includes the Smithfield Market and the restaurants. The hotel is currently planned to have 70 rooms.

The residential component of The Grange at 10Main is planned to include 53 single-family detached and 34 single-family duplex dwellings, plus 212 apartment units. The apartments are planned to be developed as four three and four-story buildings with a mix of one, two and three-bedroom apartments plus three three-story carriage house apartment buildings containing two and three-bedroom apartments and the 35 garages for rent. The single-family residential community and the apartment community would each have a clubhouse and pool serving their residents. Other amenities include a dog park, pickle ball court, and open space, trails, and water features.

All product will have high-end finishes designed to appeal to a sophisticated market. The apartments, in particular, will provide a number of unique amenities not found elsewhere within Isle of Wight County ("the County"). The Grange at 10Main would be developed on vacant property owned by LSMP, LLC, in downtown Smithfield and located along Main Street and bounded by the Route 10 By-pass, Cary Street and Grace Street. A portion of the property is the site of the former Little's Supermarket. The Grange at 10Main is intended to be a transformative development that will significantly enhance the Town of Smithfield's desirability for working and living. The proposed development will also add significant amounts of public parking to the downtown area.

Single-family homes would average 2,450 square feet in size and duplexes would average 2,200 square feet. Including premium packages, the single-family detached units are expected to sell for about $575,000 and the duplexes are expected to sell for about $505,000 in today's market. The Grange apartments are expected to rent for $1,475 per month for the one-bedroom units, $1,700 for the two-bedroom units, $1,800 for the two-bedroom carriage house units, $2,000 for the three-bedroom apartments, and $2,100 for the three-bedroom carriage house apartments. Based on these rents and asking sales prices and typical ratios of selling prices and rents to income, household income for Grange at 10Main residents is projected to average about $89,375 ($109,650 for homeowners and $81,125 for apartment dwellers). The developer may seek HUD financing, in which case 20% of the apartment units would be affordable for households earning 80% of area median income. While no presentation is made to this effect, this has been assumed for analysis purposes and the household income estimates reflect this potential.

Assuming a timely rezoning approval, the applicant expects that construction will begin in the third quarter of 2023 after sitework is completed. Because limited sitework is needed to begin construction of the Smithfield Market, it is anticipated that this building will begin construction as early as the fall of 2022, which would allow it to open by the early spring of 2024. At this time, no phasing of proposed development is planned. The first single-family units can be expected to be completed during the first quarter of 2024. The first apartment building is expected to be occupied by the end of 2024. Leasing of commercial space should begin once the first apartment building is finished. It is assumed that the hotel would begin construction in the third quarter of 2024 and open by the end of 2025. The cottages are planned to be constructed early in the development sequence. All residential development should be completed by the first half of 2026.

Additional detail describing The Grange at 10Main is available in the methodological Appendix accompanying this report.

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 or the Town due to minor changes in the scope of the proposed development are expected to be in the magnitude of projected revenues and costs projected in this report and are expected to be in practically the same proportion of revenues to costs as estimated in the fiscal impact analysis report.

As noted above, The Grange at 10Main is expected to have a positive transformative effect on the Town of Smithfield. The new Smithfield Market is viewed by the County's Tourism Department as a major tourism draw. The entire development is designed to improve quality of life in Smithfield, thereby retaining a greater share of executive level employees of Smithfield Foods. The new hotel will include banquet and conference space, allowing Smithfield Foods to shift many company meeting functions to Smithfield rather than holding these elsewhere within the region. The hotel and cottages would also provide much needed accommodations for visiting corporate executives and vendors, as well as for families visiting the Luter Sports Complex. All this is viewed as important in order to retain Smithfield Foods' corporate offices in Smithfield over the long-term.

Therefore, The Grange at 10Main should not be considered as just another development project, but viewed as an economic development opportunity. Given this, the applicant and developer are requesting that the County and the Town enter into a public-private partnership in order to develop The Grange at 10Main. The applicant and associated parties are willing to make considerable contributions as part of this partnership. The Luter family has expressed their willingness to donate $1 million to help finance the proposed Smithfield Market and the restauranteur who has expressed interest in occupying space in the Smithfield Market would purchase the vanilla shell that the restaurant would occupy for $1.5 million and construct all fit up. The restauranteur also expects to contribute 2% of gross sales to common area maintenance of the Smithfield Market.

Additionally, LSMP is willing to donate the land for the Smithfield Market and accompanying parking and infrastructure. LSMP has also expressed willingness to donate a new 34-space parking lot near the Christian Outreach building, a pickleball/recreation area and an easement along Main Street. LSMP also intends to either donate or lease land for the public green. If leased, this would be for a nominal amount that would be revenue neutral for the Town and the County (collectively, "the Localities") and for LSMP, LLC. The land for the Smithfield Market is valued at $269,500 and is subtracted from the total cost of the Market in obtaining the Market's purchase price. The remaining land and parking donations have been valued at $1,396,500 and is counted as a fiscal benefit to the Town. Since the terms of a public-private partnership are still to be negotiated, is should be understood that the foregoing is not a representation on behalf of the applicant and the developer.

As the public contribution to the public-private partnership, the applicant and the developer are requesting the following:

- the Localities would purchase and operate the Smithfield Market;
- the Localities would maintain the public green;
- the Localities would provide an economic development incentive to attract a hotel owner and/or operator;
- the Localities would enter into an infrastructure and utilities participation agreement whereby the Localities would purchase certain infrastructure and utilities constructed by the developer; this would occur over time and using revenues generated by the proposed development and could include certain off-site infrastructure and utilities.

It is anticipated that, to the extent that the municipalities are constrained by state law and common practice, the County's Economic Development Authority (EDA) would deliver the various economic development incentives contemplated in the public-private partnership. These options are discussed in greater detail in the accompanying Appendix.

It is contemplated that The Grange at 10Main would generate sufficient revenues, after local government costs associated with the proposed development are paid, to provide the requested economic development incentives. It is also assumed that, except for the purchase and operation of the Smithfield Market, all economic incentives would be performance based. In other words, delivery of those incentives would be conditioned upon the receipt by the Localities of sufficient revenues derived from the proposed development. It is also assumed by the Consultant, that revenues derived from the proposed development would first be used to fund the purchase and operating costs of the Smithfield Market before being made available for other economic development incentives. However, these matters are still to be negotiated among the parties and the assumptions made in this report do not constitute a representation on behalf of the applicant or the developer.

In order to demonstrate the feasibility of the proposed public-private partnership, this fiscal impact analysis has been divided into two sections. The first is a traditional fiscal impact analysis covering a ten-year period and demonstrating the general government and education costs resulting from the proposed development along with those revenues anticipated to result from that development. The second is a twenty-five year cash flow analysis that anticipates the purchase of the Smithfield Market by the Localities and identifies cash flow that would be available to provide economic development incentives as a contribution to the public-private partnership.

Methodology

The fiscal impact of The Grange at 10Main on the County and the Town was calculated using the methodology described below. Fiscal impact is defined as the difference between all revenues to the Localities generated by the development and all costs to the Localities attributable to the development. Revenues and costs are described in further detail below.

As noted above, the fiscal impact was calculated over a ten-year period. This period was chosen because the stabilization year occurs within the second five-year period within which development occurs. The stabilization year for the proposed development is FY 2030. The stabilization year is the year following the completion of all components of a proposed development, the year beyond which the fiscal cash flow from the development in constant dollars does not change. Thus, there is no reason to continue the analysis period beyond the stabilization year, except for the convention of five-year increments. The analysis period extends from FY 2023 to FY 2032.

All fiscal impacts are presented in constant 2022 dollars, (i.e., inflation is not applied to either revenues or costs throughout the analysis period). A constant in 2022 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 & Capital Budgets for the Period Fiscal Year July 1, 2021 - June 30, 2022, Town of Smithfield Operating Budgets & Capital Improvements Plan, FY 21-22* and the *Isle of Wight County Schools School Operating Budget, Fiscal Year 2022* ("the *Budget(s)*").

The constant dollar approach means that no assumptions are made about rates of increase in real estate assessments in the Localities. 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 Localities' tax rate, either upward or downward.

A marginal revenue/marginal cost approach was used to calculate expected revenues and costs to the Localities attributable to the 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 revenues and 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 Localities whether additional development occurs or not. It counts only revenues and costs attributable to an increase in the number of households or businesses 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 Grange at 10Main 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 Grange at 10Main, as such spending cannot reliably be said to occur within the Localities.

One-time direct revenues are revenues to the County derived from the construction of The Grange at 10Main. They include all building permit and associated fees (electrical, mechanical and plumbing), other development fees, including water and sewer tap fees, and the local recordation tax and grantor's fees.

Recurring direct revenues consist of real estate property taxes, personal property taxes (car tax), motor vehicle registration fees, business personal property taxes, local option sales taxes, meals taxes, business license fees, lodging taxes, car rental taxes, water and sewer collection fees, and other fees paid by households and businesses to the Localities. These are taxes and fees paid directly to the Localities by households, businesses 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, sales and receipts of businesses located at The Grange at 10Main, 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 businesses located in the Localities due to purchases made by Grange at 10Main residents. These include the local option sales tax, meals tax, and the business license fees paid by businesses on gross receipts from these sales. The methodology for estimating net new sales and gross receipts is presented in the Appendix.

Purchases by The Grange at 10Main residents are estimated based upon spending patterns according to household estimated income. Spending patterns are derived from the most recent U.S. Bureau of Labor Statistics Consumer Expenditure Survey. An adjustment was made for purchases made outside the County and for spending occurring within the Town versus the remainder of the County. The methodology for estimating these revenues is presented in the Appendix.

Adjustments were also made to tax revenues derived from businesses located at The Grange at 10Main. These adjustments were made for sales and receipts that would be redirected to Grange businesses from existing businesses in the Town and the County and for potential relocation of existing businesses in the County and the Town to commercial space at The Grange at 10Main. Estimates of redirected sales were also made for future expanded sales at the Smithfield Market. The methodology for making these adjustments is presented in the Appendix.

No generated taxes were estimated for construction workers or employees of businesses located at The Grange at 10Main or elsewhere in Localities, as these employees were assumed either to be already living and spending in Localities or living outside the Localities and, thus, spending most of their income outside the Localities.

Costs were divided into five categories: education variable operating costs per student, other variable operating costs of government per household, education capital costs (if any), general government capital costs (if any) and 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 Localities' operating cost. Certain government functions, such as public assistance and public health services, that would not serve the Grange at 10Main 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 would be provided independent of population size, were not included in the calculations. Certain costs (and revenues) were adjusted for household size. The methodology for estimating the cost of government, including, enterprise fund costs (the per-customer cost of billing, the per-linear foot cost of line maintenance and the cost of providing solid waste services), is presented in more detail in the Appendix.

Education costs exclude administrative and other fixed costs. The County's student generation rates were used to calculate the number of students expected to be generated by the proposed development. The distribution of Grange at 10Main students to elementary, middle and high schools was estimated based on student generation rates by class grouping provided by the County's school system.

Data provided by the Isle of Wight County Public Schools were then used to calculate available capacity for the schools which Grange at 10Main students would attend. An analysis was performed to determine whether any capital fiscal impact existed due to the development of The Grange at 10Main. In order for a fiscal impact to exist, the proposed development would have to cause the County to spend capital dollars to alleviate the development's facility impact. If there would be no change in the County's capital spending plans whether The Grange at 10Main is developed or not, there is no capital fiscal impact.

In calculating fiscal impact, students generated by future development, reasonably expected to occur, that have not yet added students to the County's school system are counted in calculating whether a school would exceed its capacity due to the proposed development. Also, any planned construction that would expand the County's capacity to accommodate future students, whether from unbuilt developments that are "in the pipeline" or from the proposed development, are factored into the calculation of whether The Grange at 10Main would cause the County to remedy school overcapacity caused by the development of The Grange at 10Main. No capital fiscal impact with regard to classroom expansion was determined to exist due to the proposed development.

An analysis was also performed to determine whether any additional school buses would likely be required due to the development of The Grange at 10Main. This included evaluating the need for both standard and special needs school buses. If it was determined an additional school bus would be purchased to accommodate students generated from The Grange at 10Main, the cost was counted as an educational capital cost in the fiscal impact analysis.

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 for a sample of ramp up years 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 locality attributable to a proposed development from total revenues to the locality derived from that development over the analysis period, leaving the locality's total net revenue from the development.

Finally, the benefit-to-cost ratio is the ratio of total project revenues to the Locality and total project costs to the locality. 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 locality. For instance, a benefit-to-cost ratio of 1.5-to-1 indicates that for every additional dollar of spending a project costs the locality, the locality is expected to receive $1.50 in additional revenue.

These fiscal impact measures, as well as their revenue and cost components, were calculated for both the County and the Town.

Current assessments were reflective of market values in late 2018 and early 2019. Upon the recommendation of the Commissioner, estimates of assessed value conveyed by the Commissioner were updated using various cost indexes. Real estate tax projections were adjusted accordingly.

As noted above, a separate analysis was conducted to estimate cash flow that would be available to fund public participation in the proposed development, including the purchase of the Smithfield Market. It was assumed that the purchase of the Smithfield Market would be financed using 20-year bonds issued by each Locality and the analysis period was, therefore, extended through the bond repayment period. Keeping the analysis in five-year increments, this resulted in a 25-year analysis period, occurring from FY 2023 to FY 2047.

In addition to extending the analysis period, inflation was applied to certain revenues, as well as to operating costs. This was in recognition that bond payments are likely to be fixed, while the revenue to be used to repay those bonds would increase with inflation, allowing smaller proportions of positive cash flow to be allocated to bond repayment. Since only revenue that is not allocated to funding the cost of government attributable to The Grange at 10Main would be used to fund the Smithfield Market purchase and other economic development incentives, only this "surplus" revenue was subject to inflation in the analysis. Also, in recognition that real estate tax rates are likely to be periodically adjusted if housing assessments rise significantly, revenue from the real estate property tax was inflated at a lower rate than other surplus revenue.

In this public participation cash flow analysis, surplus revenues were first applied to costs attributable to the Smithfield Market, including debt repayment. Revenues specific to the Smithfield Market were applied to projected operating costs. Bond payment costs were then added to this difference. It was recognized that the Localities may choose to finance the Smithfield Market purchase using an equal principal amortization rather than an equal payment amortization. Therefore, the analysis is presented with both bond options.

Surplus revenues attributable to the proposed hotel were reserved for potential economic development incentives to be delivered to the hotel. The remaining cash flow would be available to fund the requested infrastructure and utility participation agreement, along with providing a "cushion" against higher than expected costs of government services and a potential return on investment for the Localities.

A distinction was made between "hard" revenues—such as ad valorem taxes, that are traceable to specific tax payers and can be projected with a greater degree of certainty—and "soft" revenues—which are less traceable, may be impacted by redirection and relocation, and are projected with a lesser degree of certainty. The allocation of "hard" and "soft" revenues between funding government services attributable to the proposed development and providing economic development incentives is a matter to be negotiated among the parties. For analysis purposes, those categories of revenue were assumed to be distributed in the same proportions.

The methodologies used to construct the public participation cash flow analysis and other matters concerning public participation are described in more detail in the Appendix.

Education Impact of The Grange at 10Main

Altogether, the proposed development is expected to add 114 students to the County's school system—51 students added to Hardy Elementary School, 17 students to Westside Elementary School, 13 students to Smithfield Middle School and 33 students to Smithfield High School.

Although it is not anticipated that cash proffers will be offered by the applicant, an analysis was performed using the criteria mandated by the state statute governing the offer of cash proffers. Those criteria require that only current enrollment and current school capacity be considered when calculating whether a school facility will exceed its capacity due to a proposed development. Since the new Hardy Elementary School is not yet completed, the enrollment and capacity for the current Hardy Elementary is used in order to comply with Virginia proffer statute instructions.

Table 1, on the following page, shows the capacities, current enrollment, projected enrollment after adding students from The Grange at 10Main and remaining capacity for each school in a cash proffer analysis.

Table 1 Available School Capacities Before and After The Grange at 10Main				
School	Instructional Capacity	Current Enrollment	Enrollment after The Grange at 10Main	Capacity after The Grange at 10Main
Hardy Elementary	657	529	580	77
Westside Elementary	849	724	741	108
Smithfield M.S.	634	624	637	-3
Smithfield H.S.	1,588	1,338	1,371	217

Sources: *Isle of Wight County Schools Student Yield and Subdivision Analysis, April 2018;* Virginia Department of Education

It is noted that remedying the facility deficit for only three students at Smithfield Middle School would be considered reasonable under current proffer law. However, the second test of proffer reasonableness is that the proffer be used to actually remedy the facility deficit and this is highly unlikely to occur given the small magnitude of the deficit.

Relaxing the standards imposed by Virginia cash proffer law allows the consideration of students that would be generated from development that is currently under construction, approved by the County, or planned ("pipeline development"), plus school capacities that would exist in the future. Table 2, below, shows remaining school capacities after The Grange at 10Main is developed, after students from pipeline development are taken into consideration, and considering school capacities that are likely to exist when The Grange at 10Main is fully developed.

Instructional capacity for the new Hardy Elementary School was provided by the Isle of Wight County Public Schools. However, a capacity estimate could not be obtained for the new Westside Middle School and it was assumed that this building would duplicate the capacity of the new Hardy Elementary School. Also, it was assumed, based upon Isle of Wight Public School planning documents, that 100 students could be transferred from Carrollton Elementary School to the new Hardy Elementary School and those students were added to that school's current capacity.

Table 2 Available School Capacities Before and After The Grange at 10Main and Future Development					
School	Instructional Capacity	Current Enrollment	Future Development Enrollment	The Grange at 10Main Enrollment	Capacity After The Grange at 10Main
Hardy Elementary	885	629	121	51	84
Westside Elementary	849	724	113	17	-5
Smithfield M.S.	634	624	37	13	-40
Smithfield H.S.	1,588	1,338	161	33	56

Sources: *Isle of Wight County Schools Student Yield and Subdivision Analysis, April 2018;* Virginia Department of Education; *Residential Pipeline Projects as of 03/29/2022; Is*le of Wight County Planning Department

Table 2 shows that, taking into consideration pipeline development, Smithfield Middle School would exceed its instructional capacity whether or not The Grange at 10Main is developed. However, the magnitude of the facility deficit at that school would not compel the County to build a new middle school. When distributed among classrooms, it can be expected that each classroom might exceed its optimal capacity by one or possibly two students. Likewise, the County is highly unlikely to choose to construct a new elementary school to relieve the five-student facility deficit at Westside Elementary School.

It is likely that the approved development of Mallory Pointe and Scott Farm would cause the County's school system to purchase at least two and possibly three new standard school buses and a special needs bus in order to accommodate the transportation needs of students residing in that development. The second school bus would accommodate all of the students generated by The Grange at 10Main for Westside Elementary School and a third school bus would accommodate almost half of the students at Hardy Elementary School. The anticipated purchase of a special needs bus should accommodate all of the special needs students generated by the proposed development. The partial cost of a standard school bus based upon the probability of a second bus being purchased to accommodate Mallory Pointe and Scott Farm students was calculated and added as a capital fiscal cost in the fiscal impact analysis.

The operating education cost has been calculated in the fiscal impact analysis and applied to all students generated by The Grange at 10Main. This cost, included in the fiscal impact analysis, is shown in Table 4 below. The methodology for reaching the foregoing conclusions is described in more detail in the Appendix.

<u>Fiscal Impact of The Grange at 10Main on Isle of Wight County</u>

The applicants are seeking a rezoning of the Site to Mixed-Use zoning from its current Commercial/Industrial, Suburban Residential and Agricultural/ Undeveloped zoning. This zoning (and a public-private partnership agreement) would permit the development described above. The derivation of the revenues and costs attributed to The Grange at 10Main are described in the Methodology section, above, and in the Appendix. The revenues projected to be received by the County from The Grange at 10Main are listed in the Table 3 on the following page. Costs to the County generated by The Grange at 10Main are displayed in Table 4 on the next page. Both revenues and costs are shown for the stabilization year and for the total ten-year analysis period (FY 2023-FY 2032).

Subtracting projected costs from revenues yields a positive overall cash flow (or revenues net of costs) for the proposed development. In the stabilization year, the County is expected to receive more than $1.1 million annually in new revenue from the development of The Grange at 10Main while incurring less than $575,000 in new annual costs. Over the ten-year analysis period, the County can expect to receive almost $8 million in new revenues while incurring less than $3.6 million in new costs.

Table 3 The Grange at 10Main Projected Revenues for Isle of Wight County		
Revenue Type	Annual Revenues, Stabilization Year (FY 2030)	Ten-Year Total (FYs 2023-2032)
Current Real Estate Tax	$ (21,675)	$ (216,825)
Real Estate Property Tax, Land	$ 24,000	$ 454,875
Real Estate Property Tax, Improvements	$ 721,375	$ 4,560,650
Personal Property (Car) Tax	$ 241,225	$ 1,617,025
Business Personal Property Tax	$ 40,525	$ 202,125
Local Option Sales Tax	$ 48,725	$ 306,950
Meals Tax (loss from redirection)	$ (16,800)	$ (120,500)
Other fees	$ 14,425	$ 97,925
Utility Taxes	$ 36,750	$ 249,425
Subtotal Direct Taxes	*$1,088,550*	*$ 7,151,650*
Additional Revenues Derived from Households	$ 32,000	$ 214,375
Annual Revenues	***$1,120,550***	***$ 7,366,025***
Building Permit and Review Fees		$ 150,575
Development Review and Other Fees		$ 450
VSMP Fees		$ 6,200
Recordation Tax and Grantor's Fee		$ 420,775
One-time Revenues		***$ 578,000***
Total Revenues	***$1,120,550***	**$ 7,944,025**
Revenues from Residential Development*	***$ 946,000***	**$ 6,520,425**
Revenues from Commercial Development*	***$ 196,225***	**$ 1,222,150**

Figures rounded to the nearest $25.
*Current real estate tax not deducted; does not include general development revenues
Note: Does not include revenues attributable to the Smithfield Market

Table 4 The Grange at 10Main Projected Costs for Isle of Wight County		
Cost Type	Annual Revenues, Stabilization Year (FY 2030)	Ten-Year Total (FYs 2023-2032)
General Government Service Operating Costs	$167,725	$1,062,225
General Government Service Capital Costs		$ 0
Education Operating Costs	$394,675	$2,461,575
Education Capital Costs		$ 66,050
Total Costs	**$562,400**	**$3.589,850**
Costs from Residential Development	**$555,475**	**$3,540,750**
Costs from Commercial Development	**$ 6,925**	**$ 49,100**

Figures rounded to the nearest $25.

Annual cash flow from The Grange at 10Main is shown in Table 5 below. Cash flow is shown for the general fund and the County's enterprise funds combined, since expected revenues from the enterprise fund are small and costs are non-existent. In the stabilization year, the County is expected to see net new revenues (revenues less costs) of almost $560,000. Almost all of this revenue surplus is projected to enter the County's general fund.

Table 5 The Grange at 10Main Projected Cash Flow for Isle of Wight County						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Stabilization Year FY 2030
Total Revenues*	$102,325	$463,950	$648,700	$1,089,025	$1,126,650	$1,120,550
Total Costs	$ 175	$ 38,775	$155,675	$ 580,075	$ 562,400	$ 562,400
Cash Flow	$102,150	$425,175	$493,025	$ 508,950	$ 564,250	$ 558,150

Figures rounded to the nearest $25.
*The "cost" of taxes currently collected on the site is subtracted from General Fund revenues.

Table 6, o the following page, shows the fiscal impact measures for The Grange at 10Main for the County. These are positive. The County can expect to receive more than $4.3 million in surplus revenue from the proposed development during the ten-year analysis period. Benefit-to-cost ratios in the stabilization year is nearly 2-to-1. The County's general fund is expected to receive $1.99 in revenue for every dollar of cost attributed to the development in the stabilization year and beyond. The somewhat higher benefit-to-cost ratio for the ten-year period is due to the presence of one-time revenues.

Table 6 The Grange at 10Main Fiscal Impact Measures, General and Enterprise Funds		
	Stabilization Year (FY 2030)	Ten-Year Total (FYs 2023-2032)
Cumulative Cash Flow	N/A	$4,354,175
From Residential Development	N/A	$2,979,675
From Commercial Development	N/A	$1,173,050
Benefit-to-Cost Ratio	1.99-to-1	2,21-to-1
Of Residential Development	1.7-to-1	1.84-to-1
Of Commercial Development	28.4-to-1	24.9-to-1

Fiscal Impact of The Grange at 10Main on the Town of Smithfield

The fiscal impact of the proposed development on the Town is also positive after subtracting projected costs from revenues. The revenues projected to be received by the Town from The Grange at 10Main are listed in the Table 7 on the following page. Costs to the Town generated by The Grange at 10Main are displayed in Table 8, located on page 21. Both revenues and costs are shown for the stabilization year and for the total ten-year analysis period (FY 2023-FY 2032).

In the stabilization year, the Town is expected to receive more than $725,000 annually in new revenue from the development of The Grange at 10Main while incurring less than $255,000 in new annual costs. Over the ten-year analysis period, the Town can expect to receive more than $7.3 million in new revenues (including the value of donated land and parking) while incurring only about $1.8 million in new costs.

Annual cash flow from The Grange at 10Main is shown in Table 9 on page 21. Cash flow is shown for the general fund and the Town's enterprise funds separately. In the stabilization year, the Town is expected to see cash flow (revenues less costs) of more than $470,000. Of this revenue surplus, more than 85% is projected to enter the Town's general fund, with the remainder received by the Town's enterprise funds. However, the Town's enterprise funds earn significant one-time revenues in the early years from the development of The Grange at 10Main.

Table 7
The Grange at 10Main
Projected Revenues for the Town of Smithfield

Revenue Type	Annual Revenues, Stabilization Year (FY 2030)	Ten-Year Total (FYs 2023-2032)
Current Real Estate Tax	$ (4,850)	$ (48,475)
Real Estate Property Tax, Land	$ 5.375	$ 101,675
Real Estate Property Tax, Improvements	$165,250	$1,043,475
Personal Property (Car) Tax, Decals	$ 58,400	$ 370,300
Car Rental Tax	$ 450	$ 2,900
Business Personal Property Tax	$ 9,025	$ 45,000
Local Option Sales Tax	$ 14,375	$ 85,575
Meals Tax	$ 88,050	$ 479,375
Lodging Tax	$146,725	$ 879,850
Business License Fee	$ 10.525	$ 66,250
Utility Taxes	$ 15,825	$ 105,050
Other fees	$ 7,250	$ 45,700
Subtotal Direct Taxes	*$516,400*	*$3,174,675*
Additional Revenues Derived from Households	$ 93,225	*$ 584,950*
General Fund Annual Revenues	***$609,625***	***$3,761,625***
Sewer Collection Fee	$ 61,125	$ 375,575
Water Consumption Fee	$ 54,450	$ 342,800
Enterprise Fund Annual Revenues	***$115,575***	***$ 718,375***
Subtotal Annual Revenues	**$725,200**	**$4,480,000**
Contractor’s Business License Fee		$ 116,075
Permits, Development Review and Other Fees		$ 5,650
General Fund One-time Revenues		***$ 121,725***
Sewer Connection & Availability Fees		$ 746,300
Water Tap & Development Fees		$ 570,850
Enterprise Fund One-time Revenues		***$1,317,150***
Value of Land Donations		***$1,396,500***
Subtotal One-time Revenues		**$2,835,375**
Total Revenues	**$725,200**	**$7,315,375**
General Fund Revenues	***$609,625***	**$3,883,350**
Enterprise Fund Revenues	***$115,575***	***$2,035,525***
Revenues from Residential Development*	***$417,000***	***$3,809,300***
Revenues from Commercial Development*	***$313,050***	***$2,108,125***

Figures rounded to the nearest $25.
*Current real estate tax not deducted; does not include general development revenues
Does not include revenues from the Smithfield Market

Table 8 The Grange at 10Main Projected Costs for the Town of Smithfield		
Cost Type	Annual Revenues, Stabilization Year (FY 2030)	Ten-Year Total (FYs 2023-2032)
General Government Service Operating Costs	$200,600	$1,266,450
General Government Service Capital Costs		$ 183,000
Education Operating Costs	$ 0	$ 0
Education Capital Costs		$ 0
Total General Fund Costs	$200,600	$1,449,450
Enterprise Fund Costs	$ 54,375	$ 352,400
Total Costs	**$254,975**	**$1,801,850**
Costs from Residential Development	***$188,300***	***$1,528,400***
Costs from Commercial Development	***$ 66,675***	***$ 273,450***

Figures rounded to the nearest $25.

Table 9 The Grange at 10Main Projected Town of Smithfield Cash Flow						
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Stabilization Year FY 2030
General Fund Revenues*	$ 32,300	$ 91,425	$223,750	$484,525	$594,825	$609,625
Enterprise Fund Revenues	$458,650	$514,550	$383,075	$105,525	$112,275	$115,575
Total Revenues	$490,950	$605,975	$606,825	$590,050	$707,100	$725,200
General Fund Costs	$ 0	$ 16,775	$ 63,300	$296,300	$200,600	$200,600
Enterprise Fund Costs	$ 4,925	$ 11,050	$ 17,825	$ 46,675	$ 54,375	$ 54,375
Total Costs	$ 4,925	$ 27,825	$ 81,175	$342,975	$254,975	$254,975
General Fund Cash Flow	$ 32,300	$ 74,650	$160,450	$188,225	$394,225	$409,025
Enterprise Fund Cash Flow	$453,725	$503,500	$365,250	$ 58,850	$ 57,900	$ 61,200
Total Cash Flow	$486,025	$578,150	$525,700	$177,075	$452,125	$470,225

Figures rounded to the nearest $25.
*The “cost” of taxes currently collected on the site is subtracted from General Fund revenues.

Table 10, below, shows the fiscal impact measures for the Town resulting from The Grange at 10Main. These are also very positive. The Town can expect to receive more than $5.5 million in surplus revenue and in-kind value from the proposed development during the ten-year analysis period. The overall benefit-to-cost ratios in the stabilization year exceeds 2.8-to-1. The Town's general fund is expected to receive $2.84 in revenue for every dollar of cost attributed to the development in the stabilization year and beyond.

Table 10
The Grange at 10Main
Fiscal Impact Measures, Town General and Enterprise Funds

	Annual Revenues, Stabilization Year (FY 2029)	Ten-Year Total (FYs 2023-2032)
Cumulative Cash Flow		
General Fund	N/A	$2,433,900
Enterprise Funds	N/A	$1,683,125
Total*	N/A	$5,513,525
From Residential Development	N/A	$2,280,900
From Commercial Development	N/A	$1,834,675
Benefit-to-Cost Ratio		
General Fund	3.04-to-1	2.68-to-1
Enterprise Funds	2.13-to-1	5.78-to-1
Combined	2.84-to-1	4.06-to-1
Of Residential Development	2.21-to-1	2.49-to-1
Of Commercial Development	4.7-to-1	7.71-to-1

In summary, the fiscal impact of The Grange at 10Main on both the County and the Town are very positive, even using conservative assumptions about revenue generation from the proposed development. Furthermore, the fiscal impact is positive for both the general and enterprise funds of the two Localities. These revenue surpluses provide ample fiscal room for contributions by the Localities to a public-private partnership, as will be demonstrated in the next section of this report.

Opportunities for Public-Private Partnership Participation

As discussed above, the applicant and the developer are asking the Localities to enter into a public-private partnership in order to develop The Grange at 10Main. Elements of this partnership are discussed above and in the Appendix. This section presents an analysis of cash flows deriving from the proposed development and their potential use to fund the Localities' participation in this transformative development.

It is presumed that funds from the positive cash flow produced by The Grange at 10Main would first be used to pay for costs associated with the new Smithfield Market. Those costs include capital and operating costs. It is assumed that the Smithfield Market would be sold by the developer to the Isle of Wight County Economic Development Authority (EDA) which is empowered by state statute to own property, including property for economic uses, and to borrow funds. It is assumed that the EDA would finance its purchase of the facility by issuing a 20-year revenue bond. A 6.5% interest rate has been assumed, based upon historical experience. Two amortization options are explored—equal payment and equal principal.

The Smithfield Market would also incur operating costs that will increase or that are not incurred relative to the present outdoor Smithfield Market. These operating costs include: the expansion of the market event assistant position to full-time, increased part-time personnel costs, insurance, building maintenance and repair, grounds maintenance (including of the public green, which will be used for overflow market vendors), and supplies. It is assumed that utilities will be paid by the restaurant and other Market tenants and that the brewpub restaurant will contribute to the common area maintenance expenses.

Revenues were calculated for the Smithfield Market and applied to anticipated cost, including bond debt service. These revenues include: vendor fees, local option sales tax and business license fees from Smithfield Market sales (including of the restaurant), meals tax, and real estate property and leasehold tax payments from the restaurant and retail tenants. Rent from the Smithfield Market tenants was not included in the calculation, as these rents have not yet been determined and are subject to future negotiation.

Counting only revenues to be received by the County or the EDA (both direct and taxes paid by the restaurant and tenants) and before debt is considered, the Smithfield Market is projected to operate at a profit, due largely to the anticipated CAM payments from the brewpub restaurant. "Permanent" tenant lease payments, which are not included in the analysis since they are yet to be determined, would add to this revenue surplus.

It is assumed that the Smithfield Market will be operated by the County or by a creature of the County. Therefore, the Market's anticipated revenue surplus was first applied to the County's presumed debt service for its share of the purchase of the Market. This operating surplus would not be sufficient to make bond payments, however. This is true during the entire bond payment period using an equal payment method and through the fourteenth year of payments using an equal principal method. Surplus revenue derived from other elements of The Grange at 10Main would need to be made available to the County or the EDA in order to cover bond payments. However, those funds would be sufficient for the County to cover the remaining portion of its bond repayments.

Similarly, revenues derived by the Town from the Smithfield Market would not be able to cover its bond payments during the first four years of the bond (or during the first six years if an equal principal method is used). These would all be tax revenues derived from the local options sales tax, meals tax and business license fees from Smithfield Market plus real estate and business personal property taxes from the Smithfield Market restaurant and retail tenants. Thereafter, however, this revenue stream should be sufficient to cover the Town's bond payments.

In order to assign tax revenues derived from occupants of the Smithfield Market, the EDA will need to sign agreements with those businesses giving permission to the Commissioner of the Revenue to disclose to the EDA the amounts of taxes paid by the businesses. It is assumed that the adjustments detailed in the Appendix to this report will be applied to these gross tax revenues in order to estimate the net increase in taxes derived from these businesses after consumer spending redirection is taken into account.

This expected allocation of funds to bond repayment still leaves the Localities with sufficient surplus revenue to provide economic development incentives to the hotel owner and to the developer (through an infrastructure and utility participation agreement). Furthermore, but depending on the scale of the participation agreement still to be negotiated, after these economic development incentives are provided, the Localities can be expected to retain significant amounts of surplus revenue which can be viewed as providing a contingency against unexpected costs and as a return on investment for their participation in the economic development partnership.

Other than payment for the purchase and operation of the Smithfield Market, no assumptions have been made in this analysis about the magnitude of economic development incentives, since this is a matter of negotiation among the parties. Certain assumptions have been made, however, in constructing the model used to determine the adequacy of revenues generated by The Grange at 10Main to provide participation by the public sector in the requested partnership.

Revenues have been divided into two categories. “Hard” revenues are those directly levied on the property owners of The Grange at 10Main and include real estate taxes, personal property taxes, business personal property taxes, recordation and grantor’s taxes, and development fees. “Soft” revenues are those that are variable (i.e., not dependent upon a fixed assessment), subject to redirection and relocation (so that some taxes paid by Grange entities may not result in a net increase in revenue to the Localities), or are otherwise difficult to accurately estimate. These include all taxes based upon business revenues and resulting from spending by residents of The Grange at 10Main. While “soft” revenues may be estimated with less confidence and may not be able to be documented as readily as “hard” revenues, they are nevertheless real and able to be used to fund public participation.

There are advantages and disadvantages to relying upon either hard or soft revenues to fund economic development incentives, as opposed to being reserved to pay costs projected to be incurred by the Localities as a result of the development of The Grange at 10Main. The allocation of hard and soft revenues to the public participation contributions envisioned by the applicant and the developer will be a matter to be negotiated among the parties. For analysis purposes, hard and soft revenues were allocated in equal proportions to fund local government variable costs and public participation costs.

After deducting all Smithfield Market expenses from available revenues, revenues surplus to government variable costs that were generated by the proposed hotel were reserved for hotel economic development incentives. The remaining surplus revenues were deemed available for to purchase infrastructure and utilities from the developer and for any other public purposes.

These cash flow streams are presented in the appended tables, which cover a twenty-five year period from FY 2023 to FY 2047. Tables are presented for four scenarios:

- equal payment bond (County);
- equal payment bond (Town);
- equal principal bond (County) and
- equal principal bond (Town).

All individual revenues (e.g., lodging taxes) are allocated proportionally to pay for local government expenses before being made available to fund public-private partnership activities. Thus, all revenues shown in these tables are *after* all projected local government expenses have been paid.

Also, unlike in the fiscal impact analysis, inflation has been applied to these revenues. This is because, while bond payments will be come due as fixed dollars, because of inflation there will be more revenue available over time to pay those "fixed" payments. It should be noted by subtracting out local government costs before applying inflation, those costs and revenues are not inflated. Smithfield Market operating costs were also subject to inflation. A 3.5% long-term inflation rate was used, assuming somewhat higher inflation than has been experienced during the past 20 years. However, real estate assessments were inflated at only 1.5%, recognizing that significant increases in real estate assessments would likely trigger tax rate adjustments.

It should be noted again that the accompanying public participation analysis tables show the maximum amounts available for delivery of hotel and infrastructure & utility participation economic development incentives, not a suggested amount. It is anticipated that the Localities and the applicant/developer will negotiate the allocation of those revenues and that the Localities would retain an unspecified share of each of the revenue streams.

The Grange at 10Main

Appendix

Methodology

Revised December 3, 2022

Note: All assumptions, other than changes in scope/description of the proposed development remain the same as presented in the March 14, 2022 report except school capacity assumptions.

Approach

Fiscal impact is defined as the difference between all revenues to Isle of Wight County and the Town of Smithfield ("the County" or "the Town," respectively, or, collectively, "the Localities" or "each Locality") generated by the project and all costs to the Localities attributable to the project. The Grange at 10Main (or "the proposed development") is a mixed-use development proposed in the Town of Smithfield (described further below). LSMP, LLC ("the applicant") is seeking a rezoning of property owned by the applicant (described further below) near the intersection of Main Street and VA Route 10).

Only variable revenues and costs are counted in the fiscal impact study. This means that, rather than applying per capita or per household total non-tax revenue and total per capita or per household Locality expenditures to The Grange at 10Main, only those incremental revenues and costs that the Localities will actually receive or incur due to the increase in households and businesses, and due to their participation in the proposed development, are counted as having a fiscal impact. Fixed costs that do not rise as population, households or businesses increase incrementally are not counted as having a fiscal impact.

Revenues include one-time direct revenues, annual direct revenues from the proposed development and tax revenues generated by households. One-time revenues include building permit fees and other development fees, sewer and water connection fees, and recordation and grantors' taxes received by the Localities. They also include the value of any on and off-site public infrastructure improvements or amenities provided by the developer that have benefit to the Localities beyond the benefit to the proposed development.

Annual direct revenues include: real estate property taxes; personal property taxes; business personal property taxes; the net increase in sales, meals, lodging taxes and business license fees received from sales generated by businesses located at The Grange at 10Main; the car rental tax remitted by the Commonwealth; motor vehicle registration fees; utility taxes; and various local government fees, fines and user charges. They also include sewer collection and water consumption charges which provide revenue to the Town's enterprise funds. Additional revenues generated by households are taxes paid or collected by Isle of Wight County and Smithfield businesses due to purchases made by the proposed development's households.

Costs include: operating costs of government per household or per other unit, any Locality (non-school) capital costs generated by the proposed development that will actually be incurred by each Locality, education operating costs per student, and any school capital costs generated by the proposed development that will actually be incurred by the County.

All fiscal impacts are presented in constant 2022 dollars. Inflation is not applied to either revenues or costs throughout the analysis period. The constant dollar approach also means that no assumptions are made about the rate of real estate assessment increases in the County. No assumptions are made about future increases in tax revenues from sales, meals, lodging or business license taxes that are based upon retail price increases. Neither are assumptions made about future increases in the unit costs or revenues of government. The practical implication of this approach is that any systemic future imbalances between rising (or falling) revenues and rising costs will be adjusted through changes in a Locality's tax rate, either upward or downward. However, certain revenues are inflated in the separate public participation analysis discussed later in this document.

All cost and revenue data were derived from the *Isle of Wight County, Virginia, Adopted Operating & Capital Budgets for the Period Fiscal Year July 1, 2021 - June 30, 2022, Town of Smithfield Operating Budgets & Capital Improvements Plan, FY 21-22* and the *Isle of Wight County Schools School Operating Budget, Fiscal Year 2022* ("the *Budget(s)*").

The net revenue surplus or deficit of the proposed development is calculated by subtracting total costs to each Locality attributable to the proposed development from total revenues received by each Locality derived from the proposed development over the analysis period. This was calculated for each year of project activity through the stabilization year. The year in which all costs and revenues have been fully realized was designated the stabilization year for the proposed development.

Two timeframes were employed for the fiscal impact analysis. The first considers the fiscal impact of the proposed development on the Localities independent of the proposed public-private partnership. In this timeframe, the stabilization year is FY 2028. The stabilization year captures the cost and revenue impact generated by the proposed development upon and after completion and the realization of all annually recurring costs and revenues. Because revenues and costs are reported in constant dollars, there is no significant change in the projected cash flow after the stabilization year. Fiscal year 2028 is the start of a five-year increment and, therefore, a ten-year analysis period, FY 2023-FY 2032, was used to calculate the fiscal impact of the proposed development itself, excluding the Smithfield Market.

The second timeframe captures the fiscal impact of the public participation in the Smithfield Market and, potentially, in other elements of the proposed development. Those are discussed in more detail separately. The controlling fiscal impact component to determine the length of this analysis period is the assumed financing of the purchase of the Smithfield Market using 20-year bond financing. It is assumed that such a bond would be retired in FY 2044. In order to select an analysis period divided into five-year increments, the timeframe was extended to FY 2047, producing a twenty-five year analysis period from FY 2023-FY 2047.

Three measures of fiscal impact are used. One is the annual cash flow through the stabilization year (revenue minus costs). The second fiscal impact measure is the cumulative net revenue surplus over the ten- and twenty-five-year analysis periods (total revenues minus total costs). This is also the cumulative annual cash flow over the analysis periods.

Finally, the benefit-to-cost ratio is the ratio of total revenues to each Locality and total costs to each Locality. 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 Locality. For instance, a benefit-to-cost ratio of 1.5.0-to-1 indicates that for every additional dollar of spending the proposed development costs a municipality, the municipality is expected to receive $1.50 in additional revenue.

Throughout, revenue and cost data are estimated on a per-household basis or per some other unit, as appropriate. When costs are clearly variable per-capita (e.g., population-based funding formulas), they were converted to a per-household cost. Additionally, per-household data were adjusted, where appropriate, for the somewhat smaller household size predicted for The Grange at 10Main as opposed to all households in the County or the Town. This was done whenever the number of persons in a household would have a marginal impact on variable costs or revenues. This is more fully described below under "Cost Calculation."

The number of households in the County in FY 2022 (15,306) was estimated by multiplying the number of households reported by the U.S. Census Bureau's American Community Survey (ACS) for 2019 (five-year average) by the rate of household increase from 2016 to 2019 (also from the ACS). The number of households in the Town in FY 2022 (3,397) was estimated using the same methodology. The County's estimated FY 2022 population (39,174) used the same methodology employed for calculating the FY 2022 number of households but used the 2020 Census count as the base and the ACS 2019 and 2017 population estimates to calculate growth. The Town's FY 2022 population of 8,745 was estimated in the same way. No additional increase in households or population was forecast in keeping with the constant dollar approach.

The number of business establishments in the County (861), available from the second quarter 2021 Virginia Employment Commission's Quarterly Census of Employment and Wages, was used to adjust per-household metrics when services are provided to both businesses and households (see under "Cost Calculations" for an explanation of the adjustment methodology). The estimated number of business establishments located in the Town (187) was derived from an examination of business locations on Google Maps. Home businesses and self-employment are not included in either count.

Parameters and Assumptions

As currently proposed, The Grange at 10Main will consist of approximately 49,975 square feet of enclosed commercial space, 70 hotel rooms, 212 apartments, 92 other residential units (which includes the rental cottages). The commercial space includes the Smithfield Market (the focal point of the proposed development). This market contains approximately 16,375 square feet of enclosed space plus another 1,175 square feet of outdoor covered restaurant seating and 2,900 square feet of rooftop restaurant seating. The Market is expected to contain a brewpub restaurant and space to be leased to retail tenants. A 6,000 square foot restaurant will be located in the hotel. The remaining 27,600 square feet of general commercial space is planned to be 14,600 square feet of retail space, 9,000 square feet of medical office space and 4,000 square feet of general office space.

The general commercial space will be located in two buildings--a 12,600 square foot one-and-one-half story building with professional offices on the second floor, a 6,000 square foot, one story retail building, Both will be located near the entrance to The Grange at 10Main. The two 4,500 square foot medical buildings will be located along Karin's Way.

The one and one-half story building is expected to have about 600 square feet of common space on each floor. Thus, that building is expected to house 8,000 square feet of tenanted retail space and 3,400 square feet of tenanted office space. Thus, the commercial space square footage shown above represents gross building square footage and the tenant-occupied total commercial space would be 48,775 square feet. For analysis purposes, a rolling average 10% vacancy rate for the general retail (including in the Smithfield Market) and office space has been assumed at full development but this vacancy is not applied to the hotel restaurant, the brewpub restaurant (which will be owned by the restauranteur) or the first medical office building (a single-use spaces which is expected to be leased for a longer term).

Residential development is currently planned to consist of 53 single-family dwellings, with 14 of these located on lots of approximately 0.17 acres and 39 located on lots of approximately 0.19 acres. Thirty-four (34) units are currently planned to be duplexes. The five cottage units will be managed for short-term rental. It is expected that the average selling base price for the single-family dwellings will be $539,000, and will be $469,900 for the duplexes. Average premium upgrades are expected to add $35,000 to all units across the board. Therefore, actual selling prices were assumed to be $574,900 for the single-family detached product and $504,900 for the duplex product.

There are 212 apartment units planned for The Grange at 10Main, to be developed in two 3-story buildings, two 4-story buildings, and three 3-story carriage house buildings that will also contain garage/storage units. The apartments will be served by a clubhouse with a fitness center game room and business center, a pool and a grilling area, dog park and pet spa, and a recreation/fitness area to be programmed at a later date. There will also be four pickle ball courts provided by the developer and deeded to the Town that will be adjacent to the property and will serve all Smithfield and Isle of Wight County residents. The single-family residential units will be served by a separate clubhouse and pool.

It is expected that the apartments will contain a mix of one, two and three-bedroom units with 65 one-bedroom units, 124 two-bedroom units (six of which will be carriage house units) and 23 three-bedroom units (nine of which will be carriage house units) currently planned. Apartment rents are expected to range from $1,475 for one-bedroom units to $2,100 for three-bedroom carriage house units. Thirty-five (35) separate garage units are also planned, to be available to tenants for $175 per month.

It is anticipated that the Smithfield Market will be owned by a creature of the County authorized to own commercial property, most likely but not necessarily the Isle of Wight Economic Development Authority (EDA). The applicant has identified a hotel operator who may acquire ownership or partial ownership of the hotel. The applicant has also experienced tenant interest in some of the planned commercial space. A local restauranteur has expressed very strong interest in owning and operating a brewpub restaurant to be located in one wing of the Smithfield Market. Two food-oriented retail tenants have also expressed strong interest in leasing space located in the other wing of the Market.

The applicant believes that there is a strong market for the proposed hotel and cottages. Substantial unmet demand for lodging in Smithfield is provided by Smithfield Foods and by the Luter Sports Complex. The applicant believes that demand exists for both over-night and longer short-term stays.

Table A-1, on the following page, displays relevant data describing the real estate products proposed for The Grange at 10Main.

The proposed development will be located to the north and west of the intersection of Main Street and VA Route 10 in the Town of Smithfield. It will encompass parcels 21A-04-000E, -000F, -000G1, -000H2, -000H4, -000112A, -000115, -000117, -012 -030, -037, -038, -029, -040, -049, -050, -051 -,052, -053 and -054 (collectively, the "Site"). The entire Site is 57.17+/- acres, as determined by the applicant's topographic and boundary survey. It is undeveloped and owned by the applicant.

The front (southern portion) of the Site is currently zoned a mix of Commercial/Industrial and Agricultural/Undeveloped zoning while the rear (northern portion) is currently zoned a mix of Agricultural/ Undeveloped and Suburban Residential. The applicant will seek a rezoning to Mixed-Use zoning. The current assessed value of the Site is approximately $2,550,800, or an average assessment of approximately $44,900 per acre (using the applicant's survey).

Besides the clubhouse and pool amenities, The Grange at 10Main will contain several parks, a trail system, open space, and ponds providing stormwater management. A public green is planned north of the Smithfield Market. The applicant will develop 34 public parking spaces near the Christian Outreach building to be donated to the Town. Parking to be developed for the commercial area could also serve as overflow parking for the Main Street Baptist Church on Sundays and evenings. The pickle ball court and future recreation area will also be donated to the Town.

Table A-1 The Grange at 10Main Project Summary		
Product Type	# of Units or Size	Average Price/Rent
Single-family detached	52	$574,900
Duplexes	32	$504,900
Apartments	210	
1-BD	65	$1,475/mo.
2-BD	118	$1,700/mo.
2-BD Carriage	6	$1,800/mo.
3-BD	14	$2,000/mo.
3-BD Carriage	9	$2,100/mo.
Garages	35	$175/mo.
Clubhouses	5,000 ea.	NA
Pools	2	NA
Cottages	5	$3,864/week
Hotel	70 rooms	$171/night
General Commercial		
Retail[1]	17,150	NA
Professional Office	13,000	NA
Restaurants[2]	13,350	NA
Smithfield Market (excluding restaurants and retail)	24 permanent stalls	NA

[1]Includes retail in the Smithfield Market

[2]Includes rooftop and outdoor seating areas of Smithfield Market restaurant

Square footages rounded to the nearest 25 square feet

The applicant expects to begin initial sitework during the fourth quarter of calendar year 2023 (second quarter FY 2024) but with site plan and subdivision submissions during the second quarter of 2023 (end of FY 2023). Construction of the Smithfield Market and the residential component of The Grange would then begin during the first quarter of 2024. The Market is projected to open by the end of the fourth quarter 2024. Construction of the commercial component of the proposed development is expected to begin during the third quarter of 2024 and with the two general commercial buildings completed by the end of the second quarter of 2025 (the end of FY 2025). Land for the two medical office buildings would be sold in the first and second quarters of 2024, respectively, and occupied during the fourth quarter of 2025 and the second quarter of 2026. The hotel is projected to begin construction during the second quarter of 2025 and to be in operation by the start of the fourth quarter 2026.

With strong demand anticipated, it is assumed that the single family and duplex residential units will sold at an absorption rate of approximately three units per month. The last of the single-family units is expected to be occupied by the end of 2026 (the second quarter of FY 2027) and the last of the duplex units is expected to be occupied during the second quarter of 2026 (the last quarter of FY 2026).

Construction of the cottages is also expected to begin in during the third quarter of 2024. It is anticipated that these could be ready for occupancy during the first quarter of 2025 but revenue from the cottages is not projected in the fiscal impact analysis until the second quarter of 2025 (the fourth quarter of FY 2025). Each cottage would have four bedrooms and be approximately 3,000 square feet.

Construction of the apartments would begin in the fourth quarter 2024 with construction ongoing through the end of the first quarter of 2026. The first apartment building is expected to begin leasing at the start of 2026. All apartment buildings are expected to be occupied during the first quarter 2027 (third quarter FY 2027). A 5% vacancy rate for the apartments is assumed.

Most costs and revenues derived from the residential and commercial components of the proposed development are expected to stabilize in FY 2028. This is the year following completion of development. However, some revenues (notably business personal property tax and revenues associated with the hotel) lag or have not reached there full potential. Therefore, all revenues do not stabilize until FY 2030 This was designated the stabilization year for the fiscal impact, the year beyond which revenues and costs, measured in constant dollars, do not change. However, as explained below, certain public participation costs can be expected to end at a later date and a separate stabilization year and analysis period was used for that analysis.

Prior to construction, the existing parcels will be replatted into individual parcels. At this time, it is unknown to what extent the commercial properties will be retained under a single ownership or be separately owned. For analysis purposes, it was assumed that that each building of the commercial component of the proposed development will be developed on its own parcel, except that the two commercial buildings on Main Street would be built on the same land parcel. Additionally, the shared commercial parking was assumed to be a separate parcel and the public green (which will be land leased) was also assumed to be a separate parcel. Land to be developed as right-of-way was assumed to become tax exempt at the end of the construction period when streets will become publicly owned.

The initial parcellation of the Site was assumed to take into account only land: 87 residential parcels; plus individual parcels for the apartments, the commercial and medical office buildings, the hotel and the common parcel; and a parcel owned by the applicant (which would later be deeded to an HOA) were assumed. Additionally, since the cottages could potentially be sold individually at some future time (although that is not the intent of the applicant), each cottage was assumed to be assessed separately and platted on an individual parcel. As parcels are developed, they are reassessed (treated as an initial assessment).

A leasehold tax is expected to be collected from the three "permanent" tenants in the Smithfield Market (other than the brewpub restaurant, which will be taxed separately at its full assessed value). as discussed below. It was, therefore, assumed that the Smithfield Market would counted as four separate parcels. It is also recognized that assessment of the commercial properties and the apartments are more complex than the assessment of single-family residential units. Given this, for calculating assessment workload, each broad commercial use (retail office and hotel) was counted as a virtual parcel, with commercial land constituting a separate virtual parcel. For the apartments, each building was counted as a virtual parcel, as was the clubhouse/pool amenity. The clubhouse and pool in the single-family area was also counted as a separate parcel prior to its transfer to an HOA.

It is recognized that the above description is based on a preliminary concept plan and details of the proposed development may change due to site considerations or changing market conditions. This representation is not a pledge or guarantee from the applicant that the proposed development will exactly match this description. However, the final development plan is expected to not diverge from the above description to an extent that would materially change the results of this fiscal impact.

<u>Revenue Calculations</u>

Revenues estimated for the proposed development fall into three categories: one-time direct revenues, direct annual revenues, and additional annual tax revenues and fees generated by households. The methodology does not use multipliers to calculate revenues that could be generated through the project's secondary impacts. Such multipliers are considered to be unreliable when applied to small economic units, such as localities.

One-time direct revenues are revenues to the Localities derived from the construction of the proposed development. These include Locality development fees and County building permit fees, as well as Town water and sanitary sewer connection fees, plus recordation taxes and grantor's taxes and other payments paid to the Localities during the development period.

Specific fees are listed and on the following page. Fees are paid to the County unless otherwise specified.

- Building permit fees, including electrical, mechanical, plumbing, sign and technology fees (the sign permit fee is to the Town)
- Building plan examination fee
- Business license fee paid by construction contractors to the Town
- Code enforcement administration fee
- Erosion and sediment control agreement and inspection fees to the Town
- Recordation tax and grantors fees

- Right-of-way easement fee to the Town
- Site/subdivision plan review fee to the Town
- Street sign permit fee
- Utility application fee (paid once to the Town upon each unit's occupancy)
- VSMP fees local share, including renewal fees
- Water and sewer tap fees to the Town, including the construction water minimum fee
- Zoning permit to the Town

For calculating building permits, single-family detached units are expected to range from 2,100 to 2,800 square feet, averaging 2,450 square feet for analysis purposes. The duplex units are expected to range from 1,900 to 2,500 square feet, averaging 2,200 square feet for analysis purposes. The commercial building sizes are as discussed above. The apartment buildings were measured from current plans and assumed to total 286,175 square feet with the garages totaling 14,475 square feet. Each clubhouse was assumed to be 5,000 square feet with a 2,500 square foot footprint.

It was assumed that the plan examination fee would be levied for the review of each single family or duplex model, rather than for each unit. At this point, it is unknown how many models will be offered. For analysis purposes only, it was assumed that there would be, with five model selections for the single-family detached product and three floorplans for the duplexes. It was also assumed that a single plan review would be conducted for the apartments, rather than for each apartment building. It was assumed that the clubhouses and pools, and the garage units would be treated as commercial, rather than residential facilities for the purpose of building permit calculation purposes.

Electrical permit fees were calculated assuming all single-family residential services are 200 amps and each clubhouse and pool are 400 amps. Each of the larger apartment buildings was assumed to be served by a 1,000 amp service, with the smaller apartment buildings, the commercial buildings and the hotel each served by an 800 amp service. A 600 amp unit was assumed for the brewpub restaurant. One temporary electrical service was assumed for every three single-family detached units, for every two duplex structures and for every three cottages. One temporary service was assumed for each apartment building, for the commercial building and the hotel, plus one temporary service for each clubhouse/pool.

Plumbing permits for single-family residential units were based upon an assumption of two ½ baths per unit. One-bedroom apartment units are planned to have one bathroom with other apartment units having two baths. Clubhouses were assumed to be classed as commercial for plumbing permit purposes. It was assumed that each clubhouse will have two restrooms, each with five fixtures. It was assumed that the commercial buildings would have two restrooms on each floor, each with 5 fixtures and that the hotel would have two restrooms in the lobby area (each with 5 fixtures) and that each hotel room would have a bath with 3 fixtures. It was assumed that the hotel restaurant would have two restrooms, each with 3 fixtures. Plumbing permits for manholes and storm drains were based upon a standard of one occurrence every 400 feet and 6,575 linear feet of sewer lines. This yields an estimated 17 manholes and storm drains.

Each large apartment building is assumed to be served by a 1" water meter with the smaller carriage apartment buildings served by a ¾" meter. Each clubhouse/pool would also be served by a 1" water meter. It was assumed that the larger commercial building and the hotel would be served by 1" water meters with the medical office buildings and the smaller retail building each served by a ¾" water meter. It was assumed that the Smithfield Market would be served by a 1" meter but that meter charges would be waived and "permanent" tenants submetered in order to levy water and sewer usage fees. However, it was assumed that the brewpub restaurant would be served by a separate ¾" meter for which fees would not be waived.

The anticipated cost of mechanical systems was provided by the applicant. No units will be served by natural gas. The applicant assumes that each apartment building will be served by one elevator and one elevator was assumed for the two-story commercial building while two elevators were assumed for the hotel.

Four monument signs are anticipated for the proposed development. Based on the applicant's concept plan, 14 public street signs were assumed.

It was assumed that infrastructure and development permits would be obtained (and inspection fees paid) for the entire development and not for each parcel or lot (unless so calculated). The local portion of the VSMP fee and renewals was assumed to be calculated on gross acreage. The County's 5% IT surcharge was applied to all building permits charges paid to the County.

Water and sewer tap fees paid to the Town were calculated based on 5/8" meters for each single-family residential unit and a 1" meter for each clubhouse/pool complex, apartment building or other commercial building. Fire hydrant meters were assumed to be 1". Based upon a standard of one fire hydrant every 500 feet and 6,575 linear feet of water lines, 13 fire hydrants were assumed.

The Town would also receive one-time revenue from the business license fee paid by contractors constructing The Grange at 10Main. Construction costs are fluid at the present time. For analysis purposes, all products were assumed to be constructed at a cost of $200 per square foot.

All permit, review, inspection and tap or other fees were assumed to be waived by both the Town and the County for the Smithfield Market, which will be publicly owned.

All plans are assumed to be submitted in FY 2023. For analysis purposes, all building permits for the commercial buildings and apartments were also assumed to be issued in FY 2023, except for the hotel for which permits are expected to be issued in FY 2024. Permits for each single-family detached or attached unit are expected to be issued prior to the construction of each unit.

Recordation and grantor's taxes were based on selling prices.

It is acknowledged that, as part of the intended public-private partnership, the applicant plans to make certain contributions that will have value to the Town and to the County. These are counted as one-time revenues or as reductions in cost for fiscal impact purposes. At this time, the contributions contemplated by the applicant consist of the donation of land for public purposes, the donation of a 34-space parking lot and a 24-space parking lot for public parking, a stormwater facility and the contribution of $1 million toward the construction of the Smithfield Market.

The applicant intends to donate to the Town, County and/or a municipal authority at least approximately 3.17 acres to be used as a site for the Smithfield Market, a stormwater retention pond and public parking along Main Street, public parking near the Christian Outreach building, the pickleball court and future recreation area, and a .35-acre right-of-way easement along Main Street. Land is conservatively valued at $350,000 per acre or, if used for parking, at $450,000 per acre. The 34-space public parking lot near the Christian Outreach building has been valued by the applicant at $175,500 and the stormwater pond and parking lot along Main Street has been valued at $360,000. The recreation areas are valued at $266,000 and the right-of-way easement is valued at $122,500. Additionally, the 1.35 acre public green, whether donated or leased, was assumed to have a value of $472,500. These valuations have been added as one-time revenues in calculating the fiscal impact of the proposed development.

The donation of the land for the Smithfield Market (0.77 acres) will reduce the cost of the Market by $269,500. The $1 million contribution to the Smithfield Market will also reduce the amount of construction cost needed to be funded by the public sector. Therefore, these contributions are not counted as a one-time revenue. Rather, their impact is incorporated into the fiscal impact calculations in the reduced cost to the Localities of participating in the proposed development.

Other forms of public participation currently requested by the applicant are in the form of the provision of grants equivalent to taxes (or a certain portion of taxes) actually paid by private sector participants. Such grants will be paid only after the taxes supporting those grants are collected from the appropriate parties. The grant amounts, or share of taxes from which grant amounts will be determined, are still to be negotiated by the parties and, therefore, those grants have not been incorporated into the calculation of fiscal impact.

Rather, the fiscal impact analysis identifies likely tax streams that would be available to the Localities from which these grants, as well as the purchase of the Smithfield Market, would effectively be financed. The extent to which such grants are agreed to by the parties in the future will directly reduce revenues to the Localities and, therefore, affect the fiscal impact projected in this analysis.

Direct annual revenues consist of those revenues paid directly to the Localities by the proposed development's property owners and residents. Paid to the County, these include: real estate property taxes, personal property taxes on vehicles, business personal property taxes paid by the apartment owner and commercial tenants, and utility taxes. Paid to the Town, these include: real estate property taxes, personal property taxes on vehicles, business personal property taxes paid by the apartment owner and commercial tenants, motor vehicle license fees, utility and utility consumption taxes, water usage charges and meter fees, and sewer usage charges paid to the Town. These also include the car rental tax remitted to the Town by the Commonwealth; and other fees paid to the Localities, including the EMS fee paid to the County.

Real Estate Property Tax

The methodology used to estimate assessed value for real estate property taxation is based upon current assessments and the advice of the County's Commissioner of the Revenue. The County's Commissioner of the Revenue recommended real estate assessment estimates for each single-family residential and commercial product type based on comparable product located in the County. The Commissioner's recommendations were informed by information about the proposed development and a set of comparable properties located in the County identified by the Consultant. The Commissioner also recommended undeveloped lot assessments for single-family lots and duplexes. Parcels retained by the developer were assumed to be assessed at the current average assessed land value for the Site until developed and sold.

The Commissioner cautioned that the estimates provided were based upon real estate values as of late 2018 and early 2019 and recommended that the some time adjustment of the data could be in order. This was done by applying cost increase metrics to the Commissioner's estimates. The Commissioner's estimates for single-family and duplex product were inflated for housing cost increases using an average of the Moody's Analytic Housing Price Index from the fourth quarter 2018 to the fourth quarter 2021 and the Case-Schiller Housing Price Index from November 2018 to December 2021—a 33.48% increase.

It was assumed that rental rates were highly correlated with assessed value—an assumption that had been tested by the Consultant numerous times. Rent was found to accurately predict the assessments of the two apartment communities deemed by the Consultant to be comparable to the apartments at The Grange—Eagle Harbor and Nest on 17. The Commissioner's estimate for the apartments was inflated using Apartment List National Median Rent data from December 2018 to January 2022, which computed to a 19% increase.

Average rent data from Rent.com specific to Virginia for 2020 and 2021 showed a 19.13% rent increase, confirming the Apartment List data. Although this increase occurred over a shorter period, it was within this period that most of the rent increase reported by Apartment List occurred. The Rent.com data was assumed to be upwardly skewed by data from Northern Virginia and this skewing was assumed to be offset by rent increases that had occurred from late 2018 to mid-2020 and, therefore, the 19% estimate was not adjusted upward.

Assessments of commercial properties were assumed to be impacted by revenue derived from sales which, in turn, to be sensitive to inflation. Therefore, the CPI increase from November 2018 to January 2022 (the latest available at the time of the original fiscal impact analysis preparation) —11.55%—was used to inflate the Commissioner's estimates for commercial property assessments. It was assumed that property price increases were largely a function of the increased value of improvements, rather than land. Therefore, no inflation adjustments were made to the Commissioner's land assessment estimates.

The Commissioner estimated single-family detached units to be assessed at $147 per square foot. Applying the housing cost increase metric raises this estimate to $196.22 per square foot. Based upon single-family dwelling sizes, assessments can be expected to range from $412,100 to $549,400, averaging $480,700 per unit. Undeveloped single-family dwelling lots were estimated to be assessed for $100,000 per lot. Duplex units were estimated to be assessed for $110 per square foot. Applying the housing cost increase metric raises this estimate to $146.83 per square foot. Based upon duplex unit sizes, assessments can be expected to range from $279,000 to $367,100, averaging $323,000. Undeveloped duplex lots were estimated to be assessed for $160,000, or $80,000 per unit.

The five cottages were estimated to be assessed for $110 per square foot, or $146.83 per square foot after housing price inflation is applied. This results in an estimated assessed value of $440,500 per cottage. The undeveloped lots were assumed to be assessed for $60,000 each.

The Commissioner estimated that The Grange apartments would be assessed for $136,000 per unit. Applying the inflationary factor based upon rent increase raises this estimate to $161,840 per unit. Thus, the apartments at The Grange at 10Main would be assessed at $34,310,100. Land would be assessed separately at $200,000 per acre. With the apartments occupying 9.41 acres, this adds another $1,882,000 to the apartment assessment estimate.

The Commissioner estimated commercial space to be assessed for $114 per square foot. Applying the inflationary factor increases this estimate to $127.17 per square foot. The two-story commercial building would be assessed for $1,602,300 and the one-story commercial building would be assessed for $763.000. The two medical office buildings would be assessed for $572,300 each.

This metric was also applied to the leased spaces in the Smithfield Market for purposes of calculating the base assessment for the real estate property leasehold tax. The leased spaces would be assessed for $434,500 under this assumption. Since the owner of the brewpub restaurant will also own (through a condominium agreement) the space that it occupies in the Smithfield Market, including the land underneath this space, this space would be taxed at its full assessed value (estimated to be $614,500). In calculating this assessment, only the covered and heated square footage occupied by the restaurant was used (including the stairways going to the rooftop seating but not the restrooms, which are common area within the Smithfield Market and are not owned by the restauranteur).

The Commissioner estimated the building housing the boutique hotel and restaurant to be assessed for $135 per square foot, using Smithfield Station as the comparable. Applying the inflation factor to this estimate yields a predicted assessed value of $150.59 per square foot. At an estimated 45,000 square feet, the hotel and restaurant would be assessed for $6,776,500.

Added to these assessments is the assessed value of the commercial land and parking. The Commissioner estimated the assessed commercial land value at $8 per square foot or about $348,500 per acre. This translates to an assessed land value for the commercial site, including the hotel, of $784,100. Additionally, parking was estimated to be assessed at an additional $2 per square foot for paving and $2,000 per light pole. Based upon the applicant's concept plan, 16 light poles were estimated. Parking was estimated to occupy 1.38 acres according to the applicant. Thus, parking is estimated to add $152,200 to the commercial land assessment.

Estimated assessed values supplied by the Commissioner and adjusted for inflation are summarized in Table A-2. Below.

Table A-2
Estimated Assessed Values, by Product Type

Product Type	Assessed Land Value per Lot or per Acre	Finished Product Assessed Value per unit or square foot
Single-family units	$100,000	$480,700
Duplex units	$ 80,000	$323,000
Cottages	$ 60,000	$440,500
Apartments	$200,000	$161,840
Commercial	$348,500	$127.17
Hotel	$348,500	$150.59
Parking (additional)	$ 87,100	$2,000 per pole

Source: Isle of Wight County Commissioner of the Revenue; Moody's Analytics; Case-Schiller; Apartment List; U.S. Bureau of Labor Statistics

Although land value will ultimately be incorporated into the assessed value of the residential product, it must be taken into account during the development phase of the project. The applicant intends to combine and resubdivide the parcels into lots prior to construction. Once lots are platted, they will be assessed at their market value as determined by the County's Commissioner of the Revenue and subject to taxation as unimproved real estate until the finished product is sold, at which time land will become a part of the unit's total real estate assessed value.

As noted above, undeveloped land is assumed to be assessed at its current assessment until it is deeded to an HOA or to the Town or other public sector entity. At that time, it will become tax exempt. Land that will be deeded to the public sector is assumed to become tax exempt upon completion of construction. This is expected to occur in FY 2025. Land that will be owned by an HOA is assumed to be deeded once development of the single-family residential component reaches 75%. This is expected to occur in the second quarter of FY 2026. Land devoted to right-of-way, which is conventionally assumed to be assessed at zero value in anticipation of its dedication to VDOT. Right-of-way land is removed from assessed value when it is platted.

Right-of-way acreage was estimated by the applicant to be 9.41 acres. This includes a 0.35 acre right-of-way easement along Main Street. Acreage to be donated to the public sector (3.07 acres) includes the land under the Smithfield Market, the stormwater retention facility and parking located on Main Street, the public parking located on behind Christian Outreach, the recreation area and pickleball court, and the right-of-way easement along Main Street. The residual acreage to be deeded to an HOA (14.52 acres) includes areas devoted to parks, interior ponds and stormwater features, buffers, and other open space, as well as the clubhouse/pool complex in the residential area.

The improvement assessment for the clubhouse and pool were estimated at cost ($750,000 and $250,000, respectively) while owned by the developer. It was estimated that the land to be donated to the public sector, including the right-of-way easement, is currently assessed at about $111,300, or $36,200 per acre. Residual acreage to be deeded to an HOA was estimated to be assessed at about $23,400 per acre. Additionally, 1.35 acres would be dedicated for use as a public green. This land would either be donated or leased to a public entity by the applicant. If leased, it is assumed that the lease would be revenue neutral for both the owner and the lessee. However, no representations are made to that effect.

Adding the estimated assessed value for all improvements yields an estimated increase in real estate tax base for the Town and the County of almost $86.2 million, including the value of leasehold property, after subtracting the Site's current assessed value.

Personal Property Tax

The annual personal property tax to be received by the Localities from the proposed development's residents was estimated by first calculating the Town's average personal property tax per vehicle. This amount was then adjusted by income level and tenure to account for variations in the number and value of vehicles owned by the proposed development's households.

The average personal property tax per vehicle computed for the Town is a reflection of vehicle assessed value. The average personal property tax per vehicle was calculated by dividing the personal property tax on passenger vehicles estimated to be received by the Town and the County, respectively, in FY 2022 by the number of vehicles subject to the personal property tax in each Locality. The number of vehicles in each Locality was supplied by the County's Commissioner of the Revenue.

The estimated personal property tax for the County was calculated from the sum of the FY 2022 personal property tax on vehicles and the FY 2022 PPTRA reimbursement from the Commonwealth, both derived from *Budget.* However, the Town combines vehicle personal property and business personal property tax revenue in its *Budget.* In order to estimate personal property tax collected by the Town on vehicles, the FY 2022 PPRTA received by the Town was divided by the percentage of vehicle property tax eligible for PPRTA relief (40%). The result, $602,000, was 76.8% of total personal property tax reported in the Town *Budget*. This may be a conservative estimate, as it does not include personal property tax received on vehicle assessments above $20,000 (which amounts are not eligible for PPTRA relief).

The Town levies a personal property tax at $1.00 per $100 of assessed value compared to the County's $4.50. Therefore, the Town would receive 22.22% of the personal property tax revenue received by the County on the same vehicles. However, computation of the average personal property tax per vehicle for the County and the Town revealed that the average personal property tax per vehicle in the Town ($66.57) is only 19% of the average for the County ($350.79).

The discrepancy between the ratios of property tax per vehicle and relative property tax rates indicates a propensity for Smithfield residents to own somewhat less expensive vehicles than the average household in the County. Since the proposed development is located in the Town of Smithfield, the Town's personal property tax per vehicle was used as the standard metric. The personal property tax estimated to be paid per household for each residential type was, therefore, calculated for the Town. Since the County will be taxing the same vehicles, the County will receive 4.5 times the personal property tax revenue calculated to be received by the Town.

Data from the 2020 U.S. Bureau of Labor Statistics Consumer Expenditure Survey (CES), the latest data available, were used to estimate the relative value of vehicles owned by households at the income levels estimated for Grange at 10Main households. Comparing the 2020 CES data with 2019, income spent on vehicle purchases declined slightly, presumably due to the effects of the COVID-19 pandemic. However, since the methodology employed uses only the relative value of these purchases, by income level, this was not deemed to be significant, particularly since the decline in expenditures occurred across all income levels. Therefore, using 2020 data was considered to be valid.

The relative expenditure by income was derived by first calculating the vehicle purchase net outlay from the CES data for the average household income estimated for each residential type (distinguished by average household income) in the proposed development. This amount was then divided by the amount of vehicle purchase net outlay calculated for the average household income for Smithfield (derived from the ACS). The ratio of predicted purchase outlay for Grange at 10Main households to the predicted purchase outlay for the average Town household was then applied to the average personal property tax per vehicle received by the Town to derive the average personal property tax per vehicle for households with an average income comparable to that of the proposed development's residents in reference to other households of the Town.

The number of vehicles owned per household for the average household income level of each residential type in the proposed development was then calculated. The average number of vehicles per household for the income level associated with the proposed development was first derived from the CES data. This was then adjusted for the difference in vehicle ownership between owner-occupied and renter-occupied households in Smithfield and all households in the Town to adjust for the different vehicle ownership patterns by tenure.

ACS data was consulted to determine the number of vehicles per owner occupied and renter household in Smithfield—which was initially assumed to reflect Grange at 10Main household vehicle ownership patterns. However, there was a significant difference in vehicle ownership by tenure—2.26 vehicles per owner occupied household and only 1.11 vehicles per renter household. Upon further investigation, ACS data showed that the median household income in 2019 for renter households was only $26,200 (projected to 2022 based upon income trends indicated by ACS data), while the median 2022 household income for owner occupied households was $94,900. Thus, the low number of vehicles per household for renters was viewed to be due largely to income.

Using ACS and CES data, the number of renter vehicles per household was adjusted to take into account the significantly higher levels of income for Grange at 10Main apartment dwellers than other renters in Smithfield. This was done by computing the estimated number of vehicles per household for the average income for Grange apartment dwellers ($78,400) and the estimated number of vehicles owned for the Smithfield renter income (using CES data for both) and multiplying the ACS number vehicles per renter household by the ratio of the estimates for the two income levels. This resulted in an estimated number of vehicles for comparable renters of 1.81 vehicles per household.

The ACS estimated number of vehicles per household was then recomputed by calculating the weighted average of vehicles owned by owner and renter households, with the number of households in each tenure category supplying the weights. This resulted in the ACS estimated number of vehicles for all households rising from 1.91 vehicles per household to 2.12 vehicles per household. The ratio of the estimated owner and renter number of vehicles per household, respectively, to the number of vehicles estimated for all Smithfield households, was then computed. These ratios were 1.0643 for owner households and 0.8523 for renter households.

ACS data was used even though it undercounts the actual number of vehicles owned by Smithfield households (2.66) under the assumption that this undercount would apply equally to owner and renter households and, therefore, the relative difference between vehicles per owner-occupied households and all households would not be affected. The expected number of vehicles predicted to be owned by the CES data was then adjusted to take into account the higher number of vehicles per owner-occupied residence and the lower number of vehicles per renter household in Smithfield.

A further adjustment was made to account for the larger actual number of vehicles per Smithfield household than predicted by CES data for average Smithfield household income (2.28 vehicles per household). This adjustment was made by multiplying the income-based, tenure-adjusted estimated number of vehicles per household by 1.2538 (2.66 / 2.28).

Finally, the estimated number of vehicles per household at the proposed development was multiplied by the estimated personal property tax received per vehicle. This result was multiplied by the number of occupied units for the appropriate model type. The entire calculation can be demonstrated in the series of equations below:

$$PPT_S = \sum PPT/V_{G10M} \times V/HH_{G10M} \times HH_{OG10M}$$

Where, PPT_S = Total personal property tax paid by The Grange at 10Main households to the Town of Smithfield

PPT/V_{G10M} = Personal property tax per vehicle for each residential type at The Grange at 10Main

V/HH_{G10M} = Vehicles per household at The Grange at 10Main and

HH_{OMPSF} = the number of occupied households at The Grange at 10Main

$$PPT/V_{G10M} = PPT/V_S \times VPNO_{IG10M} / VPNO_S$$

Where, PPT/V_S = Average personal property tax per vehicle for all households in the Town

$VPNO_{IG10M}$ = Vehicle purchase net outlay for the income level at The Grange at 10Main and

$VPNO_{IS}$ = Vehicle purchase net outlay for households at mean income for the Town

and

$$V/HH_{G10M} = V/HH_{IG10M} \times (HH_{TACS} / V/HH_{ACS}) \times (V/HH_S / V/HH_{IS})$$

Where, V/HH_{IG10M} = Vehicles per household for each residential type at The Grange at 10Main

VHH_{TACS} = Vehicles per household for respective tenure status (as adjusted) for households in Smithfield (from ACS data)

V/HH_{ACS} = Vehicles per household for all households in Smithfield (from ACS data, as adjusted)

V/HH_S = Vehicles per household in Smithfield (Commissioner of the Revenue data) and

V/HH_{IS} = Vehicles per household for Smithfield average income using CES data

The personal property tax collected by the County is then computed using the formula below:

$$PPT_{IoW} = PPR_S \times 4.5$$

Where PPT_{IoW} = the personal property tax received by the County

Motor Vehicle Registration Fee, Cigarette Tax, Vehicle Rental Tax

The Town's motor vehicle registration fee was multiplied by the estimated number of vehicles per Grange at 10Main household as calculated for V/HH_{G10M} in the formula above.

Estimates of the cigarette tax collected by the Town and the vehicle rental tax remitted to the Town by the Commonwealth were calculated using similar methodologies. The vehicle rental tax per household remitted to the Town ($1.76) was adjusted for expenditures by household income using CES data for vehicle rental expenditures. It was assumed that all Grange residents would rent from the Smithfield Enterprise location rather than from other locations in the County. The cigarette tax revenue ($64.93 per owner household and $63.63 per renter household) was adjusted for income and included in additional revenues generated by households (see below).

Business Personal Property Tax

The Business personal property tax for commercial tenants was estimated using a business personal property assessment data set for calendar year 2016 (the latest year for which detailed information was available) obtained from the City of Newport News, Virginia. Businesses deemed comparable to the tenant mix at The Grange at 10Main were selected. Their square foot occupancy was calculated using City of Newport News real estate assessment data or online map measurements, and the business personal property assessment per square foot was then calculated.

Categories for which these estimates were derived are:

- general, non-mall, non-anchor tenant retail
- professional offices
- full-service restaurants and
- hotels.

The estimated assessed values for each category were converted into original cost by multiplying those values by 3 (Newport News assesses business personal property at one-third of original cost). The resulting original cost estimate per square foot was then converted to assessed value using the County's assessment formula (40% of original cost) and those assessment estimates per square foot were applied to the appropriate tenant space sizes to estimate a preliminary business personal property assessment for each business located at The Grange at 10Main.

This was deemed to be a highly conservative estimate, however, since the Newport News data set is based upon business equipment purchases made in the past at lower prices than if such purchases were made today. The Producer Price Index (PPI) for private capital equipment for nonmanufacturing industries was used to inflate the calculated assessed values to 2022 dollars. Since businesses located at The Grange at 10Main would purchase a variety of equipment, no further disaggregation of this category was attempted.

It was assumed that business equipment on average has a useful life expectancy of seven years. It was then assumed that the purchase of business equipment by Newport News businesses was equally distributed over a seven year period. In other words, The business equipment owned by those businesses may have been purchased or replaced at any time during the previous seven years. The latest PPI data is from January 2022 and, therefore, January was used as the reference month. However, this was assumed to reflect the prior year's inflation.

The change in the PPI from each year to January 2016 beginning with January 2009 represents inflation from 2009 to 2015 dollars, since the last year in which equipment would have been purchased for 2016 assessment would be 2015, and 2009 would be the first year in which equipment would have been assumed to be purchased for this data set). The average of each year's calculated change in PPI was then computed (or each year's change was weighted by 1/7 and then summed). This average index of change in the cost of equipment (3.64% for the seven year period) was then applied to the preliminary assessment estimates to derive the final assessment estimates.

The PPI from January 2016 to January 2022 (an increase of 13.49%) was then applied to this interim assessment estimate to obtain the final business personal property estimates per square foot. This resulted in estimated business personal property original cost estimates of: $12.64 for retail tenants, $85.02 per square foot for restaurant tenants; $53.88 per square foot for office tenants and $5.98 per square foot for the hotel. For the Grange hotel, this translates to about $5,450 per room. While this includes distributed costs in the common areas, none of the sample hotels in the Newport News data set had an on-site restaurant and, since some of the sample hotels can be considered somewhat below the level of quality of the proposed hotel at The Grange at 10Main, it was deemed that the difference between the absence of a breakfast room at the Grange hotel would be made up for by upgrades in lobby furnishing. No business personal property was assumed for the cottages, as these were deemed comparable to apartment units for tax purposes (an assumption that was confirmed by the County Commissioner of the Revenue).

Finally, net new business personal property assessment was calculated as described below in the section on "Adjustment of Business Income". Business equipment will also be purchased by the apartment owner. This would include office equipment and furniture, furnishings and equipment in the clubhouse, and maintenance equipment, The applicant has estimated the cost of this equipment to be $1 million. Business personal property tax revenue was then calculated by applying the respective Localities' tax rates.

Local Option Sales and Meals Taxes; Business License Fee

Initial estimates of the sales, meals and lodging taxes and business license fee revenues to be received by the Localities are based upon estimates of sales made by those businesses. Retail tenants at The Grange at 10Main were assumed to be primarily independent retailers rather than national chains. A 2019 data set obtained from York County, Virginia was used to derive retail sales estimates per square foot. This data set was derived from small, multi-tenant properties with sales estimates extrapolated from business license fee revenue data.

The estimate of approximately $213 per square foot was inflated to 2022 dollars using the CPI for December 2021 and 2018 (10.97% increase), resulting in a per-square foot sales estimate of $236. The applicant's hotel consultant also estimated incidental sales at the hotel (e.g. from the gift shop) to be $86,400 annually in 2022 dollars in the hotel's stabilized year (FY 2028) This amount was added to retail sales estimated to be generated by the proposed development after adjusting for the increase in rooms over the original assumption.

A 2019 report by Bloom Intelligence estimated sales per square foot for successful full service restaurants to be between $250 and $325 per square foot. Taking the mid-point of these sales yields an estimated sales metric of $287.50 per square foot. Applying the inflation factor calculated above brings this estimate to $319 per square foot. However, since both the brewpub owner and the hotel consultant have independently estimated annual sales for the two restaurants, respectively, this data point was used only as a reference.

Based upon the restaurant operator's estimated common area maintenance payments for the first year of operation (at 2% of sales), initial restaurant sales were estimated to be $2,500,000. This was 20% higher than the estimate produced using the Bloom Intelligence data, factoring that a portion of the brewpub restaurant (the rooftop dining area and the covered outside seating) will be only be open seasonally. These areas would presumably be closed from November through March, although they could be open on warmer days. No further ramp up of sales was assumed, given the robust sales predicted by the restauranteur.

The applicant's hotel consultant, HVC, estimated restaurant hotel sales to be $1,165,625 in 2022 dollars in the hotel's stabilized year. While this was considered to be a conservative estimate (being only $194 sales per square foot), it was used for the hotel restaurant in place of a revenue estimate based upon per-square foot sales assumptions. However, the HVC estimate was made when the hotel was programmed for 50 rooms, rather than 70 rooms. Therefore, an estimated $80 in hotel meal spending per additional room night was added to this estimate, raising it to $1,533,545 (which, at $255 per square foot, is still conservative).

Sales estimates for professional offices was more difficult to obtain. Professional office tenants were assumed to be a mix of medical, legal, insurance and financial planning firms. It is currently assumed that the two 4,500 square foot office buildings will be occupied by medical office tenants. The remaining 4,000 square feet of office space was assumed to be occupied by non-medical professional office tenants.

Several online sources were used to determine average annual gross revenue for offices of primary care physicians, dentists, optometrists, physical therapists and chiropractors. This information was available on a per-practice basis, rather than per square foot. The CPI was used to inflate all estimates to 2022 dollars. The U.S. Department of Labor Quarterly Census of Employment and Wages (QCEW) was then used to obtain the number of establishments in Virginia for each of the medical office types. This information was then rounded and used to estimate the percentage of medical office space occupied by each medical tenant type. Three medical office tenant types were assumed for analysis purposes to occupy space at The Grange at 10Main: primary care, dental and other (optometrist, physical therapist or chiropractor).

Table A-3, below, shows the space estimated to be occupied by each tenant type and the estimated annual gross revenues for each medical office type. The estimated annual revenues for the "other" category was calculated by averaging the estimated revenues for the three sub-categories of medical providers. An known office tenant is expected to fully occupy one of the proposed medical buildings. Therefore, the establishment type ratio derived from the QCEW was adjusted to take this into consideration.

Table A-3
Estimated Annual Gross Revenues for Medical Office Establishments

Establishment Type	Annual Gross Revenue	Estimated Square Feet Occupied
Primary Care Physician	$1,367,000	3,400
Dentist	$847,000	4,500
Other (optometrist, physical therapists, chiropractor)	$369,000	1,100
Total	$2,583,000	9,000

Rounded to the nearest $1,000

While actual revenues for individual practices may be adjusted up or down depending on the size of the practice, overall, this is considered to be a best estimate for revenue generated by this group of tenants. The average revenue per square foot under this scenario equals about $287, which seems reasonable to expect.

For other professional office space, revenue estimates were pursued for insurance agent offices, financial planners and law offices. Agency Brokerage Consultants reported typical occupancy expenses for insurance agent offices being 5-8% of revenues. Using the more conservative estimate of 8% and applying the applicant's expected average rent of $29 rent per square foot results in estimated revenue of $362.50 per square foot. Assuming an office size of 1,550 square feet yields an estimate of annual gross receipts of $561,875. The financial planning website, Kitces, estimated that revenue per financial planning employee at $300,000 in 2019. Converting this to 2022 dollars and assuming a financial planning office at The Grange at 10Main would have a single financial planner, an estimated gross revenue of $333,000 was used. Data (2018) from the online site, PracticePanther, states that the average revenue generation per attorney is $500,000 annually. Assuming a Smithfield law firm would consist of one lawyer, this estimate, updated to 2022 dollars ($565,000) was used for legal office gross receipts at The Grange at 10Main.

Table A-4, below, summarizes the expected annual gross receipts and the assumed occupied square feet of office space for each tenant type.

Table A-4 Estimated Annual Gross Revenues for General Office Establishments		
Establishment Type	Taxable Gross Receipts	Estimated Square Feet Occupied
Financial Planning	$333,000	925
Insurance Agents	$561,875	1,550
Legal Services	$565,000	1,525
Total	$1,459,875	4,000

Blending the gross receipts estimates from Table A-4 yields a gross receipt estimate of $365 per square foot.

The tenant mix and occupancy estimates were made for analysis purposes only and no representation is made that office space at The Grange at 10Main will be occupied by such tenants or in office space square footage shown in the tables above.

Lodging Tax

Lodging revenues were estimated for the hotel and for the cottages, which will be short-term rentals subject to the Town's transient occupancy (lodging) tax. The applicant commissioned a hotel market study which provides the basis for the estimates used in this fiscal impact analysis. The study concluded that an average daily room rate of $170.85 per night in 2022 dollars, with a stabilized average room occupancy of 63% is feasible. The hotel is planned to have 70 rooms, which equates to almost 16,100 occupied room-nights annually. Applying the expected average daily room rate yields estimated gross receipts of $2,750,075 annually (rounding to the nearest $25).

To estimate revenue taxable from cottage rentals, an Internet search of the Airbnb website for short-term rentals in Smithfield was conducted (a Vrbo search did not produce any rentals in Smithfield). Week-long stays during all four seasons were searched. An average weekly rental of $966 per bedroom was computed, resulting in an estimated weekly rent of $3.864. Similar to the hotel, a 63% average occupancy was estimated resulting in an estimated 164 weekly stays for the five four-bedroom/four bath cottages combined. Applying the average weekly rental, short-term rental gross receipts were estimated to be $633,700 annually.

Hotel and short-term rental gross receipts are also subject to the Town's business license fee. The business services tax rate was used to compute this fee.

Adjustment of Business Income

Potentially, not all tax revenue generated by The Grange at 10Main commercial establishments will be new to Isle of Wight County and the Town of Smithfield. A regression analysis study conducted by the Consultant in Newport News, Virginia showed that market growth was the dominant factor in predicting increases in sales tax revenue for the City and that the addition of retail space had no effect on the growth of sales tax revenue. Given that retail supply does not create its own demand, new commercial establishments must compete with existing commercial establishments for market share, whether of the existing market base or for additional market demand associated with new residential development or reduced residential vacancies.

When a locality is the commercial center for a region, new businesses tend to compete with other businesses in that same locality, resulting in no increase in new business taxes generated from sales. However, when there is substantial retail leakage or when a new business is located near a locality's border—particularly when there is substantial commercial development in the neighboring locality—much of a new business' market share is likely to be derived from businesses located outside the locality, resulting in an increase in new business tax revenue. This dynamic applies, as well, to other consumer-oriented businesses, including restaurants, professional offices and lodging.

It is intuitively uncertain whether The Grange at 10Main businesses would compete primarily with other Smithfield and Isle of Wight County businesses or would draw back consumer spending by County residents that is currently occurring in other localities. For retail and restaurant businesses, a retail leakage analysis was conducted to estimate the extent to which The Grange at 10Main business sales will be derived at the expense of businesses located outside the County (i.e., located in Suffolk, Chesapeake, Newport News and Hampton) versus businesses located in the Town and in the County. The leakage analysis concentrated on restaurant and on non-food retail sales in categories likely to be attracted to The Grange at 10Main (i.e., apparel, furniture (such as accessories and interior design), small electronics/telecommunications, health & personal care, and sporting/hobby/books/music).

The retail leakage analysis was undertaken to determine the County's capacity to absorb future retail growth and the extent to which retail spending is likely to be redirected to commercial establishments at The Grange at 10Main from existing establishments located in the Town and County. This was accomplished by comparing the per-household spending levels predicted with CES data (using spending predicted for the County's average household income level) to actual retail spending in the County. The County's average per-household income was obtained from the ACS and retail spending in the County was obtained from data on taxable retail sales as reported by the Weldon Cooper Center for Public Service, Center for Economic Policy Studies, at the University of Virginia, 2019 annual data (with data derived from the Virginia Department of Taxation).

Data were consulted and compared for 2019 (the last pre-pandemic year), 2020 and the first 3 quarters of 2021 plus the last quarter of 2020 (the latest data set available) to determine whether the effect of the COVID-19 pandemic on retail spending in the County was sufficiently disruptive to warrant using the 2019 data. After inspecting the data, it was concluded that the 2020 annual data would be the best data set to use. This conforms temporally to the CES data set so that no adjustment for inflation is needed when using both these data sets.

Some CES spending categories were collapsed or distributed among the NAICS store categories contained in the Weldon Cooper data. It was estimated that 15% of gasoline station sales (which do not include gas) were take-out prepared food items and added to food away from home sales. Likewise, amusement sales (which do not include ticket or entrance fee prices) were assumed to be food concessions and added to food away from home sales.

General merchandise and miscellaneous sales were distributed among the other categories assumed to be potential tenants at The Grange, proportionally according to the sales by likely tenant stores in Isle of Wight County. For each group, reported sales were subtracted from estimated demand to derive remaining retail capacity. Using the CES data and estimated household income levels, demand from residents at The Grange at 10Main was also calculated and added to total spending demand.

If spending demand was greater than sales at County establishments, this excess demand is being spent elsewhere and, thus, leakage and remaining capacity for retail growth exist. If County sales equal or exceed demand, no remaining capacity exists and an initial assumption can be made that all sales from new establishments would be obtained by redirecting sales from existing establishments.

The leakage analysis identified significant remaining capacity in all relevant retail categories except restaurants. Excluding restaurants, existing Isle of Wight County retailers satisfied less than 50% of potential demand for all relevant retail categories, leaving more than enough unsatisfied demand to accommodate new businesses at The Grange at 10Main. For restaurants, the leakage analysis indicated that market demand from Isle of Wight residents is substantially met by restaurants in the County. Adding demand from residents at The Grange at 10Main would technically create enough demand for an additional 6,000 square feet of restaurant space. However, some of this additional demand would be captured by existing restaurants. As discussed below in more detail, it was concluded that demand for the proposed restaurants at The Grange must come from a combination of Grange residents, tourists (or residents of neighboring jurisdictions) and redirection from existing restaurants in Smithfield and the County.

With respect to other retail tenants that will locate at The Grange at 10Main, the existence of remaining capacity does not guarantee that all sales from new establishments will generate new tax revenue for the Localities. Some sales may still be redirected from existing establishments. The best predictor of the extent of such redirection is the percentage of spending by Isle of Wight County households that currently occurs within the County. The higher this percentage, the more likely sales to new establishments will be redirected from County establishments rather than those located outside the County.

The percentage of spending occurring within the County, calculated by dividing retail sales in each category group by the retail spending predicted for that category group using CES data, is the most likely estimate of the percentage of spending that will be redirected from existing establishments within the County. The inverse of this percentage is, therefore, the best initial estimate of the percentage of sales that will generate new tax revenue for the County. This can be illustrated using the following example. If a consumer in the County allocates 25% of their apparel spending to stores within the County and 75% elsewhere, and if a new apparel store opens in the County and the consumer shifts their spending to the new store, 25% of that spending will be taken away from stores within the County and 75% will be taken away from stores outside the County—effectively transferring 75% of the consumer's spending from outside the County to within the County.

Thus, the retail leakage study shows that the retail stores proposed at The Grange at 10Main can easily be accommodated by market demand and it also shows the degree of redirection that is likely to occur when those stores open. However, rather than using the leakage metric for all non-food retail, leakage was computed only for those store types likely to locate at The Grange at 10Main. This excluded auto supply, building supply, pawn shops and flea markets, repair, rental, nonstore and general merchandise stores. The leakage analysis calculated that 36.65%, of sales for store types potentially locating at The Grange were made in the County, thus predicting that the share of expected store sales that will generate net new tax revenue for the Localities will be 63.35%.

While this methodology provides the best estimate of tentative net new revenue for the retail establishments, a different methodology was employed to estimate net new revenue for the restaurants planned to locate at The Grange at 10Main. Spending at the restaurants was assumed to be generated by three sources: Grange residents, new tourists, and restaurant sales that are redirected from existing restaurants primarily located in the Town or the County. Food away from home spending by Grange residents located at The Grange was estimated. It was then assumed that the remaining estimated restaurant sales would be divided between tourists and retail redirection.

In order to estimate sales from Grange residents, the location analysis described below on pages A-48 and A-49 that was conducted for restaurants, was modified by adding the Grange restaurants with an assumed drive time from Grange residences of one minute. The share of total spending by Grange residents allocated to the two new restaurants was then calculated. For reasons explained below in the discussion on relocation, the second Smithfield Market restaurant was not included in this calculation. It was estimated that a little more than 25% of restaurant spending by Grange residents would occur at the restaurants located at The Grange at 10Main. The CES data was then used to calculate food away from home spending by Grange households. Food away from home spending estimated not to occur at restaurants (6.2%) was subtracted. Total sales for the two restaurants was then computed using the metrics discussed above under "Local Option Sales and Meals Tax." The estimated spending at Grange restaurants by Grange households was then divided into the estimate of total sales, resulting in an estimate that 6.34% of Grange restaurant sales would come from patronage by Grange residents. For analysis purposes, this was divided proportionally between patronage at the hotel restaurant and the Smithfield Market brewpub restaurant.

Residents of The Grange at 10Main will also dine at other restaurants in the Town and County. Like other County residents, based upon the leakage analysis, it was assumed that 1.41% of restaurant spending by residents of The Grange at 10Main would occur outside the County, generating no tax revenue for the Localities. The remaining 98.56% of food away from home spending, including at the Grange restaurants, would occur in the Town and County and would result in new meals tax revenue for the Localities. To avoid double counting, the estimated spending by Grange residents at Grange restaurants ($174,325) was subtracted from food away at home spending when computing additional revenue generated by households (discussed separately).

As stated above, the remaining sales were assumed to be split between new tourists and retail redirection. A different distribution was assumed for the hotel restaurant and the Smithfield Market brewpub restaurant. Given the projected hotel occupancy, and assuming an average of two meals per day per room-night at $40 per meal, spending by tourists would generate 84% of the expected hotel restaurant sales. With Grange residents generating another 3.17% of sales, sales redirected from existing restaurants, primarily in the County and Town, would constitute 12.83% of hotel restaurant sales.

The leakage study show that, adding the demand from Grange at 10Main residents, existing food away from home sales satisfy almost 100% (98.59%) of food away from home demand in the County. As noted above 12.83% of sales from the proposed hotel restaurant is assumed to come from existing demand. With 1.41% of sales from existing demand assumed to be redirected from restaurants outside the County, this source would add 0.18% (12.83% of 1.41%) of restaurant sales generating net new revenue for the Localities.

Thus, the total amount Grange hotel restaurant sales that is assumed to generate net new revenue for the Town is 87.35%. This includes the local option sales tax for both the County and the Town, and meals tax and business license fee revenue for the Town. The remainder would be sales redirected from existing restaurants in the Town and the County on which the Localities are already collecting meals tax revenue. Thus, those sales would generate no new revenue for the Localities.

The exception is that sales redirected from restaurants located in the County would generate new meals tax and business license fee for revenue the Town. This would also reduce meals tax revenue for the County. This is because meals tax is paid either to the County or the Town, depending on the location of sale. Thus, when sales are redirected from a restaurant in the County to one in the Town, the Town gains meals tax revenue, while the County loses an equivalent amount of meals tax revenue. However, based upon typical revenues for County restaurants (derived from the Weldon-Cooper data), County restaurants pay no business license fee and, therefore, there would be no loss of business license revenue by the County.

The location analysis that is discussed below under "Additional Revenue Generated by Households" was used to estimate the degree to which this transfer of meals tax revenue would occur. Driving times were not considered relevant in this analysis, since restaurant patrons would be coming from multiple and randomized locations to both the new restaurants and, previously, to the existing restaurants. It was decided that the most probable assumption is that each restaurant has an equal chance of patronage and, therefore, an equal chance of revenues being redirected to the new restaurants at The Grange at 10Main. Therefore, the likelihood of existing restaurant sales being redirected from the County to the Town was assumed to be predicted by the number of restaurants located in each jurisdiction.

The location analysis that was performed found 18 restaurants located in Smithfield and 10 located outside Smithfield in the County. Thus, 35.7% of predicted Grange restaurant redirected sales were assumed to be a redirected from the County to the Town. Applying this metric to the 12.65% of hotel restaurant sales estimated to be redirected within the County (12.83% - 0.18%) results in an estimated 4.52% of hotel restaurant sales being redirected from the County to the Town. Thus, the total net new meals tax and business license fee revenue to the Town would be based on 87.35% of hotel restaurant sales while the County would loose meals taxes equivalent to 4.52% of hotel restaurant sales.

With the new brewpub restaurant, Smithfield Market attendees will have much more incentive to combine their market trip with dining than they currently have. However, new dining revenues are expected to constitute a smaller share of total restaurant sales than hotel customers provide for the hotel restaurant. In the absence of other data, it was assumed that 33% of Grange restaurant sales would come from new tourism attracted to the Smithfield Market—Smithfield Market attendees who would not previously have chosen to dine in Smithfield while attending the Smithfield Market. Sales to those current Smithfield Market attendees who are dining in Smithfield are counted as redirections. With Grange residents generating another 3.17% of sales, sales redirected from existing restaurants, primarily in the County and Town, would constitute 63.83% of Smithfield Market restaurant sales.

Using the metrics discussed above, 0.9% of Smithfield Market restaurant sales are assumed to be redirected from restaurants located outside the County. Restaurant sales redirection from the County to the Town are expected to constitute 22.77% of the Smithfield Market restaurant sales. Thus, for the Smithfield Market restaurant, 37.07% of sales are estimated to produce net new sales tax revenue for the Localities, and an additional 22.77% of Smithfield Market restaurant sales are estimated to produce net new meals tax and business license fee revenue for the Town (with the County experiencing a meals tax revenue loss equal to 22.77% of Smithfield Market restaurant sales).

Another factor influencing the net increase in tax revenues to be received by the Localities is the extent to which tenants at The Grange at 10Main will be new businesses within the County. Tenants at The Grange are expected to be independent firms rather than chain retailers. This expectation is guided by two considerations. First, the character of The Grange at 10Main will be an environment that is most attractive to independent retailers. Secondly, Smithfield is not a market that is substantial enough in terms of population size and total disposable income to attract major national retail chains. To the extent that there may be exceptions (e.g., mobile phone retailers), it is assumed that those firms would already be in the Smithfield/Isle of Wight market and simply be shifting locations.

It is likely that some existing businesses within the Localities may decided to move to the newer commercial space at The Grange at 10Main. According to the applicants, local specialty grocer and take-out vendor has expressed interest in relocating to the Smithfield Market. Admittedly, such moves then open currently occupied commercial space for lease by other businesses which may be start ups or moving to the County. However, such backfill is uncertain both with respect to its occurrence and to whether the business will be new to the County. Therefore, the potential for new net revenue from backfill tenants is acknowledged but has not been incorporated into this fiscal impact analysis.

Whether the relocation is expected to be within the Town or from the County to the Town has implications for the business personal property tax revenue collected by the Town and the County. When the move is from the County to the Town, the Town will gain the entire amount of the business personal property tax that it levies (since it did not collect any while the business was located in the County), while the County only gains taxes from the increase in assessed value (assuming that the relocating business purchases new business equipment).

When the move is within the Town, abandoned business property results in a loss of revenue for the Town, which is offset by revenue from newly purchased business equipment. Therefore, in that case, like the County, the Town would gain only the taxes resulting from the increased assessment. That increase (13.49%,) was calculated using the PPI percentage increase from the last seven years. It is applied to the adjusted 2016 estimated business personal property assessment per square foot derived from the Newport News data set to calculate the assessment of business property that would generate net new revenue (the difference between the estimated assessed value of the old equipment and the estimated assessed value of the new equipment).

Because sales tax is collected at the County level and remitted to the Town according to a formula, whether sales are redirected from businesses in the Town or the County is immaterial for the calculation of net new local option sales tax. However, the business license fee and the meals tax are collected exclusively by the Town or the County, depending upon the location of the business.

With respect to the business license fee, if the relocation is within the Town, no increase in business license fee is assumed. If the relocation is from the County to the Town, then the Town would gain the business license fee revenue calculated on the predicted net increase in gross receipts (after subtracting redirected sales). Again this is because the Town had received no tax revenue from the business previously. The County, on the other hand, does not lose business license fee revenue. This is because the County exempts very small businesses from the gross receipts tax and, based upon average sales per establishment calculated from the Weldon Cooper data and estimates of sales by retailers at The Grange, all relocating retail establishments are assumed to have sales falling below the County's threshold.

Lacking other data, it was assumed that one-third of the retail tenants occupying space at The Grange at 10Main would be relocating from other locations within the County. A Google Maps count of businesses located within the Town of Smithfield determined that there are 22 retail businesses of the type assumed to be potential tenants at The Grange. A Google Maps and internet search determined that within the County but outside of Smithfield there were 11 businesses comparable to those that might be attracted to The Grange at 10Main. Thus, 67% of relocating businesses were assumed to be previously located in the Town and 33% were assumed to be previously located in the County.

The brewpub restaurant at the Smithfield Market and the hotel are expected to be new to the County. Thus, all revenue associated with those restaurants will be received by the Localities. While the grocer/take-out tenant expects their sales to increase by moving to the Smithfield Market, this assumption is speculative and there are no good metrics available that would predict the extent of any sales increase. A Google Maps observation of their current location indicates the likelihood that the space to be occupied in the Smithfield Market is of similar size to the space currently occupied (although this could not be verified). A conservative assumption would be that no appreciable change in sales occurs after the move to the Smithfield Market. Accordingly, no increase in local options sales tax, meals tax or business license fee was assumed to occur for either the County or the Town. Additionally, much of the existing business equipment owned by this business is portable. Therefore, no increase in business personal property tax from this tenant was assumed to occur.

Redirection and relocation are also factors with respect to office tenants. According to the applicant, one prospective office tenant located in the Town has already expressed interest in leasing space at The Grange at 10Main. Leakage associated with these sectors was more difficult to predict. It was initially assumed, however, that residents of The Grange at 10Main would not travel far for these services if they were readily available nearby. It was also recognized that, to a certain extent, patronage of these service providers may be determined by established relationships.

The first step, therefore, was to determine the adequacy of existing services within the County. A Google Maps search was conducted to identify professional office tenants in the County. These were assumed to be medical offices, law firms, insurance agencies, accountants and financial advisors.

The number of firms in each category per capita was compared for Isle of Wight County and the Hampton Roads region. This was done using QCEW data and the population estimates derived from the ACS. Location quotients were then computed. Location quotients are computed by dividing the per capital business establishment incidence for the County by the incidence in Hampton Roads (which is the expected, or normal, incidence). A quotient above 1.0 indicates a concentration of establishments and a quotient below 1.0 indicates an underrepresentation of establishments. In all categories, the location quotient for Isle of Wight County was below 1.0.

A judgement was made in classifying these location quotients to determine the likelihood of office locations at The Grange at 10Main redirecting clientele from existing County professional office businesses. If the location quotient was above 0.75, it was deemed likely that there would be substantial redirection, since demand is viewed as being substantially, though not completely, fulfilled within the County. If the location quotient is between 0.5 and 0.75, it was deemed that some redirection is likely to occur but that there would also be substantial opportunity for the clientele of new businesses to be drawn from firms located outside of the County. If the location quotient is less than 0.5, it was assumed that County residents were sufficiently underserved that a new business would take all or most of its clientele from patrons of businesses located outside the County.

Quantifying the amount of redirection was, admittedly, a judgment. For lack of a better metric, the location quotient was used to represent the amount of likely redirection for those sectors with a quotient above 0.75. For those sectors with a quotient between 0.5 and 0.75, the amount of redirection was assumed to decline by 3% for every .01 point decline in the location quotient so that a location quotient of 0.5 would signify no redirection occurring.

As a reminder, the percentage of sales generating net new revenue is the inverse of the percentage of redirection. Accordingly, based upon the computed location quotients, 13.3% of revenues from physical therapists, 18.7% of revenues from insurance agents, 24.6% of revenues from accountants, 64.9% of revenues from financial advisers, 78,1% of revenues from physicians, all revenues from dentists, 75.4% of revenues from all other medical professionals (e.g., chiropractors, optometrists, etc.), and all revenues from lawyers assumed to locate at The Grange would generate net new revenue for the County.

Except for the known likely tenant, the actual mix of professional office tenants in the remainder of the space is unknown, however. For analysis purposes, this was estimated to be equal to the mix of those sectors in the Hampton Roads economy, with data, again, taken from the QCEW, adjusting for the assumption that the second 4,500 square foot office building would be occupied by medical office tenants. A weighted average of net new revenue expected from professional office tenants was then computed. This resulted in an assumption that 63.91% of revenue generated by professional office tenants would be net new revenue for the Localities.

However, as with retail tenants, some degree of tenant relocation within the County is assumed. It is known that an existing business in Smithfield has shown strong interest in relocating and would lease one of the medical office buildings at The Grange. This would be an expansion from existing office space of about 4,000 square feet. Accordingly, about 11% of all business taxes paid by this tenant was assumed to generate net new revenue for the Town (this was computed separately from the other office tenants). It is reasonable to assume that at least one fourth of the professional office tenants locating in the remaining office space at The Grange at 10Main would relocate from within the County. It was therefore assumed that 1,975 square feet of office space at The Grange would be occupied by a relocating firm from elsewhere in the County. Therefore, including the relocating medical tenant, about 46% of the professional office space was assumed to only generate additional revenue similarly to relocating retail tenants (i.e., within Town tenants generate only business personal property tax on the increased assessment; County-to-Town tenants generate new business personal property tax for the Town, tax on only the increased business equipment assessment for the County, and business license fee revenue for the Town).

The net new revenue percentage calculated taking redirection into consideration would then apply to business license fees of County-to-Town relocatees and to the remaining non-relocating professional office tenants.

Finally, an estimate must be derived for hotel stay redirection. Although a strong demand for hotel stays in Smithfield is assumed by the applicants, the two higher end hotels located in Smithfield—Hampton Inn and Suites and Smithfield Station—currently operate at 70.3% occupancy according to the hotel market study commissioned by the applicants (performed by hotel industry consultants, HVS). Although this is a higher occupancy rate than the 66.5% achieved by competing hotels located outside of Isle of Wight County, it indicates that market demand for stays in Smithfield is not so great as to produce full occupancy for the existing Smithfield hotels.

With available hotel rooms exceeding demand, the existing Smithfield hotels must compete with hotels in the surrounding area for hotel customers. Thus, it is reasonable to expect that a new entrant into the market would need to compete not only with the secondary market hotels located outside of the County but also with the hotels located in Smithfield. Currently, at 70.3% occupancy, the two existing hotels in Smithfield are satisfying about 40% of current market demand. When The Grange hotel stabilizes in 2026, it can anticipate capturing about 17% of market demand. Some of this will be new demand (see below in the next paragraph) but a portion of this is demand that would otherwise be captured by the Smithfield hotels and the competing hotels located outside of the County. It is reasonable to assume that The Grange hotel would redirect hotel stays from existing hotels proportionally to their current share of demand. Given this assumption, 60% of taxes generated by hotel stays at The Grange hotel derived from existing demand or projected natural growth in demand would be new to the Localities.

However, the hotel at The Grange at 10Main will have amenities not found at existing Smithfield hotels and will have additional marketing advantages connected with the Luter Sports Complex and Smithfield Foods. The applicant's hotel consultant estimated that 2,373 room nights annually will result from this induced demand when the hotel is stabilized in FY 2027. All of this demand will be redirected from hotels outside of the County and it is subtracted from estimated annual room nights at The Grange hotel before applying the redirection assumption metric. After making this adjustment, redirection was calculated to be 34.1% of room nights at The Grange hotel, yielding a projection of 65.9% of room nights producing new hotel revenue for the Localities.

This metric applies to lodging taxes and business license fees paid to the Town and the local option sales tax apportioned between the County and the Town.

Utility Taxes

In estimating revenues per household from local utility taxes on electric service, the maximum residential utility tax levy was assumed (as this is capped at a relatively low level). For commercial tenants, based upon typical energy consumption, retail and office tenants were assumed to pay 75% of the capped utility tax rate, while restaurants and the hotel were assumed to pay the full capped utility tax rate.

The consumption tax was calculated on a per household/per business basis for the Town. U.S. Energy Information Agency data was used to estimate that an average business uses about six and one-third the amount of electricity as an average residence and the expected consumption tax per business was adjusted accordingly. Also, the average consumption tax received by the Town was significantly higher than was received by the County and it was assumed that consumption taxes paid by Smithfield Foods distorts that average. Therefore, the per-unit consumption tax metric for the County was used to calculate the increased consumption tax that the Town would receive.

Water and Sewer Revenues

Household water consumption was estimated using an industry standard of 74 gallons per day per person derived from the American Waterworks Association (AWA). For owner-occupied households, the ACS data providing the average household size for owner-occupied households in Smithfield was used as a preliminary estimate. The 2022 population estimated for Smithfield in 2022 was then divided by the number of households estimated for that year to derive an estimated 2022 average household size for Smithfield. This yielded a predicted household size for all Smithfield households of 2.57 persons per household in 2022 versus 2.49 persons per household in 2019. The 2022-to-2019 ratio was then applied to the 2019 ACS owner-occupied metric to arrive at a 2022 estimate for owner-occupied households of 2.51 persons per household.

Because the demographics of Smithfield renter households are significantly different than those for households expected to occupy the apartments at The Grange at 10Main, average household size for The Grange apartments was estimated directly. This was done using ACS data. One-bedroom apartments were assumed to be occupied by either a single person or a couple and data on one-person and two-person households in Smithfield was used to calculate the expected distribution of those household sizes. The expected household size for one-bedroom apartments in Smithfield was calculated to be 1.61 persons per household.

For two and three bedroom households, ACS data for Smithfield was also used, with 3-person households assumed to consist of either a married couple and one child or a single-parent with two children. A four or more person household was assumed to consist of a couple with two or three children or a single parent with three or four children. Double occupancy of bedrooms was assumed only for children of the same sex. The probability of two children being of the same sex was deemed to be 50% and the probability of another child being of the same sex deemed to be 25%. Based on the data and these assumptions, the chance of a parent having two children of the same sex was calculated. This was the probability of the second bedroom for a two-bedroom apartment being occupied by two children rather than one child. For the three bedroom apartments, at least two children were assumed with a 50% chance of three children (one bedroom occupied by two children of the same sex) and a 25% chance of four children (both bedrooms so occupied).

Isle of Wight ACS data was used to calculate the percentage of single-parent versus married couple parents and the same proportions were assumed to apply for The Grange apartments. Using this percentage, either two or one additional person (adult) was added to the number of children predicted to occupy two- and three-bedroom apartments.

However, it is recognized that some apartments may not be fully occupied because some renters may opt for one of the bedrooms functioning as a bonus room. Since no data on the incidence of such use is available, a representative from, Drucker and Falk, a real estate agency which manages several apartment communities in Hampton Roads, was consulted. They estimated that 30% of two- and three-bedroom apartments would fall under this category, demographically functioning as one-bedroom (or two-bedroom) apartments. Thus, 30% of two-bedroom apartments were assumed to have 1.61 persons per apartment and 30% of three-bedroom apartments rented by a married couple and 15% of three-bedroom apartments rented by a single parent were assumed to contain a bonus room, thus demographically functioning as a two-bedroom apartment.

After all adjustments were made, two-bedroom apartments at The Grange were assumed to have an average household size of 2.78 persons per household. Three-bedroom apartments were assumed to have an average household size of 3.8 persons per household. The average household size for the apartments at The Grange at 10Main, based on the distribution of apartment sizes, was computed to be 2.46 persons per household. This compares to a predicted renter household size based upon ACS data for Smithfield of 2.73 persons per household in 2022.

Applying the AWA data yields an estimated 185.74 gallons per day consumed by single-family households and an estimated 182.04 gallons per day consumed by apartment households at The Grange at 10Main. This compares to approximately 266 gallons per day consumed per Smithfield water account. However, the Smithfield average includes large water users so the estimate derived from AWA data was deemed to be closer to actual household use.

A study on water use by the University of Florida, *Methods for Estimating Commercial, Industrial, and Institutional Water Use,* was used to estimate water consumption by the clubhouses at the proposed development. Based on this water study, each clubhouse was estimated to have an average daily water use of 848 gallons per day, excluding the swimming pool.

Data supplied by the State of Texas on swimming pool water consumption was used to estimate that between Memorial Day and Labor Day weekends (the approximate time the pool would be open), a swimming pool can be expected to lose one-third of its water, which would need to be replenished. At an average depth of 4.9 feet, the annual filling of each swimming pool plus refilling was estimated to use about 62,400 gallons. The pools at The Grange at 10Main will not have shower areas.

The University of Florida water use study was also used to estimate annual water consumption from the commercial tenants at The Grange at 10Main.

The Town's water rate was applied to these estimates of water consumption, with the Town's bi-monthly meter fee added to calculate annual revenues from water consumption. All water usage was assumed to be applicable to the calculation of sewer charges. Therefore, the Town's sewer rate and sewer compliance fee were also applied to these estimates of water consumption to calculate annual sewer revenues.

Smithfield Market Revenues

County Tourism Department staff were consulted concerning the existing and proposed Smithfield Market. Currently, a Smithfield Market is held in a parking lot in downtown Smithfield every week from April through October and less frequently and for special occasions in March, November and December. There are 75 vendors registered for this Smithfield Market with 45 to 50 selling at each event.

A second, smaller Smithfield Market occurs weekly in Carrollton from May through August and a third, still smaller market takes place near Isle of Wight Courthouse. Other Smithfield Markets within the region take place in Surry, Franklin and Suffolk, with Suffolk's market being by far the largest, though smaller than the Smithfield Market.

The current farmer's market at Smithfield generates revenue for the Localities from the business license fee and vendor fees. Most vendors will pay the Town's $30 business license flat fee. The vendor fee is $15 or 5% of sales, whichever is greater, plus a $75 annual application fee. Over the past three years, vendor fees have averaged 5.2% of sales.

A leasehold real estate property tax is not paid by vendors currently and was not assumed to be paid by vendors in the future. Although the vendors fee is levied in place of rent, it is not considered to be a lease. Therefore, space occupied in the new Smithfield Market by vendors was not considered to be subject to the leasehold tax. This assumption was confirmed with the County Attorney. However, it is the intention that the three rental spaces on one wing of the Market will be leased and would be subject to the leasehold tax. The estimated assessed value of these spaces is discussed above under "Real Estate Property Taxes."

The real estate property leasehold tax is computed on a declining scale depending upon the remaining term of the lease. A 50-year lease pays a real estate tax on 100% of assessment with the percentage of assessment subject to the tax declining by 2% per year to a minimum of 15%. Renewal terms are included in the computation of remaining term. It was assumed that the three tenants leasing space om the Market would have a five year lease with two renewals. As discussed above under "Real Estate Property Taxes, the space in the Smithfield Market occupied by the brewpub restaurant and the land underneath that restaurant will be owned by the restauranteur and will, therefore, be taxed on the full assessed value of the property.

Revenues from the current farmer's market and other markets operated by the Localities are currently used to fund market expenses incurred by the Localities. Currently, no money from the general funds is used to fund Locality expenses for the markets. It is anticipated that the proposed Smithfield Market will also be jointly operated by the Localities (with the County taking the lead) rather than by a third party operator. In this fiscal impact analysis, anticipated revenues from the Smithfield Market are shown separately and are applied separately against anticipated expenses attributable to the proposed Smithfield Market. These separate revenues include revenues from the proposed Smithfield Market restaurant (see above for restaurant tax and business personal property assumptions).

As noted above, the brewpub restaurant space will be owned by the restauranteur and they will be responsible for all construction and fit up costs associated with that space. Thus, it is only the cost of the remaining space that the Localities would need to fund. As part of its occupancy agreement, the restaurant is anticipated to pay 2% of its sales revenue as a common area maintenance (CAM) fee to the Smithfield Market managing entity (assumed to be the EDA). The restauranteur estimates that this will be $50,000 in the first year of the restaurant's operation and would then be calculated on the projected restaurant sales assuming three years from opening to reach a full ramp up. The CAM fee paid by the restaurant would help cover Smithfield Market operational expenses.

As with other commercial enterprises, new development does not in and of itself generate new demand. Therefore, any new revenue received by the Localities due to increased sales at the Smithfield Market must be generated from either an expanded consumer market or through redirection of existing sales. The leakage study performed by the Consultant and referenced above showed a saturated market in the County for the sale of food consumed at home. As will be discussed below under "Additional Revenues Generated by Households," it is nevertheless reasonable to expect that some leakage in this category does occur, as grocery choices within the County are confined to standard, mid-level grocery stores (Food Lion and Kroger). Notwithstanding this, the leakage study indicates limited room for growth in food at home sales without redirection from existing County businesses.

This dynamic also applies to consumer market expansion, i.e., the new households at The Grange at 10Main. Except for purchases made at discount or premium grocers located outside the County (as discussed below under "Additional Revenues Generated by Households"), purchases of food at home by the new households are expected to be made at businesses located within the County, reflecting consumer buying patterns of existing County households. Any shift in those patterns, i.e. to a greater share of purchases at the Smithfield Market, would come at least partially at the expense of purchases from existing grocers in the County.

Therefore, any increase in Smithfield Market sales from residents of The Grange at 10Main would be redirected from existing County grocers, as well as from stores located outside the County. The Localities would still see an increase in sales tax and business license fee revenues due to purchases by Grange residents at both local grocery stores and the Smithfield Market. However, counting Grange household expenditures both as increased Smithfield Market sales and additional revenue from households would be double counting. Therefore, Smithfield Market sales attributed to Grange residents and not redirected from grocers outside the County were subtracted from the calculation of additional revenues generated from households and counted only as generating Smithfield Market revenue.

Sales at the Smithfield Market saw substantial growth from 2019, the last pre-pandemic year, to 2021. Sales increased during this period from $385,917 to $552,838, more than 40%. Sales for 2020 were down slightly from 2019, reflecting the early effect of the pandemic shutdowns but also, since the decline was small, the resiliency of the Smithfield Market (which, being outdoors, provided a relatively safe space for shopping and a welcome outlet during a period of restricted activity). The 2021 data indicate the possibility of a significant shift in food purchasing habits and/or more effective marketing of the Smithfield Market by County staff. This increase in Smithfield Market sales was assumed to be permanent.

To estimate the likelihood of residents at The Grange at 10Main shopping at the proposed Smithfield Market, a brief location analysis was performed. The location analysis is based on an assumption that shoppers will consider distance in their shopping decisions and that, all other things being equal, the propensity to shop at a certain location is exponentially related to the drive time (or walking time) distance from the consumer to the retail outlet. Travel time is scored, with 1 minute scored as 1, 2 minutes scored as 0.5, 3 minutes as 0.333, etc. All scores are summed and the score for the subject location(s) is divided by the sum of scores to estimate the propensity to shop at the subject locations(s). Thus, the propensity to shop at the Smithfield Market is equal to the Smithfield Market distance gradient score divided by the sum of distance gradient scores for all locations).

In this case, since the Smithfield Market is being compared to other types of food sale outlets, additional weighting was used. Although other items may be sold at the Smithfield Market (e.g., honey, cheese, hand-crafts), it was assumed for analysis purposes that sales would be predominantly produce. Since it would be difficult to disaggregate Smithfield Market sales of non-produce items from broader expenditure data, produce is uniformly used in this analysis as a proxy for all Smithfield Market sales. Therefore, CES data was used to compute the share of produce to all food at home sales.

For the income bracket expected for Grange households, fruits and vegetables account for 19.3% of food at home sales, while fresh fruits and vegetables account for 12.8% of food at home sales. With the proximity of the Smithfield Market, we can presume a shift in consumer expenditure towards more fresh produce than processed produce. Estimating that as much as a third of processed produce purchases could be shifted to fresh produce given the proximity of a Smithfield Market, about 15% of food at home expenditures could be subject to being shifted from existing grocery stores to the Smithfield Market.

Convenience was another factor to be taken into consideration. Beyond travel time, when shoppers patronize a full-service grocery store, they would have an inclination to purchase produce at the same time as other groceries rather than make a special trip for produce to the Smithfield Market. Uncertainty about what will be available at the Smithfield Market on any given day would also factor into the consumer decision whether to bundle produce purchases with other grocery purchases. No data exists to measure this propensity. In the absence of data, a 50% propensity is often considered to be most likely. Therefore, the distance score for the Smithfield Market was weighted by 0.5.

Given the expected household income levels of Grange at 10Main residents, it is unlikely that residents would shop for standard grocery items or produce at convenience stores or "dollar stores." Therefore, those establishments were not included in the location analysis. This meant that the location analysis was confined to the proposed Smithfield Market and the Food Lion and Kroger located in Smithfield. Travel times for the Smithfield Market were calculated assuming travel by car although residents could also walk to the Smithfield Market. All walkable travel times were greater than one minute, with apartment dweller walking times ranging from 1.5 to almost five minutes and walking times for residents of single-family dwellings ranging from almost four minutes to almost nine minutes.

Based upon the location analysis it was estimated that residents of The Grange at 10Main Street would have a propensity to shop for produce at the proposed Smithfield Market about 65% of the time. However, this estimate needs to be further adjusted to account for the fact that the Smithfield Market will not be open continuously. Discounting the market's shoulder seasons the market is open one day per week for seven months of the year. It is likely that this schedule will be expanded to include multiple days. However, it is unlikely that the market will be open seven days a week and their hours are also anticipated to be shorter than grocery store hours. Assuming that the Smithfield Market could be open 28 hours per week, it would be open for only about 15% of the time that the two grocery stores are open.

Nevertheless, a certain level of commitment to shopping at the Smithfield Market was assumed. Smithfield Market shoppers were assumed to be willing to postpone some produce shopping until the Smithfield Market is open. No data exists to measure this propensity and, in the absence of data, a factor of 2 was employed, meaning that Smithfield Market shoppers would be willing to condense their shopping behavior to the Smithfield Market schedule within a range of 50% in either time direction from the Smithfield Market hours of operation or, alternatively, postpone by one day their trip to purchase produce until the opening of the Smithfield Market.

Applying all of these factors resulted in a prediction that residents of The Grange at 10Main would conduct almost 20% of their produce purchasing at the proposed Smithfield Market. Using CES data to quantify the expected produce purchase, this amount ($46,225) was added to anticipated Smithfield Market sales and deducted from purchases contributing to additional revenue generated from households.

Other potential sources of increased sales by Smithfield Market vendors were identified. These are:

- shifts in consumer behavior favoring purchases from the proposed Smithfield Market versus purchases from other produce suppliers
- increased frequency of the market and/or an increased number of vendors participating in the market
- shifts in patronage from other Smithfield Markets and
- increased tourism to Smithfield.

Each of these potential sources was explored to determine the extent to which each may provide net new revenue for the Localities.

Shifts in consumer behavior are redirections of spending. Any long-term shift toward more produce consumption would benefit the proposed Smithfield Market but would not be caused by the presence of the market. Redirection may occur from grocers within the County or from those outside the County. As noted under "Additional Revenue Generated by Households," below, it estimated that 80% of food at home spending by County residents occurs within the County.

The spending estimated to occur outside of the County would occur at the Wal-Mart across the James River Bridge, at one of the buying clubs in Newport News or Hampton, at the Whole Foods, Fresh Market or Trader Joes in Newport News, and possibly at other higher end grocers in Suffolk. It is unlikely that Wal-Mart or buying club shoppers would change their buying behavior due to the presence of an expanded Smithfield Market in Smithfield. It is assumed that the number of shoppers making produce purchases in Suffolk is tiny.

It is estimated that perhaps 5% of grocery shopping by County residents occurs at the specialty grocers in Newport News. Patrons of these stores are the most likely out-of-County shoppers to switch patronage to the proposed Smithfield Market. These shoppers would continue to shop at those grocers for other items but some would likely switch to the Smithfield Market for produce. If 10% of those shoppers did so, the result would be an estimated 0.5% shift of 15% of food at home spending (or 0.075%) from outside the County to within the County. This is a potential expanded market of $72,675 in additional sales at the Smithfield Market.

Since a Smithfield Market already operates in Smithfield, the question becomes: what would cause this shift to occur. Part of that answer would be the increased frequency of the market and the increase in the number of vendors and, presumably, the resulting increase in variety of goods offered. Although the number of stalls planned for the new market (36 inside, 16 outside plus three permanent stalls with refrigeration) accommodates a similar number of vendors as attend the existing market, it is anticipated that additional vendors would spill over to the new green.

County staff indicated that attendance at the existing Smithfield Market in Smithfield is significantly constrained by parking. The proposed development would provide significant amounts of public parking, including the proposed 104 surface parking spaces at the Smithfield Market. This, presumably, would attract customers to the Smithfield Market who are currently deterred by the lack of available parking.

Increased market frequency, along with increased parking, is a factor that creates more opportunity and incentive for consumers to switch produce purchases to the market. Therefore, it contributes to shifts in consumer behavior discussed above and the opportunity for greater tourism participation discussed below. However, in and of itself, the increased frequency of the Smithfield Market is not likely to result in greater net produce sales for the Localities. Instead, the increased frequency would distribute existing and new demand for produce in the County over a longer time period.

While increased frequency is not expected to increase net produce sales in the County, it is expected to shift some sales from grocery outlets to the Smithfield Market, thus increasing Smithfield Market revenue, particularly from vendor fees. There might also be some increase in business license fees if more vendors than currently participate are attracted to the market by the greater frequency and availability of vendor slots per week.

It would not be reasonable to expect that increased sales would directly and proportionally correlate with increased hours of operation. Many consumers will undoubtedly take the opportunity of expanded market hours to have greater choice about when they will visit the market rather than increasing their frequency of visiting the market or, particularly for those living close to the market, they may spread out their weekly produce purchases at the market. With no data available to estimate the scale of an increase in sales resulting from expanded Smithfield Market hours, a conservative estimate was used that sales would expand by 10% of the percentage expansion in Smithfield Market hours. With the market expanding from one day to three-to-four days per week, increased sales at the Smithfield Market could increase by 35% (10% x 350%). As noted above, this does not translate into an increase in produce sales within the County.

Potentially, there is also opportunity for the proposed Smithfield Market to redirect sales from other Smithfield Markets. However, the same vendors sell at the Carrollton Smithfield Market and the current farmer's market in Smithfield, although with only 8-12 vendors, the Carrollton market is smaller. It is anticipated, as the Smithfield Market expands the number of days it is in operation, that the Carrollton farmer's market, as well as the Vintage markets, the Pickers market and other specialty markets currently operating in the County will relocate to the new Smithfield Market, essentially merging their operations. The green would be used for any overflow vendors from these markets. Therefore, no redirection that would result in an increase in sales was assumed to occur from other markets located within the County (as there sales would simply transfer location within the County).

To the extent that sales are redirected from markets located outside the County, this would bring net new sales to the Smithfield Market and the County. As with redistribution from grocery stores, it is presumed that the closer the market is to the proposed Smithfield Market, the more likely it is that redirection will occur. The amount of redirection also is affected by the size of the market. There is more opportunity for redirection from larger markets than from smaller markets. Therefore, the distance scores for the markets were weighted by the number of vendors and the frequency of the market.

The size of the three markets located outside the County was measured by multiplying the number of vendors registered for each market (found on the market's website or provided by County staff) by the number of days the market was open, annually Using this metric, the Suffolk, Franklin and Surry markets will be one-eighth, one-tenth and one-eleventh the size of the Smithfield Market when it is expanded and operating three to four days per week. These markets are a 35, 39 and 20 minute drive from the new Smithfield Market, respectively. County staff estimates that, currently, about one-third of current Smithfield farmer's market attendees are from outside the County, either as tourists or residents of neighboring localities. It can therefore be presumed that significant numbers of current farmer's market attendees are local, non-County residents who could also attend one of the three competing farmer's markets located outside the County.

Given the relatively small sizes and significant distances from Smithfield of the farmer's markets located outside the County, and the fact that the current Smithfield farmer's market is likely already attracting significant numbers of out-of-County customers, little potential was seen for the expanded Smithfield Market attracting more customers from those localities beyond what is already being estimated as part of the market's expanded days of operation. Furthermore, estimating the amount of sales that would be redirected to the Smithfield Market from other farmer's markets is difficult and there are no valid or reliable methodologies for doing so. Therefore, a decision was made to count no additional sales due to redirection from other farmer's markets located outside the County.

It is recognized that some vendors from these out-of-County markets may choose to operate in the new Smithfield Market. This may particularly be the case for vendors in the Surry market, the closest of the three, since stall space is limited there and can only accommodate half of the registered vendors at a time. However, while a potentially greater variety of products could marginally increase sales at the Smithfield Market, relocating vendors would primarily be redirecting sales from current vendors, given that their customers are already presumed to be shopping at the new Smithfield Market. Additional revenue from vendor applications and business licenses would not be significant but could amount to about $700 annually.

Finally, increased tourism can generate increases in Smithfield Market sales. These increased sales would generate both net new revenue for the Localities and new revenue for the Smithfield Market. The County Tourism Department expects the expanded Smithfield Market to be a significant tourist attractor to the Town of Smithfield. Additionally, patrons at the Grange hotel and cottages could contribute to the Smithfield Market customer base.

Expenditures by hotel guests are not likely to be significant, since only perishable items that would be consumed during their hotel stay are likely to be purchased, although some incidental purchase of non-perishable "souvenir" goods is possible. Purchases by cottage renters, who will be staying for longer and have kitchen access, are more likely.

Tourism Department staff estimate that the new Smithfield Market could result in a 10% expansion in tourism to the County. It was, therefore, estimated that an increase in Smithfield Market sales from tourism could reach $55.300 based upon 2022 market sales. This estimate is made prior to considering an expansion of the number of days that the market would operate. Increases in vendor sales due to redirection of existing produce sales from out-of-County grocers and from residents of The Grange at 10Main were also added to this sales base prior to calculating an expansion of sales due to increased market hours of operation.

As noted above, County staff expects the new Smithfield Market to increase its days of operation gradually. For analysis purposes, it was assumed that the Smithfield market would remain operating one day per week during its first full year of operation (its first calendar year of operation would be for a partial year). Thereafter, the market is assumed to add one additional day of operation each year, stabilizing at an average of 3.5 days of operation per week.

Based upon these assumptions and assuming that the 2022 sales volume represents a permanent trend, the Smithfield Market is expected to do approximately $983,600 in sales in 2022 dollars five years from its opening and to generate $51,150 in vendor fees. This is approximately $430,750 in additional sales and $22,400 in vendors fees annually during and after the market's stabilization year.

While these additional sales will generate new fee revenue for the Smithfield Market, they will generate new local option sales tax revenue only to the extent that sales are new to the County. No new business license revenue will result from the increased sales since a vendors fee is levied by the Town in place of a gross receipts tax and vendors fall below the County's threshold for levying the gross receipts tax.

Other Direct Annual Revenues

The annual stormwater fee was not included as direct annual revenue, though it will be paid by The Grange at 10Main property owners and provide revenue for the County's enterprise fund. It was excluded because this fee is levied at the discretion of the County (and is, thus, not a reliable revenue source) and because these fees are dedicated to funding stormwater improvements that would not be made if the County did not levy the fee (thus, they do not constitute a net revenue to the enterprise fund).

The remittance from the Commonwealth of the communications sales tax was also not included as direct annual revenue because this remittance is based upon a fixed formula that would not be affected by increasing population in the County**.**

In FY 2021, the Town instituted a refuse collection fee. This fee was applied to the cost of trash collection and recycling in the Public Works budget (see below under "Cost Calculation").

User fees per household were calculated by dividing revenues estimated to be received in FY 2022, as reported in the *Budgets,* by the number of households in each Locality. For the County, per household user fee revenue was calculated for animal license and adoption fees, Commonwealth Attorney fees, concealed weapons permit fees, court security and building fees, court fines and forfeitures, county code violation fees, EMS fees, impound fees, Parks and Recreation fees and Sheriff's fees. For the Town, per household user fee revenue was calculated for fines and costs, fingerprinting fees, kayak rentals, park impact fees, Windsor Castle dog park registration, and various other rentals (including the Smithfield Center, sports complex and Windsor Castle manor house). However, fees associated with parks and recreation were calculated on a per County household basis, rather than on households in the Town, since these revenue sources are derived from a wider population.

For certain revenues calculated on a per-Locality household basis, adjustments were made for the somewhat smaller household sizes anticipated at The Grange at 10Main compared to average household sizes for both the County and the Town (see above under “Water and Sewer Revenues” for the methodology estimating household size). These adjustments were made for Commonwealth Attorney fees, court security & building fees, EMS charges, fines and forfeitures, park impact fees, Park and Recreation fees, Sheriff’s fees and weapons permits for the County; and for fines and costs, and fingerprinting fees for the Town.

These adjustments are reflected in the revenue per household calculation shown in Table A-5 on the following page. Table A-5 details variable revenues from the County and the Town, other than those derived from the direct levy of taxes on the project.

Tax rates and fees found on the current County and Town websites and/or reported in the *Budgets* were used and assumed to be accurate

Additional Revenues Generated by Households

Additional tax revenues generated by households are estimates of taxes paid by Isle of Wight County and Smithfield businesses due to purchases made by the proposed development’s residents. Purchases by Grange residents are estimated based upon their projected spending patterns. These spending patterns were estimated using the CES and estimated average household income.

Household incomes were estimated for the proposed development’s residents based upon the projected sale price of residential units. A housing price-to-income ratio of 5-to-1 was assumed, based on a recent conversations with an area mortgage broker. The proposed development’s household incomes were, thus, estimated by dividing average unit sale prices by 5.0. This resulted in an average household income estimate for single-family detached units at the proposed development of $114,975, and of $100,975 for the duplex units, rounding to the nearest $25. It should be noted that if increases in mortgage rates persist, this could lower the price-to-income ratio, raising the income threshold needed to purchase homes at The Grange at 10Main. Because higher income households spend more, this would increase additional revenue generated by households from the current estimate.

Household incomes for apartment residents at The Grange at 10Main were estimated using CES data on expenditures for rent and the percentage of renters in each income grouping. Expenditures for rent in the CES data are pro-rated by the percentage of renters in each income grouping so it is a question of working the calculations backward to derive the average expenditure for rent in each grouping. The average rent expenditure was then divided by the average household income in each income grouping to derive the percentage of income spent on rent.

Item	County Revenue	Town Revenue	Revenue per Single-Family Household	Revenue per Apartment Household	Revenue per Business
Table A-5 Isle of Wight County and Town of Smithfield Variable, Non-Direct Per-Household Revenues, FY 2021-2022					
Animal Licenses and Adoption Fees	$ 70,000		$ 4.57	$ 4.57	$ 0.00
Commonwealth Attorney Fees	$ 3,000		$ 0.18	$ 0.18	$ 0.19
Concealed Weapons Permits	$ 40,000		$ 2.56	$ 2.50	$ 0.00
Court Fines and Forfeitures/ County Code Violations	$ 129,000		$ 7.83	$ 7.63	$ 7.98
Court Security & Building Fees	$ 100,000		$ 6.07	$ 5.92	$ 6.19
Dog Park Registration Fee		$ 650	$ 0.19	$ 0.19	$ 0.00
EMS Fees	$ 900,000		$54.59	$53.24	$55.67
Fines and Costs		$ 33,000	$ 7.56	$ 7.41	$ 7.75
Fingerprinting Fees		$ 500	$ 0.14	$ 0.13	$ 0.14
Impound Fees	$ 2,000		$ 0.12	$ 0.12	$ 0.12
Kayak Rentals		$ 15,000	$ 0.96	$ 0.94	$ 0.00
Park Impact Fees		$ 10,000	$ 0.65	$ 0.65	$ 0.00
Parks and Recreation Fees	$ 297,775		$19.08	$18.61	$ 0.00
Rental Income		$229,125	$14.17	$14.17	$14.17
Sheriff Fees	$ 4,000		$ 0.24	$ 0.24	$ 0.25
Total Isle of Wight County	$1,545,775		$95.24	$93.01	$70.40
Total Town of Smithfield		$288,275	$23.67	$23.49	$22.06

Revenues rounded to the nearest $25

Proposed rents at The Grange apartments were adjusted to distribute the $175 monthly rent for the 35 parking units among the apartment unit model types. The adjusted rent was then annualized and divided by the calculated average percentage of income spent on rent to obtain the estimated annual household income for each apartment unit type. It was calculated that Grange 1-bedroom apartment dwellers would be willing to spend 15.43% of income on rent, 2-bedroom apartment dwellers would be willing to spend 14.79% of income on rent, 2-bedroom carriage apartment dwellers would be willing to spend 14.51% of income on rent, 3-bedroom apartment dwellers would be willing to spend 13.86% of income on rent and 3-bedroom carriage apartment dwellers would be willing to spend 13.26% of income on rent on average.

Using this approach alone produces income estimates that are typically higher than apartment developers assume for the Hampton Roads market. Therefore, these estimates were adjusted using a second method. It was assumed that many renters will stretch their budgets to move into newer, nicer apartment communities. The rule of thumb is that when households spend 33% of their income on housing costs, they experience housing cost stress. This would, then, be the maximum that households would be expected to stretch their rent budgets. Therefore, income levels were calculated assuming renters spend 33% of their income on rent (so that for a $1,600 per month rent apartment, the minimum income level would be $58,175, for instance).

The two income estimates were then averaged, which effectively assumes a continuum of share of income spent on rent ranging from the CES estimate to the housing cost stress level. The average household incomes predicted using this methodology was evaluated by the developer who deemed the resulting household income estimates to be higher than is expected for the apartments at The Grange at 10Main. The developer recommended reducing these estimates by 15%. The resulting household income estimates, rounded to the nearest $25, are: $72,950 for the one-bedroom units; $86,325 for the two bedroom units; $92,550 for the two bedroom carriage units; $106,000 for the 3-bedroom units and $114,800 for the 3-bedroom carriage units. These estimates yielded percent of income spent on rent ranging from about 22.25% to 24.74% which was deemed reasonable and not overly cost-burdened.

It is also anticipated that the apartment developer may use some form of HUD financing and, in conjunction with this, would pledge that 20% of units be rented to households making no more than 80% of area median income (AMI). While this possibility is assumed for analysis purposes, **it is not a pledge or commitment by the applicant that such financing will be used or that any units will be reserved as "affordable."** Typically, apartment managers fill these "affordable" units with tenants whose household incomes are as close to the 80% level as possible. Assuming this to be the case, 20% of all units were assumed to have household incomes of $66,000—the current income at 80% of Hampton Roads AMI. While these tenants may tend to concentrate in 1-bedroom units, for analysis purposes they were assumed to be proportionally distributed across apartment types.

Factoring in the 80% AMI units, apartment dwellers at The Grange at 10Main were estimated to have an average household income of $81,125. The average household income for all Grange residents was estimated to be $88,725. All estimates are rounded to the nearest $25.

This compares to an estimated 2022 estimated countywide household income of $101,150 and average household income for the Town of $100,975. The countywide and town household incomes were estimated based on 2019 estimates from the ACS inflated by the percentage increase in median U.S. household income over the latest three-year period (2018-2021).

The spending estimates calculated from CES data for income levels of Grange households were then used to calculate local sales and meals taxes generated by the proposed development at businesses located in Isle of Wight County and in Smithfield, as well as the business license fees from revenue generated by this spending. Using a methodology similar to that used to estimate spending on vehicle purchases, average household spending for households with income levels equivalent to those predicted for Grange at 10Main households was estimated for food away from home, other retail, and service spending.

At this time, it appears likely that the General Assembly will not end the local option sales tax on groceries. Therefore, revenue from food at home sales is included in this fiscal impact analysis. A leakage analysis (see below) was conducted for grocery stores with food at home spending considered the proxy for grocery store leakage. Household items, cigarettes and alcoholic beverages are also taxed and are counted as producing local revenue in this fiscal impact analysis.

Adjustment was made for purchases made outside the County. The adjustment for purchases made outside the County was based on a calculation of the leakage of retail spending from the County. The methodology for conducting this leakage study is described above under "Adjustment of Business Income." For the calculation of additional revenues generated by households, the leakage study was broadened to include the categories noted above.

Overall, it was determined that 69.46% of household retail spending occurred within the Isle of Wight County. For grocery item spending, the retail leakage analysis indicated an influx of grocery spending into the County and, thus, 100% of grocery spending retained within the County. This could be the result of residents of outlying, more rural counties patronizing grocery outlets in Isle of Wight County.

However, Food Lions on Church Street and Eagle Harbor Shopping Center and Kroger at Smithfield Shopping Center are the only major grocery stores located in Isle of Wight County. While the daily shopping and the majority of weekly grocery shopping for Grange at 10Main residents can be expected to occur at Food Lion and Kroger due to their proximity to the proposed development, those wishing to shop at higher end grocers (Harris Teeter, Fresh Market, Trader Joe's and Whole Foods) or other grocers (especially Wal-Mart) or at a buying club (BJs, Costco, Sam's Club) will have to do so outside Isle of Wight County.

It was assumed that the average Grange at 10Main household could be expected to conduct at least 20% of their grocery shopping at relatively nearby competing grocery stores in Suffolk, Newport News or Hampton, and at buying clubs and specialty grocers outside of Isle of Wight County. Thus, the percentage of grocery spending by The Grange at 10Main households assumed to be retained within the County was estimated to be 80%. However, since Trader Joes and Whole Foods do not sell cigarettes, it was assumed that 85% of cigarette purchases by County residents occur within the County.

The percentage of food away from home spending (restaurants, fast food, concessions) retained within Isle of Wight County was estimated by the retail leakage analysis to be 98.49% by current County residents. Grange at 10Main residents are expected to continue this pattern. As noted above, food away from home spending by Grange residents includes their spending at the restaurants located at The Grange at 10Main. The estimated spending at Grange restaurants ($174,325) was deducted from estimated food away from home spending by Grange households prior to computing additional meals tax revenue to be received by the Localities due to this household spending.

Meals tax revenue generate by Grange households was distributed between the County and the Town using the same location analysis that was employed to calculate redirection of Grange restaurant revenue from the County to the Town; 35.7% of restaurant spending was assumed to occur in the County, outside the Town and 64.3% was assumed to occur within the Town. All of the 6.2% of food away from home expenditures at non-restaurant establishments was assumed to occur within the Town.

For most other retail categories, the County experiences significant retail leakage, as the closest department stores, category-killer stores and shopping malls are all located in Hampton, Newport News and Suffolk. Only 33.8% of other retail spending was estimated to occur within the County. Personal service spending (hair and nail salons, dry cleaners, etc.) and spending on other services was assumed to mirror food at home spending patterns, as these establishments tend to cluster around grocery stores. It was deemed unlikely that County residents would patronize these services while shopping in Newport News, however, particularly since the stores patronized there are not located in neighborhood shopping centers. Therefore,, 100% of service spending was assumed to remain within the County.

Based upon these estimates of retail spending retention, local sales and meals taxes and business license fees calculated from predicted retail spending by the proposed development's households were reduced by 20% for grocery and service spending, 1.41% for restaurant spending and 66.2% for all other retail spending—the amounts of estimated grocery, restaurant and other retail spending leakage out of the County.

Additional adjustments were then made for the distribution of the local option sales tax and meals tax revenues between the County and the towns. The local option sales tax remitted by the Commonwealth to the County is divided by between the County and the towns based upon the proportion of school children generated from each jurisdiction. The percentages retained by the County (84.53%) and the Town of Smithfield (11.87%) were derived from the Commissioner of the Revenue and applied to the estimated net new local option sales tax revenue expected to be generated by the proposed development.

However, meals taxes accrue to the Locality in which the establishments are located at which residents of the proposed development shop and the County only collects a business license fee on gross receipts when they exceed $1.5 million. Based upon average sales per establishment, as determined by the Weldon Cooper data, most retail stores have sales that do not meet this threshold. Therefore, conservatively, it was assumed that sales to stores in the County will not generate any business license fee revenue. While grocery stores would constitute an exception to this assumption, since their sales volume typically exceeds $1.5 million, all grocery shopping within the County is assume to occur at the two grocery stores located in Smithfield.

In order to determine the likelihood that The Grange at 10Main residents would shop in Smithfield rather than at establishments located in the County, a location analysis was performed. This involved a modified gradient model methodology which is described above under "Smithfield Market Revenues." In this case, the two categories to be summed are businesses located in the Town and businesses located in the County.

Gradient models were developed for food away from home and for other non-grocery retail spending. Since Food Lion is the only major grocery store outside of Smithfield in the County and The Grange at 10Main residents would have no reason to shop at the Food Lion in Eagle Harbor, and since a Smithfield Market, Holiday convenience store and ABC store are also located in Smithfield, 100% of grocery shopping by residents of the proposed development that occurs within the County was assumed to occur in Smithfield.

A Google search identified 33 restaurants in Smithfield, twelve of which were fast food or exclusive take-out (including ice cream shops, coffee shops and take-out bakeries). With respect to fast food establishments, Grange at 10Main residents can be expected to patronize the closest same-brand establishment exclusively. Therefore, all such fast food restaurants in Smithfield were given a score of 1. However, the two pizza take-out establishments split this score, each receiving a score of 0.5. A Google Map search identified five fast food establishments and nine other restaurants located in the County outside of Smithfield within a twenty-minute drive of the Site.

Location analyses were conducted separately for fast food and other restaurants Based upon the location analysis, it was estimated that 96.52% of fast food and 89.71% of other food-away-from-home spending by Grange at 10Main households would occur within the Town of Smithfield. Forty percent (40%) of dining by Grange at 10Main residents at restaurants located within the County was assumed to occur at fast food establishments, with 60% of dining occurring at sit-down restaurants.

Based upon Weldon Cooper data and an estimate that 15% of gas station convenience store sales would be for take-out food subject to the meals tax, it was estimated that 6.2% of food away from home expenditures would occur at gas station convenience stores and amusement establishments, with 93.8% of food away from home spending occurring at restaurants. Weighting the three percentages by frequency of dining, it was estimated that 92.9% of food away from home spending by Grange at 10Main residents would occur within the Town of Smithfield. Therefore, 92.9% of meals tax revenue generated by household spending from the proposed development was assumed to accrue to the Town with the remainder received by the County.

Cost Calculations

Costs per household were estimated separately for the County and the Town. Costs were divided into five categories: general government operating costs, general government capital costs, education operating costs, education capital costs, and enterprise fund costs. As the Isle of Wight Public Schools receive local funding from the County and not the Town, the Town bears no education costs. The cost of public participation in the proposed development, including any increased cost of operating the new Smithfield Market, is addressed separately.

Certain special funds in the County *Budget* are treated as belonging to the general fund, even though they are separate from the general fund for budgetary purposes. These include functions that are often included in the by many localities in the general fund and do not constitute separate enterprises.

These funds include:

- Children's Service Act (although not applicable to the proposed development)
- County Fair (a fixed cost)
- Emergency 911
- Grants Fund (self-sustaining)
- Risk Management
- Social Services (although not applicable to the proposed development) and
- Technology Service Fund (although a fixed cost)

General government operating costs and capital costs were calculated on either a per household or per business basis, or on a per capita basis and, then, converted to cost per household. Costs were calculated separately for the single-family detached and duplex units (heretofore, "the residential units") and the apartments. The proposed cottages were treated as a single business for cost calculation purposes, as they are expected to be managed together. Since cottage residents will be transient, they are not expected to generate any additional costs (beyond the cost of serving a business) for the Town or County.

Costs calculated on a per capita basis were converted to a per household measure by multiplying the per capita cost by 2.51 or 2.46 (the number of persons per household estimated for Grange at 10Main residential units and apartments, respectively, as estimated above under "Water and Sewer Revenues." Cost data and assumptions were derived from the *Budgets*.

Variable per household cost of public services other than education. As stated above, variable cost estimates for services provided by the Localities' general government were derived from their respective *Budgets*. Some public services are consumed by households only and some public services are consumed by households and businesses (i.e., recreational services would be assigned completely to households, since businesses do not directly consume these services). For those public services that serve businesses and households, the costs generated by businesses and the costs generated by households must be distinguished and only costs generated by households attributed to the proposed development.

Per household and per business variable operating costs were determined in the following manner. Business establishments and households were considered to be equal from the standpoint of generating public service costs, when both households and business establishments consumed those services A percentage of each service shared by households and businesses was allocated to households or businesses according to the formula below:

% allocated to households = # households / [#households + # businesses]
% allocated to business = # businesses / [#households + # businesses]

Per household costs were then determined according to the formula below:

Expenditure per household =
[Expenditure] x [% allocated to households] / # of households

Per business costs were determined according to the following formula:

Expenditure per business =
[Expenditure] x [% allocated to business] / # of businesses

Governmental functions that serve both households and businesses are shown below:

- adult criminal justice (5th District Court Services, Clerk of Court, Commonwealth Attorney, Sheriff, Western Tidewater Regional Jail and the Town's Police Department, since crimes are committed against (and by) businesses as well as persons
- Assessment (both business and residential property are assessed)
- Commissioner of the Revenue and the County and Town Treasurers (both businesses and households are taxed)
- Emergency E-911, Emergency Services and Fire & Rescue Response (responses to events occur at businesses and households)
- Public Utilities (both businesses and households are billed) and
- Budget & Finance, Human Resource, Risk Management and Unemployment Insurance (which support all County governmental functions).

Certain per household costs were then adjusted to take into account the differing household sizes at The Grange at 10Main compared to each Locality's overall average household size. The calculation of the estimated household size for Grange at 10Main households is discussed above under "Water and Sewer Revenues." To adjust Locality expenditures to estimate costs per Grange at 10Main household, the person per household estimate for households in the proposed development (2.51 for the residential units and 2.46 for the Grange apartments) was divided by the estimated 2022 person per household estimate for all County households (2.56) to calculate the adjustment factor (0.9807 for the residential units and 0.962 for Grange apartments) and by the 2022 person per household estimate for all Town households (2.57) to calculate the adjustment factor (0.9759 for the residential units and 0.9564 for Grange apartments).

The per household cost of governmental functions that serve persons, rather than households, was adjusted according to the following formula:

Expenditure per owner household = [Expenditure per household] x [persons per owner households] / [persons per all households]

Government functions that are sensitive to household size were

- criminal justice functions
- emergency services/EMS
- Emergency E-911 and
- recreation.

Certain contributions to regional organizations made by the County are based on a population formula. These contributions were calculated on a per-capita basis and then converted to a per-household cost using the Grange at 10Main persons-per-household estimate according to the formula shown below:

$$E_{HH} = E / P \times P_{G10M}$$

Where: E_{HH} = Expenditure per household
E = Regional organization contribution
P = County population and
P_{G10M} = The Grange at 10Main persons-per-owner or renter household

The County's 2022 population (39,174) was estimated by multiplying the 2020 Census population estimate by the rate of population increase from 2017 to 2019 (from the ACS). Regional organizations for which costs were calculated are shown below:

- Blackwater Regional Library Services
- Hampton Roads Military and Federal Facilities Alliance
- Hampton Roads Planning District Commission
- Hampton Roads Planning District Commission Sewer Programs (for the Town) and
- Senior Services of Virginia

The County also made contributions to certain regional criminal justice functions based on usage. Usage was assumed to be related to the number households, with the cost per household also adjusted for differences in household size.

The County performs a real estate re-assessment every four years which it contracts out. Thus, the annual cost of the re-assessment is equal to 25% of the total of this contract amount and other associated costs. Costs were taken from FY 2020, FY 2021 and FY 2022 as shown in the FY 2022 *Budget* with advertising, postage, office supplies and training costs that were determined to be excess over a normal year divided by four to annualize those costs. FY 2020 postage costs were inflated by the percentage increase in postal service charges (estimated based upon first-class stamp increases).

This annualized cost was allocated on a per parcel basis using the number of real estate parcels obtained from the Commissioner of the Revenue. The Assessor's Office also performs an initial assessment for new construction and real estate transfers. This assessment is also contracted at a cost of $30 per parcel.

An initial assessment is assumed to occur for each parcel when the Site is platted, as well as when each unit is sold or construction is completed. Ancillary postage and mailing costs were estimated to be $0.50 per parcel for the initial assessment. Staff costs associated with initial assessments are included in the Commissioner of the Revenue variable cost analysis, and the Commissioner's Office's workload from initial assessments is assumed to be absorbed without any increase in staff positions or overtime.

Cost per voter was deemed to be a more appropriate measure for calculating the Registrar variable cost. It was assumed that households would have a maximum of two voters. The number of eligible voters per household at The Grange at 10Main was calculated from ACS data on the number of persons in owner-occupied households and the number of adults calculated per apartment unit (calculated when the apartment household size was calculated). To obtain the estimate for the residential units households, the number of one-person owner households was added to the number of all other owner households times two to obtain a preliminary estimate of the number of adults in owner-occupied households. This was then adjusted by subtracting the number of single-parent households (in which there is only one voter, not two). The estimated number of adults living in owner households was then divided by the total number of households to obtain an estimate of 1.688 eligible voters-per-household. The number of eligible voters (adults) in Grange apartment households had been estimated at 1.72 voters per household. The Registrar variable cost was then divided by the number of voters in the County (obtained from the *Budget*) and multiplied by the number of voters per household for each residential type.

Government functions for which the proposed development's population would generate no significant demands were then excluded. These are shown on the following page.

- Social Services/Social Services-Children's Services Act (household income levels of residents of the proposed development make it extremely unlikely that these households will ever demand social services from the County)
- Virginia Cooperative Extension Service (serves the rural areas of the County)
- Western Tidewater Community Services Board (primarily serves the Medicaid-eligible population) and
- Western Tidewater Health District (primarily serves lower income population).

Government functions that would be performed regardless of population size were excluded. These included the functions listed on the following page and are items in the County *Budget* unless otherwise indicated.

- the chief executive and legislative functions of the County and the Town
- administrative divisions of various departments
- Capital Projects
- Communications (which is a 1-person office in the County)
- Community Development & Planning (Town)
- Contributions of the Town to the County for Parks, Recreation and Culture
- Cooperative Extension Service
- County Attorney
- County Fair Fund
- Debt Service
- Economic Development
- Smithfield Market
- Grants Fund
- Inspections
- Local Organizational Support (except as noted)
- Non-departmental (except unemployment contributions)
- Operating Capital Reserve (Town)
- Parks and Recreation – Gateways and Grounds, Windsor Castle Park and the Town's other parks expenditures
- Planning and Zoning
- Public Buildings (Town)
- Public Works – Buildings and Grounds, Capital Programs and Inspections, and Transportation, and all Public Works except trash collection for the Town
- Road Maintenance (which is provided by VDOT or with VDOT funds)
- Stormwater Management Fund (per County staff instruction)
- Support by the Town of various venues including the Luter Sports Complex, the Museum, and the Smithfield Center
- Technology Services Fund
- Tourism

Note that estimated costs associated with the Smithfield Market (e.g., Public Works Buildings and Grounds) are discussed separately.

All road maintenance is funded by VDOT, whether or not performed by the Town. Roads in the proposed development are expected to meet VDOT standards and will also be maintained with VDOT funds. Therefore, the new roads will have no fiscal impact on the Town.

Costs for those departments providing development services to the proposed development were counted as fixed costs. It is reasonable to expect that existing staff of the County's Planning & Zoning and Inspections Departments and the Town's Community Development & Planning Department would handle the workload created by the development of the proposed development. The costs of these functions were, thus, counted as fixed costs and not included as a public service cost attributable to the proposed development.

Additionally, per instructions from the County's Planning & Zoning Department, Refuse Collection/Disposal costs and revenues were not included in the fiscal impact analysis, since this service is not directly provided by the County. However, this service is provided by the Town and variable costs associated with Trash Collection and Recycling were included as costs in the fiscal impact analysis.

For functions which are a one-person office that is not likely to be expanded due to population growth but which have other variable costs, such as office supplies, personnel costs were excluded from the variable cost calculation.

These functions included:

- Circuit Court
- General District Court
- Juvenile and Domestic Relations Court and
- Magistrate

Certain administrative support functions can be viewed as fixed costs (since they must be provided) but have a variable cost component (since they serve County functions that incur variable costs due to population growth). A percentage of the variable costs of these functions were thus counted in the cost calculations. This percentage was calculated to be 44.5% of budgeted cost of these functions for households and 40.26% for businesses. For line-of-duty insurance under Risk Management, the percentage allocated to variable cost personnel was 80.26%. These metrics were obtained by dividing total variable cost salaries for departments serving the appropriate unit into the amount of total salaries in the County's operating budget. For calculation of the line-of-duty percentage, the amount of variable cost salaries was divided by the total amount of salaries for the Sheriff and Fire & Rescue Response departments.

Functions to which this percentage was applied included:

- Budget & Finance
- Human Resources
- Risk Management – workers' compensation; line of duty insurance and
- Non-departmental – unemployment payments.

Various adjustments were made to expenditure line items to arrive at the Localities' variable costs of providing public services. Generally, positions that must be provided for a department to function and that will not expand due to population growth ("fixed cost positions") were excluded from the cost analysis. Salaries for fixed cost positions were identified in the *Isle of Wight County, Virginia Position Classification and Compensation Plan, 2020-2021 Fiscal Year* and the *Town of Smithfield Compensation Plan, Effective March 2020*, both the latest available. The mid-point of the range was used to estimate salaries. The salaries for County Constitutional Officers was provided by the County's Human Resources Department.

Fixed cost positions included directors and assistant directors, or equivalent position(s). For the County's E-911, the Sheriff Captain position was deemed to be equivalent to the director of this division. In the Sheriff's office, the Major was deemed to be equivalent to an assistant director and the Captain was assumed to hold an administrative/supervisory position. In Fire & Rescue Response, the Fire & EMS Captains were deemed to be equivalent to assistant directors. Also, the four Sheriff deputies assigned to court security are also required regardless of population change and were considered to be fixed cost positions. The Fire Chief's position was contained in Emergency Services. In the Town's Police Department, the two lieutenants were viewed as equivalent to division managers for patrol and investigation activities but the Sergeants in those divisions were viewed as higher ranking line officers and not counted as fixed cost positions.

Fixed cost positions also included certain specialized, single-person positions for which a second person is not expected to be added in the foreseeable future.

These specialized positions included:

- Medical Billing/HIPPA Supervisor (Emergency Services)
- Human Resources Coordinator
- IT Support Specialist II (Emergency Communication Center)
- Kennel Assistant (Animal Control)
- Office Manager or equivalent position,
- Purchasing Agent and
- Recreation Manager.

Furthermore, only the accountants and technicians positions in Budget and Financing and only part-time employment of the Electoral Board were counted as variable cost positions in those departments. Salaries for the Budget and Finance positions were also identified using the *Position Classification and Compensation Plan.*

Fringe benefits and other costs associated with personnel are shown for all personnel within a budget function and must be disaggregated for fixed cost personnel and subtracted from costs, as well. These costs included:

- deferred compensation (County only)
- disability benefit (Town only)
- FICA
- group life (County only)
- health or hospital/medical plans
- travel and training
- uniforms and wearing apparel and
- VSRS retirement.

For the Sheriff, this also included fleet expenses and for the Town Police Department this also included vehicle maintenance, gas and tires; line of duty insurance, other insurance (assumed to be primarily vehicle insurance), and equipment.

Fringe benefit and other costs associated with fixed cost positions were removed proportionally according to the formula shown below:

$$FB_{FC} = FB \times (S_{FC} / S)$$

Where: FB_{FC} = fringe benefit and other personnel associated costs assigned to fixed cost positions

FB = all fringe benefits and other personnel associated costs

S_{FC} = salaries of fixed cost positions

S = all full-time salaries (of the department or division)

In applying this formula, a distinction was made between FICA, which is paid on all salaries and wages, and other fringe benefit categories, which generally are applicable only to full-time employees. Thus, for the FICA calculation, part-time salaries and overtime were added to full-time salaries for S.

Various other types of line item costs were also excluded as fixed costs to the Localities. These included items shown below:

- advertising (except Electoral Board, Human Resources, Real Estate Assessment and Treasurer)
- books and subscriptions (except Commissioner of the Revenue)
- building and grounds maintenance
- capital costs
- computer and technology expenses
- copier costs
- dues and associated memberships
- equipment
- insurance
- leases
- professional services (except Assessor, Juvenile Accountability, Fifth District Court Services)
- repair and maintenance (except Commissioner of the Revenue maintenance contract)
- telecommunications/telephone (except E-911 Operations)
- tolls and parking and
- utilities.

Certain other costs specific to various functions were also excluded as fixed costs. These included:

- Four for Life program (fully funded by a grant) – Fire and Rescue Response and
- RMS licenses and Special Investigative Task Force – Sheriff

However, households may bring recycling and large items to the County's collection center and, therefore, a cost to the County would be generated.

The variable costs for Public Utilities were calculated for the Town only since the Town's water and sewer systems are independent from the County. Public Utility costs for the Town are largely fixed. These involve capital expenditures or debt service on prior expenditures, administrative staff, and operational staff for the Reverse Osmosis Plant. Certain other expenses, such as water tower repair, were deemed not to increase with additional water customers. Billing for the Town is performed by HRSD. The cost of chemicals and supplies makes up the variable cost of water treatment. The Town obtains its water from a well system and, therefore, bears no water purchase cost.

Since water fund staff is primarily assigned to the water treatment plant and administrative duties, both water and sewer line maintenance was assumed to be performed by sewer line staff. It was assumed that the addition of water and sewer lines in the proposed development could lead to a maintenance staff expansion. Salaries of the Public Works maintenance supervisor and assistant maintenance supervisor were subtracted from sewer fund salaries as fixed cost positions. To remaining personnel costs were added the costs of repair & maintenance and materials & supplies from both the water and sewer funds.

This variable cost was divided by the length of water and sewer lines maintained by the Town to calculate the variable line maintenance cost per linear foot. Water and sewer line lengths were supplied by the Town Public Works Superintendent. Water and sewer lines were assumed to potentially result in maintenance costs after these lines were accepted by the Town, which was assumed to occur at the end of the development period for the residential units. However, maintenance of the water line extended to the Site was assumed to potentially begin the year after infrastructure was constructed. Since this upgrade was already planned by the Town, maintenance associated with that line was not counted as a fiscal impact of the proposed development.

The variable cost of water treatment was divided by the number of gallons consumed annually to compute the variable water treatment cost per gallon. Average daily water consumption was supplied by the Public Works Superintendent.

The cost of installing water meters is a one-time cost potentially born by the Town which was included as a variable cost. This was estimated through on-line pricing for materials. It was assumed that labor is a fixed cost since water meter installation is episodic and Public Utilities crews would not be expanded to handle the water meter installation at the proposed development. Prices were estimated at \$140 for a 5/8" water meter and \$275 for a 1" water meter.

Fire & Rescue Response and Parks and Recreation each perform functions that can be deemed to generate fixed costs. Costs associated with fire protection and prevention are not affected by incremental changes in population or households. Fire protection is, for the most part, a function of latent demand which is distributed over geographic areas determined by response times. The department's EMS function, on the other hand, is sensitive to incremental changes in population and is deemed to generate variable costs.

These fixed and variable cost functions are not differentiated within the County's *Budget* for Fire & Rescue Response. In the absence of such data, 50% of the otherwise variable costs for each department were deemed to support fixed cost functions and excluded from the variable cost calculation. The Town makes a contribution to support fire protection services and it was assumed that this contribution is related to a population share formula. Therefore, it was included as a variable cost.

For Parks and Recreation, the parks function is deemed to generate fixed costs since the costs of park supervision and maintenance will remain the same regardless of the size of the population served. Therefore, Administration and the Parks, Gateways and Ground Maintenance components of the County's Parks and Recreation costs were deemed to be fixed costs and were excluded from the analysis. The demand for recreational services, however, is generally sensitive to changes in population and generates variable costs.

Since the Town's Police Department handles patrol and incident response within the Town limits, costs associated with these functions were subtracted from the Sheriff's variable costs. As these costs are not separately identified by line item in the *Budget,* they were estimated by attributing Sheriff deputy time to those functions as a percentage of all Sheriff deputy hours. Since specific metrics on time spent are unavailable, the Performance Measures Statistics contained in the *Budget* were used as a proxy. Specifically, calls for service, incident reports, mental health related transports, and crimes were assumed to be associated with patrol activities. Traffic incidents were assumed to involve Smithfield residents equally as County residents (though occurring outside Town limits). Civil processes, warrants, and gun permits were assumed to be served on or issued to County and Town residents alike. Likewise, all school checks were assumed to be performed by Sheriff deputies rather than police officers whether the school was in the Town or the County. Pre-pandemic 2019 traffic and school check metrics were used rather than the 2020 data.

Recognizing the possibility that Town residents may commit crimes in the County, a percentage (Town population as a percentage of total County population) of crime incidents were attributed to incidents involving Smithfield residents. Those incidents were subtracted from the "patrol exclusion" (i.e., added back to the County Sheriff workload). No attempt was made to determine the time spent on various activities and so the metrics reported were used on their face value. About 66% (65.83%) of Sheriff activities were estimated to be associated with patrol or incident response duties (which would be handled by the Town). Therefore, Sheriff's variable costs otherwise attributable to the proposed development were reduced by this percentage.

Finally, revenues received by the County from the Commonwealth were deducted to leave only the County's operating costs. This was applied to the line items shown below:

- Clerk of Circuit Court
- Commissioner of the Revenue
- Commonwealth Attorney
- E-911 Operations
- General Registrar
- Sheriff and
- Treasurer.

There were no program revenues or revenues from the Commonwealth that reduced Town costs that were not assumed to vary with the number of households served and were, thus, counted as direct revenues.

With respect to E-911 Operations, various non-local revenue sources are used to fund E-911 costs. These include 40% of the remittance of communications sales tax to the County and the Towns of Smithfield and Windsor, payments from the Towns of Smithfield and Windsor, and other grants and contributions from the Commonwealth. These totaled $1.183,841 in the FY 2022 *Budget*. These revenues were also deducted from costs to leave only local support.

When revenues were deducted from costs, the reduction in cost was distributed between fixed and variable costs. Only that portion of revenues defraying costs assigned to variable costs was actually deducted from costs. The formula for distributing revenues and calculating costs is displayed below:

$$NVC = VC - (R*(VC/TC))$$

Where NVC = Net Variable Costs (variable costs after revenue is deducted)
VC = Variable Costs (prior to revenue deduction)
R = Reimbursement Revenue
TC = Total Cost (variable and fixed costs)

Portions of the reimbursement from the Commonwealth for shared cost positions are earmarked for the support of constitutional officers, which are fixed cost positions. The salaries of these positions were subtracted from the amount of reimbursement available to fund variable costs. The amount of Constitutional Officer salaries reimbursed by the Commonwealth, as well as the amount of fringe benefits for these positions that were reimbursed by the Commonwealth, was obtained for FY 2022 from the Commonwealth of Virginia Compensation Board website. The salaries and fringe benefits of other fixed costs positions (e.g. a deputy constitutional officer) were also subtracted from R in the above formula. TC was set to equal total costs less the reimbursed salaries and fringe benefits of the constitutional officer and other fixed cost positions (which were also subtracted from R).

Table A-6A on the following pages details the County's variable cost expenditures for households and businesses. The Town's variable cost expenditures are shown in Table A-6B on page A-62. Table A-7A on page A-63 details the County's variable cost expenditures for government functions calculated on other than a per-household basis. These are shown for the Town in Table A7-B on page A-63. Total variable costs are shown for each department or function and any adjustments are made to the cost per household, with those adjustments shown in the Notes column. Expenditures are shown per owner-occupied household, apartment household, and business.

Table A-6A
Isle of Wight County Non-School Expenditures per Household and Business
FY 2021-2022 Adopted Operating and Capital Budget

Item	Expenditure	Expenditure per Owner Household	Expenditure per Apartment Household	Expenditure per Business	Notes
Animal Control	$ 468,475	$ 30.61	$ 30.61	$ 0.00	
Budget & Finance	$ 1 92,325	$ 5.29	$ 5.29	$ 4.79	44.5%/40.26% household/business variable cost
Circuit Court	$ 1,000	$ 0.06	$ 0.06	$ 0.06	Adjusted for household size; no personnel costs
Clerk of Circuit Court	$ 188,900	$ 11.46	$ 11.24	$ 11.68	Excludes costs paid by Commonwealth; adjusted for household size
Commissioner of the Revenue	$ 453,075	$ 28.03	$ 28.03	$ 28.03	Excludes costs paid by Commonwealth.
Commonwealth Attorney	$ 383,325	$ 23.25	$ 22.81	$ 23.71	Excludes costs paid by Commonwealth; adjusted for household size
E-911	$ 5 69,775	$ 34.56	$ 33.90	$ 35.24	Excludes costs paid by Communications Sales Tax, grants and towns; adjusted for household size
Emergency Management &Billing	$ 63,625	$ 3.86	$ 3.79	$ 3.94	EMS Billing
Fifth District Court Services	$ 199,500	$ 12.78	$ 12.54	$ 0.00	Adjusted for household size
Fire & Rescue Response	$ 1,699,350	$103.08	$101.12	$105.11	50% of costs (EMS); excludes costs paid by Four for Life; adjusted for household size
General District Court	$ 3,250	$ 0.20	$ 0.19	$ 0.20	Adjusted for household size; no personnel costs
Hampton Roads Military and Federal Facility Alliance	$ 18,825	$ 1.21	$ 1.18	$ 0.00	Adjusted for household size
Hampton Roads Planning District Commission	$ 38,000	$ 2.43	$ 2.39	$ 0.00	Adjusted for household size
Human Resources	$ 2 31,675	$ 6.38	$ 6.38	$ 5.77	44.5%/40.26% household/business variable cost
Juvenile Accountability Program	$ 2,500	$ 0.16	$ 0.16	$ 0.00	Adjusted for household size; no personnel costs
Juvenile & Domestic Relations Court	$ 2,625	$ 0.17	$ 0.16	$ 0.00	Adjusted for household size; no personnel costs
Library (Blackwater Regional)	$ 854,500	$ 54.75	$ 53.71	$ 0.00	Adjusted for household size
Parks & Recreation Programs	$ 545,525	$ 34.95	$ 34.29	$ 0.00	Adjusted for household size
Purchasing	$ 70,050	$ 1.93	$ 1.93	$ 1.75	44.5%/40.26% household/business variable cost

Table A-6A (continued)
Isle of Wight County Non-School Expenditures per Household and Business
FY 2021-2022 Adopted Operating and Capital Budget

Item	Expenditure	Expenditure per Owner Household	Expenditure per Apartment Household	Expenditure per Business	Notes
Risk Management-					
Health &Wellness Claims	$ 8,450	$ 0.23	$ 0.23	$ 0.21	44.5%/40.26% household/business variable cost; line of duty = 80.26% variable costs
Line of Duty Insurance	$ 90,650	$ 4.50	$ 4.50	$ 4.50	
Unemployment Payments	$ 20,000	$ 0.55	$ 0.55	$ 0.50	
Workers Compensation	$ 269,000	$ 7.41	$ 7.41	$ 6.70	
Senior Services of Virginia	$ 182,100	$ 11.67	$ 11.44	$ 0.00	
Sheriff	$ 3,370,150	$ 69.85	$ 68.52	$ 71.23	Excludes police patrol function. Excludes fees received and costs paid by Commonwealth; adjusted for household size
Treasurer	$ 423,075	$ 26.17	$ 26.17	$ 26.17	Excludes costs paid by Commonwealth, Administrative Fees
Western Tidewater Community Corrections	$ 18,625	$ 1.19	$ 1.17	$ 0.00	Adjusted for household size
Western Tidewater Regional Jail	$ 1,293,325	$ 82.87	$ 81.29	$ 0.00	Adjusted for household size
	$11,661,675	$559.60	$550.06	$329.59	

Rounded to the nearest $25

Table A-6B
Town of Smithfield Non-School Expenditures per Household and Business
FY 2021-2022 Adopted Operating and Capital Budget

Item	Expenditure*	Expenditure per Owner Household	Expenditure per Apartment Household	Expenditure per Business	Notes
E-911 Dispatch Center Contribution	$ 350,600	$ 95.47	$ 93.57	$ 97.83	Adjusted for household size
Fire Department	$ 15,000	$ 4.08	$ 4.08	$ 4.08	Contribution
HRPDC Sewer Programs	$ 750	$ 0.21	$ 0.21	$ 0.00	Adjusted for household size
Parks & Recreation	$ 145,250	$ 41.73	$ 40.90	$ 0.00	Adjusted for household size
Police Department	$1,544,675	$420.64	$412.23	$431.03	Adjusted for household size
Trash Collection & Recycling	$ 37,825	$ 2.46	$ 0.00	$ 0.00	Adjusted for household size
Treasurer	$ 342,700	$ 95.63	$ 95.63	$ 95.63	
Total	**$2,436,800**	**$660.22**	**$646.62**	**$628.57**	

Rounded to the nearest $25

Table A-7A Isle of Wight County Non-School Expenditures per Unit other than Household FY 2021-2022 Adopted Operating and Capital Budget			
Item	Expenditure	Expenditure per Unit	Unit of Measure/Notes
Assessment (Quadrennial assessment)	$36,900	$ 1.75	Per parcel / 25% of quadrennial professional services purchase
Assessment (One-time costs)	N/A	$30.00	Per housing unit (new construction)
Refuse Disposal	$1,392,600	$73.29	Per ton
Registrar	$ 124,250	$ 7.89	Per registered voter. Excludes General Registrar costs paid by Commonwealth.

Table A-7B Town of Smithfield Non-School Expenditures per Unit other than Household FY 2021-2022 Adopted Operating and Capital Budget			
Item	Expenditure	Expenditure per Unit	Unit of Measure/Notes
Sewer Treatment	$ 353,150	$1.209	Per 1,000 gallons
Water Treatment	$ 105,000	$0.36	Per 1,000 gallons
Water & Sewer Line Maintenance	$490,000	$0.77	Per linear foot

Capital costs. The proposed development is not expected to cause the Town to change its administrative structure or to create new departments. Thus, no expansion of general government public buildings or creation of new fixed positions is anticipated to occur. The Town has significant park resources which are supplemented by those of the County and no expansion of the park system in either the Town or the County would be caused by the proposed development.

Water and sewer lines will be extended by the developer and future maintenance costs associated with this new infrastructure has been accounted for under operating costs. The Town's water treatment facility is rated at 1.5 million gallons per day with a current average usage of 800,000 gallons per day, leaving a reserve capacity of 700,000 gallons per day. At an estimated usage of 185.74 gallons per day consumed by single-family households and an estimated 182.04 gallons per day consumed by apartment households, The Grange at 10Main should increase water usage by about 54,550 gallons per day. Commercial uses, including the cottages for rent, add another 24,900 gallons per day. This is well within the Town's water capacity even if average daily water usage would increase beyond the estimated amount.

Subtracting patrol officers engaged in supervisory activities, the Town currently employs 20 police patrol officers. Thus, each patrol officer serves 170 households. An increase of 298 households (factoring a 5% vacancy rate for the apartments) would create the need for two additional patrol officers. Since two police officers would have the capacity to cover 340 households, it was assumed that those additional officers would also provide patrol coverage for the commercial component of The Grange at10Main. This would especially be likely given the compact nature of the commercial development and the apartments, which account for most of the additional households. Each patrol officer would require the purchase of a patrol vehicle plus one-time costs for training and equipment. Based upon the estimated cost of purchasing 5 police vehicles in the Town's *Budget*, the cost of a patrol vehicle was estimated at $35,000 to be replaced every five years. The cost of training and equipment was estimated to be $21,500 based upon an estimate of training costs provided previously by a Hampton Roads locality. The additional annual cost of adding patrol officers is accounted for in the Town's operating expense estimate. Both patrol officers are assumed to be hired in FY 2026.

It is acknowledged that the proposed development may potentially create a need for capital purchases to support fire and rescue operations, including EMS. The costs of expendable supplies and materials, as well as transportation operating costs, are included in the fiscal impact analysis for general government expenditures. Potential capital costs could include vehicle purchases and an expansion of the fire station serving Smithfield.

There are numerous variables that will affect whether such capital expenditures are necessary. These variables include unused capacity at the existing fire station, the effect of additional fire and rescue calls on response times, and the ability of other fire stations (Isle of Wight, Carrollton and Rushmere) to provide back-up support for the Smithfield fire station. Furthermore, the approved development at Mallory Pointe and Scott Farm, which is significantly larger than the proposed development, may cause the Town to purchase additional fire and rescue equipment.

At this point, whether or not any capital expenditures will be required due to the proposed development is unknown. For these reasons, no estimate of fire and rescue capital cost has been made for this fiscal impact analysis. However, it should be noted that the fiscal surplus projected for The Grange at 10Main should be sufficient to finance any such unknown capital expenditures.

Education costs are born by the County through its contribution to the Isle of Wight County Public School System. These were estimated separately from other public service costs of local government. Education costs were calculated on a per pupil basis. The Isle of Wight County public school population for the 2021-22 school year (5,619 students) was obtained from the Virginia Department of Education, website, Fall Membership Data page. This was only 11 students fewer than the Fall 2019 enrollment, indicating that enrollment has substantially recovered from the effects of the COVID-19 pandemic. As stated above, cost data and assumptions for school operating costs were derived from the *Isle of Wight County Schools School Operating Budget Fiscal Year 2022.*

The *Budget* for FY 2022 provides considerably less detail than school budgets prior to 2018 and, therefore, certain assumptions were made about the distribution of variable and fixed costs within the *Budget.* These are noted below. Certain intelligence concerning the *Budget* (e.g., the characterization of functions as provided in each school or systemwide) were derived from previous school budgets.

Costs for functions that must be provided and are not affected by relatively small changes in student population were excluded. This includes operations for which one office is present in each school (media, nurse's office, principal's office). However, functions that are provided systemwide or with a staff member responsible for multiple schools were included in the calculation of variable costs, as changes in student population could affect the FTEs allocated to that function.

The following functions were excluded as fixed costs:

- Administration, Attendance, Health, except Financial Services and Human Resources and medical supplies
- Instructional Administration, including Principals Office
- Media centers, except media supplies
- Operations and Maintenance, except a portion of Building Maintenance and
- Technology

For the financial service and human resources divisions within the Administrative, Attendance, Health category, FY 2017 clerical salaries within these divisions were adjusted based upon the FY 2017 to FY 2022 percent change in clerical salaries for the broader category. A similar approach was used regarding office supplies. Line item costs for advertising, mentoring supplies and one-half of printing in the broader category in the *Budget* were assigned to human resources and the other half of printing cost was assigned to financial services. For nursing services, the FY 2017 to FY 2022 percent change in materials and supplies was applied to the FY 2017 medical supplies cost to estimate that line item.

As in the County *Budget*, financial service and human resources variable costs were apportioned between the school system's fixed and variable costs, with only the costs from these two divisions serving variable cost functions counted as generating fiscal impact. This percentage (84.3%) was calculated by dividing the total calculated school variable cost by the total school operating fund cost.

Instructional administrative salaries and fringe benefits were identified through line items in the Instructional Services cost center of the *Budget.* Librarian salaries and fringe benefits were identified as fixed media center costs. The calculation of Operations and Maintenance cost center variable costs is explained below. No instructional positions were included in the Technology cost center and all costs were assumed to be fixed costs supporting systemwide technology platforms.

Child Nutritional Services and Categorical Grants Fund costs were not included in the fiscal impact analysis because no County general funds are used to support these operations. Similarly, costs for the School Health Insurance Fund are funded from other sources and or by transfers that are counted as costs in the School's operating budget.

Additionally, administrative costs and other fixed costs within variable cost operating categories were excluded from the calculation of variable costs. Typically, these included those items shown below:

- Capital costs
- Dues and memberships
- Equipment, new and repairs
- Insurance
- Leases and rentals
- Office supplies
- Postage
- Purchased services
- Software
- Staff development
- Telephone
- Travel (staff)

For Building Maintenance, certain assumptions were made concerning fixed and variable costs. It was assumed that 25% of custodial supplies is variable depending on student density (more trash, etc.), while 75% of janitorial work occurs regardless of student population and is, thus, a fixed cost. Without budget detail, it was assumed that custodial services were included within contracts and the FY 2017 cost of custodial services was multiplied by the FY 2017 to FY 2022 change in contract spending to estimate the FY 2022 custodial cost. It was also assumed that 25% of water and sewer usage was for cleaning and that 75% was for domestic use and, thus, variable with student and staff population.

These variable costs were then distributed between local funding and other funding sources. Since the *Schools Budget* did not disaggregate federal and state funding into general and categorical funding sources (except functions funded by categorical grants, which were not included in the School's general operating fund), it was assumed that all state and federal General Fund *Budget* revenue was available to fund any school general fund *Budget* function. Thus, a calculation of the local share of education variable costs was a straightforward division of the County's contribution to the Isle of Wight Schools General Fund (excluding support for debt service) into the total General Fund *Budget*. Table A-8, on the following page, shows the data for these calculations.

Table A-8 Funding Sources for Variable Costs Isle of Wight County School Budget	
Source of Funding	Total Funds
Local (Isle of Wight County)	$26,482,050
Commonwealth	$35,725,375
Federal	$ 245,000
Other (Fees, etc.)	$ 676,000
Totals	$63,128,425
Percent Local	41.95%

Source: *Isle of Wight County School Operating Budget Fiscal Year 2022*
Does not include Child Nutrition Services or other special fund revenue

Variable costs were then multiplied by the local share percentage to obtain the local share of variable costs. An exception to this method for computing local share costs occurs with respect to textbooks. The local contribution to textbooks, contained in a separate fund, was identified and counted without adjustment.

Per-student education costs are then computed by dividing the local share of variable costs by the number of students. This is detailed in Table A-6 below. Thus, as seen in Table A-9, below, although gross spending per student is calculated at $11,234.82, variable costs funded by the County account for only $3,462.12 of this per-pupil cost.

Table A-9
Isle of Wight County Variable Cost of Operations per Student, SY 2021-2022

Item	Variable Costs	Cost per Student	County Cost per Student
Instructional Services	$41,818,400	$7,442.32	$3,122.02
Financial Services (84.3%)	$ 323,275	$ 57.53	$ 24.13
Human Resources (84.3%)	$ 211,875	$ 37.71	$ 15.82
Nursing Services	$ 72,050	$ 12.82	$ 5.38
Operations and Maintenance	$ 649,475	$ 115.59	$ 48.49
Psychological Services	$ 244,800	$ 43.57	$ 18.28
Textbooks*	$ 229,550	$ 40.85	$ 40.85
Transportation	$ 2,506,775	$ 446.12	$ 187.15
Total	$46,056,200	$8,196.51	$3,462.12
Non -Variable Costs**	$17,072,250		
Grand Total**	$63,128,450		

Source: *Isle of Wight County Schools FY 2020 Approved Budget*
*Local share calculated directly from *School Budget*
**All Funds, except School Health Insurance Fund

Education expenditures were assigned to the proposed development by estimating the number of students to be generated by the project and multiplying this by the per-student cost of education. Student generation rates used for Isle of Wight County were taken from the *Isle of Wight County Schools Student Yield and Subdivision Analysis, April 2018* prepared by Cooperative Strategies. This study identified student generation rates for various grade level combinations for single-family, townhome, mobile home and apartment households. The duplexes were considered to be single-family dwellings.

The *Study* breaks the elementary school category into pre-K through grade 3 and grades 4-6, and also pre-K through grade 5. Since Hardy Elementary School is grades pre-K through 4, one-third of the student generation for grades 4-6 was added to the computation of the student generation rate for Hardy Elementary School, producing a generation rate of 0.131 students per single-family household and 0.186 students per apartment household. The assumption of equal generation by grade was found to be consistent with the pre-K to grade 5 student generation metric. A similar adjustment was made for calculating student generation for Westside Elementary School, which is grades 4-6. Since fourth graders from The Grange at 10Main will attend Hardy Elementary School and not Westside, fourth grade student generation was subtracted from the calculation of students who would attend Westside Elementary. This resulted in student generation rates of 0.053 students per single-family household and 0.06 students per apartment household.

Based upon these metrics, a total of 114 students were assumed to be added to the Isle of Wight Public Schools due to the construction of the proposed development, with 51 students added to Hardy Elementary School, 17 students added to Westside Elementary School, 13 students added to Smithfield Middle School and 33 students added to Smithfield High School.

Education capital cost calculations were performed first under the rules governing the calculation of “reasonable proffers” under Virginia law governing the offer and acceptance of cash proffers and then by taking into account additional students to be generated by residential developments that are currently under construction or newly approved for development (collectively, “pipeline developments.” Calculations were based upon the number of students to be added to each of the County’s schools to which students are generated by the proposed development.

Student enrollment data was derived from the Virginia Department of Education *Fall Membership Data* for SY 2022 (the latest available at the time that fiscal impact calculations were originally prepared). School capacity data was derived from the *Revised Isle of Wight County Schools Capacity Information (February 2019),* located on the Isle of Wight County Schools website. For the calculation of remaining facility capacity for the determination of reasonableness of cash proffers, the student generation metrics for elementary schools are based on their current configuration, since state law mandates that only current conditions can be taken into consideration for the purposes of determining the reasonableness of cash proffers.

Table A-10, below, shows school capacities, current enrollment, enrollment after the proposed development is built out using the student increase, and remaining school capacity after the addition of students resulting from the proposed rezoning. Students are distributed according to current school configurations.

Table A-10
Available School Capacities Before and After The Grange at 10Main

School	Instructional Capacity	Current Enrollment	Enrollment after The Grange at 10Main	Capacity after The Grange at 10Main
Hardy Elementary	657	529	580	77
Westside Elementary	849	724	741	108
Smithfield M.S.	634	624	637	-3
Smithfield H.S.	1,588	1,338	1,371	217

Sources: *Isle of Wight County Schools Student Yield and Subdivision Analysis, April 2018;* Virginia Department of Education

Students generated from The Grange at 10Main would create conditions that would allow the offer of reasonable proffers by the applicant only with respect to Smithfield Middle School. However, the creation of a facility impact is only one test to determine the reasonableness of cash proffers. The second is that any proffer must be used to remedy the facility deficit created by the proposed development.

The latest Isle of Wight County Schools *Approved Capital Improvements Plan, FY 2023-2032 (School CIP).* contains no plans for the construction of a new middle school. It is assumed that student generation from pipeline development has been considered in this decision. It is highly improbable that this decision would change based upon the addition of only three students attending Smithfield Middle School. Thus, the second condition necessary for proffers to be considered "reasonable" under Virginia law would not be met. Therefore, no cash proffers have been assumed as revenue in this fiscal impact analysis.

In contrast to the proffer analysis conducted above, an analysis of any education capital fiscal impact includes those students generated by pipeline development, as well as future capacity that is likely to be in place to accommodate student generation. Furthermore, a fiscal impact is only determined to exist if it is likely that the County would actually incur a capital cost due to the proposed development. If a capital costs would be incurred whether or not the proposed development is built, it does not constitute a capital fiscal impact.

Pipeline development was determined from the table, *Residential Pipeline Projects as of 03/29/2022*, modified through consultation with the County's Planning Department and with units already constructed estimated by the Consultant using Google Maps and other online resources. Pipeline developments identified as zoned for the relevant County schools were: Archer's Meade, Brewer's Station, The Crossings Condos, Cypress Creek, Mallory Pointe & Scott Farm, and Lippe and Pitt. Only Cypress Creek and Mallory Pointe & Scott Farm would generate students attending Hardy Elementary School.

If future enrollment is considered to impact capacity, then future changes in school instructional capacity also need to be considered. The County Public Schools is currently constructing a new Hardy Elementary School with an 800 student capacity. Table A-11 below, shows remaining school capacities after The Grange at 10Main is developed and after students from pipeline development are taken into consideration.

Table A-11
Available School Capacities Before and After
The Grange at 10Main and Future Development

School	Instructional Capacity	Current Enrollment	Future Development Enrollment	The Grange at 10Main Enrollment	Capacity After The Grange at 10Main
Hardy Elementary	885	629	121	51	84
Westside Elementary	849	724	113	17	-5
Smithfield M.S.	634	624	37	13	-40
Smithfield H.S.	1,588	1,338	161	33	56

Sources: *Isle of Wight County Schools Student Yield and Subdivision Analysis, April 2018;* Virginia Department of Education; *Residential Pipeline Projects as of 03/29/2022; Is*le of Wight County Planning Department

While Westside Elementary School is expected to exceed its facility capacity, the magnitude of the facility capacity deficit in this school is not such that it would prompt the County's school system to construct a new elementary school. With regard to Smithfield Middle School, pipeline development would result in a facility capacity deficit for this school regardless of students projected from development of The Grange at 10Main. As noted above, it is improbable that the three student facility deficit projected due to The Grange at 10 Main would cause the County's school system to add a new middle school to its *CIP*.

We can further analyze the projected facility deficit at Smithfield Middle School to show that it would likely not cause the County's schools to build another middle school. Conservatively, Virginia standards for class sizes in middle schools sets an average class size of 21 students. Applying this standard to Smithfield Middle School would generate an estimate of 30 classrooms. If the 40 excess students are equally distributed among classrooms, this results in classrooms on average being only one or two students over the recommended class size. It is probable that the magnitude of the facility deficit to be experienced at Smithfield Middle School level would not warrant the construction of a new middle school. Therefore, no capital fiscal impact occurs due to the development of The Grange at 10Main with respect to school construction.

However, a capital expenditure is likely to be required to purchase a new school bus due to students generated by the development of The Grange at 10Main. A standard school bus can accommodate up to 64 riders. According to information provided by another Hampton Roads County, 11% of students can be expected to ride a special needs school bus.

Pipeline development can be expected to generate 108 standard school bus riders for Hardy Elementary School. The proposed development can be expected to generate 45 elementary school bus riders. Students from pipeline development would cause the County schools to purchase at least one new school bus with the remaining students needing to be accommodated filling more than two-thirds of the capacity of a second bus. Thus, a second school bus is also likely to be purchased due to the construction of pipeline development. The second bus would likely have a remaining capacity of 20 seats, accommodating about 45% of the Hardy Elementary School riders expected to be generated from the development of The Grange at 10Main, leaving 24 students needing to be accommodated by school bus service. These students would fill 37.5% of the capacity of a standard school bus. Since this third school bus would be underutilized, the County's public schools would have an incentive to accommodate these students on other bus routes if sufficient capacity exists.

Turning to Westside Elementary School, pipeline development is expected to generate 101 standard school bus riders, requiring the purchase of two new school buses using the same rationale as for Hardy Elementary School. The second bus would have a remaining capacity of 27 riders, which would accommodate all of the students projected to be generated for that school from The Grange at 10Main. It is possible that the remaining capacity (10 students) could be used to accommodate some Hardy Elementary School students (with that bus having a second discharge stop), leaving 15 Hardy Elementary School riders to be accommodated through excess capacity on existing routes. In the absence of data on existing school bus route capacities, it was assumed that there is a 50% chance that this could occur and the public schools would be able to avoid the purchase of a third school bus in order to accommodate students at Hardy Elementary School generated by the proposed development. With a 50% probability that the proposed development would generate the need to purchase an elementary school bus, 50% of the estimated cost of a new standard school bus was counted as a fiscal impact of the proposed development.

There is no need to purchase buses to accommodate middle school or high school students because elementary school buses are generally reused for those routes and a significant portion of high school students can be expected to drive to school.

It is estimated that pipeline development would generate 13 new special needs students attending Hardy Elementary School, 12 special needs students attending Westside Elementary School, and 22 special needs students attending Smithfield Middle School and Smithfield High School due to pipeline development.

Unlike regular school bus riders, special needs middle and high school students are likely to be transported by County school buses. A full special needs bus can carry 45 riders but actual capacity may vary greatly, making it difficult to predict the need for special needs school buses. The same bus would likely be used to transport both elementary school students and middle and high school students. It is likely that pipeline development would cause the County schools to purchase at least one additional special needs school bus and possibly a smaller special needs bus, especially if some riders require more bus room than the minimum.

If a second bus is purchased. It is likely that there would be remaining capacity on that bus (or on existing special needs buses owned by the County public schools) to transport the eight elementary school special needs students and five middle and high school special needs students generated by the proposed development. It was deemed probable that special needs students from The Grange at 10Main would be able to be accommodated without generating a need to purchase an additional special needs bus.

For analysis purposes, a school bus purchase was assumed to occur in FY 2026. Based upon data recently supplied by another Hampton Roads locality, the cost of a school bus was estimated at about $126,800 in SY 2020-21. Using the Producer Price Index, buses, for the most recent one-year period (2020-2021), the FY 2022 cost of this purchase was estimated to be $132,075. School buses are assumed to have a useful life of ten years with replacement occurring after that. The cost of replacing a school bus is held constant.

<u>Public-Private Partnership Participation Costs</u>

While exact public-private partnership costs will be determined through future negotiation between the developer and the Localities, an outline of these costs can be presented and analyzed. This analysis also identifies the capacity that the fiscal impact of the proposed development allows for accommodating public participation.

Public-private partnership costs are divided into three expected components:

- the Smithfield Market
- the hotel and
- infrastructure.

The Smithfield Market, except for the brewpub restaurant, is assumed to be owned by the public sector, most likely by the Isle of Wight County Economic Development Authority (EDA). This will be determined by the Localities under guidance provided by the County Attorney but municipalities in Virginia are severely constrained from operating commercial enterprises. It is not anticipated, however, that the ownership structure of the Smithfield Market will materially affect the cost of public participation in this component of the proposed development.

It is anticipated that the Smithfield Market will be constructed by the developer and sold to the EDA upon completion. The applicant is proffering that they will donate the land on which the Smithfield Market will be constructed. The applicant has valued this land at $269,500 ($350,000 per acre). Other land proposed to be donated by the applicant has been discussed above. It should also be noted that the applicant is providing a considerable amount of shared use parking that is expected to be heavily used by Smithfield Market patrons during market days.

It is acknowledged that this value is substantially below the land's assessed value, calculated to be $68,500. It is believed that this assessed value is an anomaly and does not reflect the land's true market value, which may be greater than $350,000 per acre (the adjoining former Little's Super Market site is assessed for almost $350,000 per acre).

While a cost for the Smithfield Market will not be determined until a construction contract is signed, the current estimate, which is preliminary, is $7,860,300 (rounding to the nearest $100). This does not include land cost, which is being donated by the applicant. At this time, it is proposed that the brewpub restaurant will be purchased in its vanilla shell condition by the restauranteur for $1.5 million. The restauranteur will then pay all fit up construction costs for the restaurant. It is anticipated that $1 million would be donated by Mr. Luter towards construction of the Smithfield Market. This leaves an estimated $5,360,300 to be paid by the Localities. Both the Town and the County have each committed to contribute $1.4 million towards construction of the Smithfield Market. This leaves a funding gap estimated to be $2,560,300. It is understood that the parties are seeking corporate sponsors and that this can provide additional funding for the Market. The applicant has suggested that any remaining funding gap be incorporated into the participation agreement, which is discussed below.

It is assumed that the Localities will choose to finance this cost and that the EDA would issue a revenue bond which would be guaranteed by the Localities (or by the County). While future borrowing rates remain uncertain, historical experience suggests that the EDA would be able to borrow at 6.5% annual interest. Current increases in borrowing costs are likely to be temporary and the EDA would refinance a bond at more favorable rates when these become available. Therefore, the long-term assumption of 6.5% has been retained. Two payments per year were assumed (on July 1 and January 1), beginning on July 1, 2025. With an equal payment amortization, the cost to each Locality would be $126,075 annually, rounding to the nearest $25. The total cost over the 20-year financing period would be $2,521,575 for each Locality.

An equal principal amortization, in which payments are initially higher but decline over time, would save almost $188,825 in interest costs for each Locality. However, when the payment streams are present valued, using a 3% annual discount rate, this difference shrinks to about $70,000 in 2022 dollars.

Bond payments are higher for the first eight years under the equal principal method. Although it is assumed that the County would choose the equal payment method in order to minimize costs in the early years, the debt service costs under both methods were calculated for this fiscal impact analysis, recognizing that the method used would depend upon how the debt is managed by the County.

Whether the ownership of the public green is retained by the applicant and land leased to the Town or whether it is donated to the Town does not affect fiscal impact. The land, if it remains privately owned, would be taxed by the Localities. Since the land would be "undeveloped," the current assessment at $40,000 per acre was assumed to remain. It is assumed that the lease payment would be equal to real estate taxes on this property paid by the owner to the Localities and would, therefore, be a fiscal "wash." Essentially, it would be as if no property tax revenue was generate from this land, which would also be its condition if it were publicly owned.

The County is assumed to remain the operator of the Smithfield Market (with the Town continuing to contribute to that expense). The County would, therefore, incur increased operating expenses when the new Smithfield Market opens. These include personnel costs, insurance, building and grounds maintenance, repairs and supplies.

According to County staff, the current 20-hour per week market event assistant position would become full-time in order to manage the expanded Smithfield Market operations. This is assumed to happen gradually as the Smithfield Market expands its days of operation. The mid- hourly and salary range for this position in the County's *Classification and Compensation Plan* was used to estimate this increased cost (approximately $14,000 annually). Fringe benefits add about 42.3% to this cost. The staff member's current compensation would also become subject to the fringe benefit premium upon their attaining full-time status. However, since FICA and holiday pay are already fringe benefit costs for part-time employees at the County, the fringe benefit premium on current compensation would be only 34.7%.

Other part-time salaries are identified in the *Budget* for the Smithfield Market and the vintage market. Subtracting the half-time compensation for the market event assistant leaves $6,858 budgeted for other part-time employees allocated to the Smithfield Market. It was assumed that the use of part-time employees would expand proportionally to the extension of the market's operating hours. This would be accompanied by an increase in FICA payments. It was assumed that, though the vintage market may be incorporated into the new Smithfield Market, its operations would not expand and there would be no increase in personnel cost associated with the vintage market.

It was assumed that the Smithfield Market building would be covered under the County's umbrella property insurance policy. The *Budget* shows a FY 2022 property insurance expense of $77,286. This is currently distributed over The County's *FY 2021 Comprehensive Financial Annual Report* identifies County-owned buildings valued at approximately $77.9 million. This equates to $1 of property insurance cost for every $1,008 in building value. Based upon a direct construction cost plus associated soft costs ($5,129,500 before deducting for contributions), it was estimated that the annual cost to insure the Smithfield Market building would be about $5,100, rounding to the nearest $25. Localities bear liability for the current Smithfield Market, any increase in general liability insurance cost was assumed to be minimal.

Since the County has more capacity than the Town, it was assumed that the County would be responsible for building and grounds maintenance. Although it is possible that this may be contracted to a third party, it was assumed that this would only occur if it were a cost savings to the County to do so. A per-square foot cost for building maintenance could not be determined and was not supplied by the County at this time. Therefore, the relevant variable costs were proportioned against the value of County-owned buildings. It was assumed that existing staff would be able to service the Smithfield Market, since much of the janitorial work would be performed as clean-up by tenants and the building's simple construction would not require a great deal of maintenance.

The "repairs and maintenance" and "general maintenance" line items were used as the base cost. Using these metrics, the annual building maintenance cost was estimated to be $2,925 per million of value. This equates to an initial estimated annual building maintenance expense of $10,575 for the Smithfield Market, proportionally deduction the brewpub restaurant space which would be maintained by the owner. However, because this building will be mechanically less complex than a typical County building and much of the janitorial responsibility would be borne by the "permanent" tenants, this estimate was reduced by half to about $5,300 annually.

It was assumed that the County's parks and recreation department would maintain the public green. Parks Gateway and Grounds staff estimated mowing costs for the public green at about $140 per mow with weekly mowing from March through November. This assumption was reduced to two mows in March, three in April, two in October and one in November. This yields an estimated annual cost of $3,925 to maintain the green.

Supplies are expected to primarily be restroom supplies. This cost was estimated to be $15 per week at full operation. While the enclosed building accommodates year-round operation, it was assumed that patronage would fall off during the winter months (except for holidays) and that from November through March, usage would be the equivalent of two weeks per month. Effective usage would, thus, be 41 weeks per year for an annual supply cost of $615. Other variable cost annual expenses identified in the *Budget* associated with the current Smithfield Market ($11.327) were also included as operating costs.

As noted above, the CAM charge paid by the brewpub owner will generate revenue for the Smithfield Market and tenants occupying the three retail lease spaces will also pay a yet-to-be-determined amount of rent. These revenues have been applied to projected operating expenses and to debt service in the fiscal impact analysis.

It is recognized that the County may choose to increase its expenditures for tourism marketing after the opening of the new Smithfield Market. This, however, is considered to be a discretionary expenditure and not one that will be caused by the operation of the new Smithfield Market. Therefore, marketing has not been included as an operating expense in this fiscal impact analysis.

The hotel offers another opportunity for public-private participation and the applicant has suggested that this may be necessary in order to secure a hotel operator. Three avenues of participation are likely. The Consultant assumed that it would be unlikely that the Localities would agree to participate in the hotel's construction cost. However, an incentive can be provided by structuring an effective return of the real estate property tax, business personal property tax and/or the lodging tax generated by the hotel.

Tax rebates and abatements are constitutionally prohibited in Virginia. In order for a locality to offer a tax-related incentive, a mechanism developed by the Consultant for the City of Newport News in the mid-1990s and widely adopted since must be used. This method also ensures that the incentive is performance based. The incentive is delivered by an industrial or economic development authority in the form of a grant that is equal to the amount, or a portion of the amount, of taxes paid to the locality by the grant recipient. The incentive is delivered annually and after the payment of taxes has been verified and after the locality has transferred the funds for the grant to the authority. The arrangement is implemented through a performance agreement signed by the authority and the recipient and by a funding agreement signed by the locality and the authority.

The percentage of these taxes to be granted back to the recipient would be negotiated between the Localities and the grant recipient or, in this case, potentially the applicant. It is assumed that this fiscal impact analysis would inform those negotiations. The merits of employing this process for both tax streams are discussed below.

Tying the incentive to the real estate tax and/or business personal property tax offers a degree of certainty to both parties. Real estate is assessed every four years in the County and, while the amount of the initial assessment cannot be guaranteed, it will not change for four years and subsequent assessments are likely to produce only marginal increases in the assessed value of the property. Also, importantly for the Localities, real estate provides a defined increase in tax base, since the additional taxes generated beyond those generated from the pre-development land value do not come at the expense of tax base located elsewhere in the Localities.

Tying the incentive to the lodging tax offers somewhat less certainty to the parties. This is because lodging revenue is sensitive (and in some cases highly sensitive) to economic business cycles, as well as to potential future competition. Therefore, the tax stream and the actual amount to be delivered through incentive grants cannot be as easily predicted. Furthermore, not all lodging taxes paid by the recipient may be net new revenue for the Town, as discussed above. While an estimate of likely redirection and net new revenue to be generated has been made, this estimate cannot be guaranteed, raising a risk that redirected lodging revenue may, in actuality, subsidize the tax grants. Since it is nearly impossible to empirically determine the actual amount of lodging revenue redirection, whether the revenue used to provide tax grants is actually net new revenue to the Localities is not able to be verified.

Another issue affecting grants based upon lodging tax revenue is that the collection of lodging tax revenue from a specific business is not public information. This is because it is easy to calculate backwards from lodging taxes paid to determine hotel lodging revenues and this is considered to be proprietary information. Public officials who collect these taxes are prohibited by law from divulging this information to anyone—even to other local government officials—without the consent of the tax payer.

Therefore, in order for a lodging tax based incentive to be delivered, the performance agreement would need to contain a clause that would give permission for the appropriate tax official to divulge the amount of lodging tax collected to the EDA. This would then become public information subject to FOIA, either through the records of the EDA or through the funding request made by the EDA to the Town.

In either case, the decision concerning what percentage of the tax stream is to be granted back to the recipient and the duration of such incentives will be informed by a number of factors. These include the amount of revenue that is surplus to the Localities' needs to fund those government services that will serve the proposed development, including schools. Given that estimate, the Localities will also need to determine the amount of "cushion" with which they are comfortable to ensure that the additional government service funding needs will be met after a withdrawal from the tax stream(s) to provide a public-private partnership incentive. Additionally, it is reasonable to expect that the Localities will seek some "reward" or return on their investment for providing public participation in the proposed development. This would also figure into the calculation by the Localities of how much tax should be granted back and for how long. This all must be balanced against the hotel operator's need for subsidy provided through economic development incentives.

The applicant also desires *public participation to finance infrastructure and utilities* supporting the proposed development. This is proposed to occur through an infrastructure and utilities participation agreement signed by the Localities with the applicant and/or their agent, the developer. The participation agreement would be structured similarly to a performance agreement. It would pledge that certain revenues received by the Localities would be paid to the developer in order to purchase the infrastructure and utilities from the developer. The Locality(ies) would purchase the infrastructure and utilities from the developer upon completion of infrastructure and utility construction. The Locality(ies) and the applicant/developer would negotiate an installment payment plan for the purchase of the infrastructure and utilities. The installment plan would be tied to the receipt of revenues by the Localities as a result of the proposed development.

There are a number of items to be negotiated between the parties prior to signing a participation agreement. The parties must agree upon a price which, presumably, would be the cost of constructing the infrastructure and utilities. However, it is possible that the Localities may not be willing or able to pay the full cost and it is also possible that the developer may desire to be reimbursed for certain costs lying outside the construction contract.

Another item that must be negotiated is the certainty and duration of the installment schedule. A fixed payment schedule would depend upon an assumption of revenues to be received in the future, which are predicted but unknown. In committing to a fixed payment schedule, the Localities risk future revenues being insufficient to cover mandatory payments to the developer.

Alternatively, a flexible installment payment schedule may be adopted in which either a fixed percentage of certain revenues or the surplus over an agreed upon amount of revenues to be retained by the Localities may be pledged as the installment payment. In this case, the duration of the payments is uncertain. Another alternative is that an agreement on a payment schedule may be delayed until revenues to be derived from The Grange at 10Main are more certain (i.e., the proposed development has reached its stabilization year and an adequate history of project revenues has been established).

Given the uncertainties of any infrastructure and utilities participation agreement, this fiscal impact assessment only identifies probable revenues that would be available for installment payments to purchase the infrastructure and utilities. It is explicitly recognized that it is normally the developer's responsibility to provide infrastructure and utilities for a new development and that these are usually deeded to the municipality or an agent of the municipality at no cost to be maintained by the municipality (unless the infrastructure and utilities will remain privately owned). Thus, an infrastructure and utilities participation agreement would constitute an economic development incentive offered as a contribution to a public-private partnership and it is anticipated that Town or County staff will not object to such an arrangement on the grounds that this should be a developer responsibility.

In estimating the revenue that could be used to fund installment payments for the Grange infrastructure and utilities, the following assumptions were made.

- Revenues to be derived due to the development of The Grange at 10Main would first be used to fund variable costs incurred by the Localities due to the development of The Grange. This fiscal impact analysis would be used to identify such variable costs. The estimate of educational variable costs may be modified in the future by mutual agreement between the applicant/developer and the County if the actual number of students generated from The Grange at 10Main is significantly below the number of students predicted by the County's student generation formula.
- Revenues to be derived due to the development of The Grange at 10Main would next be applied to servicing any debt incurred by the Localities or their agent due to the construction of the Smithfield Market, including any internal debt if the Localities choose to self-finance the purchase of the Smithfield Market from the applicant/developer. With respect to the first use of revenue, noted above, an exception would be made to allow rent paid by the Smithfield Market restaurant tenant, if any, to be applied to this debt service. Also, any other revenues generated to the Localities by the Smithfield Market would first be used to fund the operating costs associated with the market.

If debt service and operating costs associated with the Smithfield Market are not covered by revenues generated by The Grange at 10Main, those costs would need to be funded using existing general fund revenues. While the Localities may choose to do so in order to increase public participation in the hotel and/or infrastructure and utilities, it must be recognized that any such decision represents a reallocation of financial resources and/or future financial resources to the Smithfield Market from other local government services. However, based upon the fiscal impact analysis results, this eventuality would occur only if other economic incentives requested by the applicant took precedence over repayment of Smithfield Market costs and were sufficiently large to impinge on the ability of Smithfield Market costs to be covered by revenues generated by The Grange at 10Main.

- Assuming that revenues from the proposed development are sufficient, revenues generated by the hotel development that are not retained by the Localities would be dedicated to public participation in the hotel at The Grange at 10Main.
- Presumably, revenues available to fund installment payments specified in an infrastructure and utilities participation agreement would be those that remain after the costs of local government serving the proposed development and the public participation costs associated with the Smithfield Market and the hotel are satisfied. Also satisfied must be any "cushion" related to estimated variable costs required by the Localities and any return on investment for the Localities agreed upon by the parties.

Inflation has not been considered in the fiscal impact analysis, as stated above under "Approach." However, inflation is relevant for the calculation of certain public participation costs. This is because, assuming fixed-rate financing of the purchase of the Smithfield Market and of infrastructure and utilities by the Localities or their agent, those annual costs would remain fixed over time. However, the revenues pledged to fund those costs can be expected to increase over time. Keeping those revenues in constant dollars would underestimate the revenue stream available for public participation in the proposed development. Therefore, inflation models have been run in order to estimate probable revenues available for public participation.

Inflation has not been applied to revenues reserved to fund anticipated costs of local government. This is because those costs are also subject to inflation. It is assumed, lacking better data, that local government costs and revenues will rise at the same rate and that, if they do not, the Localities' tax rates would be adjusted so that budgets remain balanced without any reduction in service levels. However, any revenues reserved as "cushion" have not been held constant since, at this time, the amount of "cushion" that the Localities wish to retain is unknown. The model presented in this fiscal impact analysis should be adjusted once the amount of "cushion" has been agreed upon by the parties.

Inflation was not applied to utility tax revenue, since price increases in this arena are regulated, with decisions on rate adjustments based on a variety of factors. Enterprise fund revenues were also not adjusted for inflation, as rate adjustments there are also based upon factors other than inflation.

When applying inflation to the analysis, a number of issues need to be addressed. Perhaps the most obvious is that the rate of future inflation is unknown. Inflation, also, is not a constant and the rate of inflation is likely to vary unpredictably over time. Therefore, any forecast based upon assumed rates of inflation should be considered speculative and illustrative but should not be relied upon in making financial commitments.

In this fiscal impact analysis, a long-term inflation rate of 3.5% is used for non-real estate revenues and operating costs. It is acknowledged that this is far below the current rate of inflation. However, the current rate of inflation is viewed as temporary. While prices increases associated with current inflation are not expected to decline, it is considered by the Consultant to be unlikely that current rates of inflation will persist over the long term. The current rate of inflation may even subside while the proposed development is under construction.

It should be noted that a 3.5% long-term rate of inflation is not dependent upon a continuation of the historically low interest rates that we have seen since the economic collapse of 2008. Between 1984 and 2007, the annual rate of inflation was 3.0%. More conservative models (e.g., a 2.5% long-term rate of inflation) or more liberal models (e.g., a 4% long-term rate of inflation) are reasonable and 3.5% can be considered a moderately aggressive forecast.

Another consideration is that increases in real estate valuation do not necessarily translate into increases in real estate property tax revenue. In fact, it is reasonable to predict an inflation-neutral revenue stream from real estate property taxes. This is because municipalities inevitably find themselves under political pressure to reduce the ad valorem tax rate when property values are rising (and under budgetary pressure to increase the ad valorem tax rate when property values are falling or are stagnant over the long-term). This has been the case, historically, for municipalities in Virginia. Thus, a 3.5% annual rate of inflation when applied to real estate property values may result in an overestimation of revenues that will actually be available to the Localities.

Nevertheless, some degree of real estate inflation was judged possible without provoking compensatory changes in the real estate tax rate. Thus, a 1.5% real rate of annual inflation was applied to real estate assessments. This was deemed to be a reasonable long-term rate of real estate assessment increase after adjustments for changes in the real estate tax rate.

The selection of revenue categories to be included in a public participation formula has been discussed briefly, above, in the discussion of hotel incentives. The parties will need to decide which revenue streams will be applied to the public participation costs. As noted above, real estate property and business personal property provide the most certainty regarding future revenue streams. Personal property tax is a revenue stream that can also provide a degree of certainty, as information about vehicle assessment and tax payments is not confidential information and can be traced to specific addresses, allowing the calculation of personal property taxes received from residents at The Grange at 10Main. Lodging, meals and sales taxes, as well as business license fees based on gross receipts, are not public information and are also subject to greater or lesser degrees of redirection from existing tax streams. Therefore, although best and conservative estimates have been made about the magnitude of net new revenue the Localities will receive from these tax streams, actual revenue received is difficult to verify and the separation of net new revenue from revenue that has been redirected from existing revenue streams can only be an estimate.

In the end, the parties must negotiate which revenue streams are to be applied to the public participation in the proposed development and what conditions are to be placed upon the delivery of economic development incentives based upon the reliability of the revenue sources.

Recognizing the uncertainty regarding which revenues would be used to support public participation in the proposed development, for analysis purposes revenues were designated to support general government and education costs projected to be incurred due to the development of The Grange at 10Main were earmarked proportionally to their receipt. Those revenues then continue to be expressed in 2022 dollars while inflation is applied to the remaining revenue surpluses, as discussed above.

Potential structuring of the public participation can take several forms. Since there are likely to be a variety of agreements between various parties, it is advisable that a comprehensive development agreement be signed by all parties that would bring together and formalize all agreements associated with the public-private partnership. Specific agreements and delivery vehicles have been discussed above. This section discusses more general frameworks that may be employed by the Localities to manage their public participation.

One such vehicle is the community development authority (CDA). A CDA is an independent authority, created by a municipality, that is empowered to issue bonds for public purposes and to secure tax revenues generated within the boundaries of the CDA district in order to service those bonds. The primary advantages of a CDA are: 1) it provides some degree of certainty to bond investors with regard to repayment, since there is a dedicated revenue source that is used to repay the bonds and 2) it transfers risk to the bond holders and the property owners within the CDA district.

The transfer of risk occurs because, while the municipality may be morally obligated to cover an shortfall in revenues needed to repay the bonds, it is not legally obligated to do so. That legal obligation rests with the CDA, which also has the power to levy a special assessment on CDA district property owners in order to repay the bonds. It should be noted that, during the development phase, the developer is likely to be the primary property owner and frequently a special assessment is levied on the developer in order to pay initial CDA bond costs.

While a CDA may have certain advantages, they also have significant disadvantages. Typically, CDA financing is expensive, especially compared to general obligation bond financing or economic development authority revenue bond financing. There are two reasons for this. The first is that, even though there is a dedicated repayment source, bond investors may view CDA-issued bonds as inherently having more risk than other municipal bonds. Part of this perception is that, legally, there is no recourse for bond repayment beyond the CDA. While a great many CDAs have been successful, there have been failures. The relatively recent experience in York County with the Marquis CDA may have a chilling effect on investor appetite for investing in CDAs in this area.

A second reason that CDA financing is typically more expensive is that early revenues from a CDA development are often insufficient to cover initial bond payments. This requires borrowing additional funds in order to create a reserve out of which initial bond payments can be made. Even if bond investors are amenable to an interest only period, this adds interest cost and stretches out the bond repayment period.

A third reason for the expense of CDA financing is that it is heavily fee laden. On top of normal financing costs, the CDA must pay for additional analysis that will confirm the development's capacity to repay bonds. The CDA must also pay for additional bond counsel fees. Both fees are typically incorporated into the amount borrowed by the CDA and, therefore, create additional interest expense. It should also be noted that the CDA will typically not have sole claim to the tax revenues generated within the CDA district. These will be split with the municipality in order to provide the municipality with sufficient revenue to provide local government services for the proposed development and, potentially, earn some return on investment.

A viable alternative to a CDA is a synthetic TIF (tax increment financing) district. A formal TIF is a district created by municipal ordinance which allows revenues or a percentage of revenues collected within the TIF district to be applied to retiring debt and/or providing government services benefiting the TIF district. Though there is a dedicated revenue source, the municipality remains the guarantor of any bonds issued to finance public improvements within the TIF.

Creating and administering a TIF district is a complex process, particularly under Virginia law governing a TIF. In order to gain the benefits associated with a TIF without incurring the administrative costs, many localities have relied upon the concept of a synthetic TIF. The synthetic TIF is an informal construct whereby the municipality achieves a certain degree of assurance that revenues generated by a proposed development will pay for the public investment in that development.

In order to gauge the capacity of the proposed development to pay for the costs to be incurred by the municipality through its participation in the public-private partnership, staff, or a consultant, undertakes an analysis of projected revenues to be generated by a proposed development and of costs to be incurred by the municipality. While there is no formal dedication of revenues, this analysis creates a reasonable assurance that the municipality can use the revenue increase associated with the proposed development to repay the project debt incurred by the municipality. Rather than a highly regulated accounting of funds, the municipality can put in place informal monitoring of revenue generation from the development, at its discretion.