Valbridge PROPERTY ADVISORS
Lipman Frizzell & Mitchell LLC

MEMORANDUM

DATE: January 7, 2014

TO: Tom Hyde/Miller and Smith, Inc.

FROM: Joe Cronyn JMC

SUBJECT: Hazelnut Run Subdivision
Town of New Market Fiscal Impact

Valbridge Property Advisors/Lipman Frizzell & Mitchell LLC (Valbridge/LF&M) has reviewed our November 2012 fiscal analysis of the impact of Hazelnut Run on the finances of the Town of New Market. The original report is attached.

Virtually all of the baseline assumptions made in the original report and the most recent report (November 2013) estimating County revenues have remained the same. A small ($17,000) increase in the average household income of Hazelnut Run homeowners over the year was made, reflecting continuing economic growth. We find the 2012 assumptions to be reasonable and the positive impact of increasing incomes is *de minimis* as regards the Town's share of County income tax revenues.

The 2012 assumptions originally made regarding Town expenses also seem to be reasonable, though some savings on Public Works expenses may be achieved depending on allocation of road maintenance responsibilities between Town and County.

We judge, therefore, that the November 2012 forecast of a $134,454 ($2012) net annual benefit (i.e., revenues exceeding expenses) of Hazelnut Run's development is still a reasonable and conservative forecast.

HAZELNUT RUN
SMITH/CLINE PROPERTY
ANNEXATION

FISCAL IMPACT
TOWN OF NEW MARKET

Prepared For:

Miller and Smith, Inc.
8401 Greensboro Drive
Suite 450
McLean, VA 22102

Submitted by:

Lipman Frizzell & Mitchell LLC
6240 Old Dobbin Lane
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November 21, 2012

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November 21, 2012

Mr. Tom Hyde, Jr.
Miller and Smith, Inc.
8401 Greensboro Drive—Suite 450
McLean, VA 22102

SUBJECT: HAZELNUT RUN – SMITH/CLINE PROPERTY ANNEXATION
Fiscal Impact Analysis

Dear Mr. Hyde:

Enclosed please find Lipman Frizzell & Mitchell's analysis of the impact of the Smith/Cline annexation and build-out of the Hazelnut Run subdivision on the budget of the Town of New Market in Frederick County, Maryland. We find that they offer significant benefits to the residents of New Market and pay for themselves as regards the net revenues produced for the Town's annual budget:

- <u>Benefits</u> - Residents will benefit in particular from increased police protection, with the Town being able to afford two full-time deputies at total build-out.

- <u>Net Revenue</u> - The Town can extend services to 925 new households and increase appropriated capital reserves appropriately, while yet increasing its annual unappropriated reserves to accommodate unexpected expenses, enhancement of existing service levels and discretionary spending by the Mayor and Town Council.

Lipman Frizzell & Mitchell projects the <u>net benefit</u> (the excess of revenues over expenses) of annexation to the Town's operating budget and reserves as at least $134,454 annually in 2012 dollars.

Sincerely,
LIPMAN FRIZZELL & MITCHELL LLC

Joseph M. Cronyn

Joseph M. Cronyn
Member

HAZELNUT RUN
SMITH/CLINE PROPERTY ANNEXATION
FISCAL IMPACT on the TOWN OF NEW MARKET

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

Organization of Report

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

Underlying Assumptions and Limiting Conditions

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

Consultant Qualifications

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

I. METHODOLOGY & ASSUMPTIONS

LF&M evaluates the Town of New Market's Fiscal Year 2013 budgeted revenues and expenses, projecting them forward in order to forecast the impact of planned residential development on the budget at two points in time:

1. As of the date of build-out of the Town at its current Growth Area capacity
2. As of the date of complete build-out of Hazelnut Run.

We also calculate the changes attributable to Hazelnut Run as compared to the operating budget at the build-out to its current Growth Area capacity.

<u>Methodology</u>

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

<u>Average Cost Approach</u>

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

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

<u>Marginal Cost Approach</u>

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

LF&M Approach

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

- Fixed Revenues/Expenses - Since most revenue and expense items in the Town budget are relatively fixed or are discretionary, we assume they will increase only at the rate of inflation or will change based on annual decisions by the Town. These line items are not directly influenced by the size of the Town.

- Proportionate Revenues/Expenses - Certain budget items are directly proportionate to the size of the Town (particularly the number of households or extent of public roads) and an average cost approach is applicable. Property and income tax revenues are in this category, for example, as are public works expense lines.

- Marginal Revenues/Expenses - Certain budget items will be affected by a qualitative leap in the Town's expectations as it grows. In particular, police protection (with associated expenses and some off-setting revenues) and Town staffing are in this category.

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

General Assumptions

LF&M has reviewed the Town of New Market budget for FY 2013 as well as the audited budget for FY 2012 in order to establish baseline revenue and expense figures.

In addition, we have consulted Town management and various sources in deciding on the assumptions which drive our forecast. Those sources include: 2010 U.S. Census, New Market Master Plan 2012, Maryland Department of Assessments and Taxation tax records, Miller and Smith marketing plan and others. We summarize critical forecasting assumptions in the table below:

Town of New Market
Forecasting Assumptions

	2013	Growth Area Build-Out	Hazelnut Run Build-Out	Total
Households	337	+207	+925	1,469
Cumulative Households	337	544	1,469	
Avg. New Home Assessed Value		$350,000	$350,000	
Avg. New Household Income		$100,000	$100,000	

Revenues

The principal revenue lines in the Town budget which will be directly affected by new residential development will be: real estate taxes, income taxes, State shared taxes. Those items account for over three-fifths (61.2%) of total Town revenues in FY 2013. In our forecast, the expense for new police protection services will be largely offset by shared revenues from the County and State. We have assumed that all tax rates are held constant.

Expenses

Most expense lines will be held constant, meaning that they will grow only with inflation. We note, however, that the $3,800 current annual salary for the Mayor will probably be considered too low for a Town of its ultimate size—though it likely will not increase proportionate to the Town's growth in households. We have not changed that expense line.

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

Timeframe

LF&M forecasts all fiscal impacts at two points in time: 1) as of the date of build-out of the Town at its current Growth Area capacity and 2) as of the date of complete build-out of Hazelnut Run. We judge that this approach is straightforward and communicates certain critical long-term data needed for informed decision-making by the Town. This approach focuses on the important structural elements of the Town's operating budget and de-emphasizes the effect of one-time revenues/expenses during the development period for residential subdivisions.

Limitations

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

LF&M has evaluated matters conservatively. It is likely that new revenues will exceed our projections and that expenses will be lower than our projections, especially when it is understood that all projections are made in 2012 dollars.

II. TOWN REVENUES

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

As outlined on the following page, LF&M finds the revenue line items which will increase substantially are:

- Real Property Tax - Based on an average $350,000 assessed value for homes to be sold, LF&M estimates an average Town real estate tax bill of $420 annually for each new home. LF&M judges that the stated pricing is conservative and notes that real estate tax revenues realized may be higher, depending on pricing actually supported by market conditions.

  At Growth Area build-out, we calculate total annual property tax revenues at $233,208—as increased by $86,940 from the 207 new homes. We forecast that Hazelnut Run will contribute another $388,500 for its 925 homes, resulting in total revenues of $621,708 at total build-out. The Town's real property tax revenues at build-out are projected as 4.3 times higher than FY 2013's.

- Amusement Taxes - Budgeted FY 2013 amusement taxes of $70,000 are below the $83,000 actually received in FY 2012, so we have increased this line to $83,000 in our forecast.

- Income Tax - Based on the average home values stated above, the average household income for new homebuyers is expected to be $100,000. We have used that figure in our estimates in order to be conservative, though many households will earn more. Estimating taxable income at 75% of gross wages and the Town's share of the Frederick County income tax levy at 17%, the average income taxes paid by each household to the Town are $377 annually.

  At Growth Area build-out, we calculate annual income tax revenues at $205,039 including income taxes paid by the 207 new homes. We forecast that Hazelnut Run will contribute another $348,725 for its 925 homes, with income tax revenue of $553,764 at total build-out. The Town's real property tax revenues at build-out are projected as 4.4 times higher than FY 2013's.

- Shared Highway Taxes - At an average payment level of $29 per household in FY 2013, LF&M projects this revenue line at $12,456 at Growth Area build-out and $39,281 at Hazelnut Run build-out due to the increase in the Town's household count.

Anticipated Revenues
TOWN OF NEW MARKET
Fiscal Year 2013 & Projected

	FY 2013 Budget Revenues	Annual Cost Basis	per Unit	at Growth Area Capacity	with Smith Cline Annexation	*Change:* Amount	Percent
Local Taxes							
Real Property	$146,268	$420	Household	$233,208	$621,708	$388,500	166.6%
Personal Property (Unincorporated Business)	$188	Fixed		$188	$188	$0	0.0%
Business Corporations (Incorporated)	$6,200	Fixed		$6,200	$6,200	$0	0.0%
Railroad & Public Utilities	$8,607	Fixed		$8,607	$8,607	$0	0.0%
Bank Shares	$0	Fixed		$0	$0	$0	0.0%
Amusement Taxes	$70,000	Fixed		$83,000	$83,000	$0	0.0%
Income Tax	$127,000	$377	Household	$205,039	$553,764	$348,725	170.1%
	$358,263			$536,242	$1,273,467	$737,225	137.5%
State Shared Taxes							
Highways	$6,453	$29	Household	$12,456	$39,281	$26,825	215.4%
	$6,453			$12,456	$39,281	$26,825	215.4%
Licenses & Permits							
Liquor Licenses	$250	Fixed		$250	$250	$0	0.0%
Town Business Licenses	$1,300	Fixed		$1,300	$1,300	$0	0.0%
Traders Licenses	$1,134	Fixed		$1,134	$1,134	$0	0.0%
Cable TV Fees	$6,100	$14	Household	$8,998	$21,948	$12,950	143.9%
	$8,784			$11,682	$11,682	$0	0.0%
Intergovernmental							
County-City Tax Equity Program	$54,705	Fixed		$1,000	$1,000	$0	0.0%
Police Protection Offset (County)	$0	75%	of Net Cost	$86,250	$172,500	$86,250	100.0%
Police Protection Offset (State)	$0	$5,000	per Deputy	$5,000	$10,000	$5,000	100.0%
	$54,705			$92,250	$183,500	$91,250	98.9%
Service Charges for Current Services							
Orchard DRRA Contributions	$4,000	Build-Out Complete		$0	$0	$0	0.0%
Subdivision Fees	$5,000	Build-Out Complete		$0	$0	$0	0.0%
New Construction Permit Fees	$1,400	Build-Out Complete		$0	$0	$0	0.0%
Renovation, Zoning & HDC Fees	$2,000	$8	Household	$3,656	$11,056	$7,400	202.4%
Sale of Maps & Publications	$0	Fixed		$0	$0	$0	0.0%
	$12,400			$3,656	$3,656	$0	0.0%
Miscellaneous Revenue							
Interest & Dividends	$5,400	Fixed		$7,000	$10,000	$3,000	42.9%
Rents & Concessions	$0	Fixed		$0	$0	$0	0.0%
	$5,400			$5,400	$5,400	$0	0.0%
Total Anticipated Revenue	**$446,005**			**$661,686**	**$1,516,986**	**$855,300**	**129.3%**

- Cable TV Fee - At a payment level averaging $14 per household in FY 2013, we project this revenue line at $8,998 at Growth Area build-out and $21,948 at Hazelnut Run build-out due to the increase in Town households.

- Police Protection - The Town is anticipated to provide police protection at Growth Area build-out (one deputy), increasing the level of service to two deputies at Hazelnut Run build-out. There will be offsets to the expenses for the service: the State of Maryland provides a grant of $5,000 per officer; Frederick County provides a grant of 75% of the remaining cost. Revenues provided by the County are anticipated to be $86,250 at Growth Area build-out and $172,500 at Hazelnut Run build-out.

- Renovation, Zoning & HDC Fees - At a payment level averaging $8 per household in FY 2013, we project this revenue line at $3,656 at Growth Area build-out and $11,056 at Hazelnut Run build-out due to the increase in Town households.

- Interest & Dividends - We forecast interest earnings on the Town's reserves held in bank accounts conservatively at 1.0% per year based on average balances of $700,000 at Growth Area build-out and $1 million at Hazelnut Run build-out.

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

LF&M projects that revenues available to the Town are likely to increase from approximately $446,005 in FY 2013 to $661,686 at Growth Area build-out and to $1,516,986 at build-out of the Hazelnut Run subdivision.

The Hazelnut Run subdivision is, therefore, responsible for an increase in revenues of $855,300 over and above the remainder of the Town at Growth Area build-out. All revenues are stated in 2012 dollars.

Impact on Assessable Tax Base

In particular, LF&M has also examined the impact of the Smith/Cline annexation on the Town's assessable tax base. As of mid-year 2012 (the most recent comprehensive assessment data available to LF&M), the Town had 515 land parcels according to the State Department of Assessment & Taxation.

The Town's assessable tax base is approximately $151.4 million, but of that total property taxes are paid on only $132.2 million in valuation—the remainder being properties exempt from taxation, as summarized below:

Town of New Market Assessable Tax Base			
Use	**Parcels**	**Acres**	**Total FMV***
Commercial	28	34.51	$17,206,300
Commercial Residential	32	12.78	$11,136,800
Exempt Commercial	25	52.54	$16,881,300
Exempt	11	108.33	$2,263,900
Residential	415	206.2	$102,165,700
Residential Commercial	4	1.95	$1,739,800
Total	**515**	**416.31**	**$151,393,800**
Taxpaying	479	255.44	$132,248,600

*Fair Market Value as stated by State Dept. of Assessments & Taxation.

The Hazelnut Run subdivision's 925 new homes will increase the Town's assessable base by a projected $323.8 million—more than 2.4 times its current total taxpaying assessable base.

III. TOWN EXPENSES

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

As outlined on the following page, LF&M finds the expense line items which will change substantially are:

- Town Staff - Current Town staff is two part-time persons. It is anticipated that staffing will need to expand to three part-time employees at Growth Area build-out at a cost of $95,820. At Hazelnut Run build-out, it is expected that six employees will be required including a Town Planner and maintenance person at a total cost of $261,740—though that cost will be somewhat offset by the elimination of line items for Public Restroom Labor, Town Planner, Code Enforcement, and Permits and Inspections. Social Security and Medicare payments are increased proportionate to wage increases.

- Police Protection - At a cost of $120,000 per position, it is anticipated that this service will increase to one full-time deputy at Growth Area build-out and two full-time deputies at Hazelnut Run build-out. Revenue offsets to those expenses have been discussed above.

- Public Works - The Town currently maintains approximately 2.26 miles of roads. We estimate that the Town will be responsible for plowing and maintenance for approximately 7.23 miles of roads at the build-out of the Growth Area and 13.58 miles at build-out of Hazelnut Run. The Snow & Ice Removal and Street Maintenance lines are increased proportionate to the Town's new responsibilities for roads. Further, we estimate the Town's 20% share of the annual maintenance costs of the 1.95 mile Hazelnut parkway road at $24,000—with the remaining 80% to be borne by Frederick County.

- Waste Collection - At a current cost averaging $245 per household, this line item increases to $132,912 at Growth Area build-out and $359,537 at Hazelnut Run build-out.

LF&M projects that Town operating expenses are likely to increase from approximately $307,247 in FY 2013 to $529,584 at Growth Area build-out and to $1,138,328 at build-out of the Hazelnut Run subdivision.

Anticipated Expenses
TOWN OF NEW MARKET
Fiscal Year 2013 & Projected

	FY 2013 Budget Expenses	Annual Cost Basis	per Unit	at Growth Area Capacity	with Smith Cline Annexation	*Change:* Amount	Percent
Advertising	$1,000	Fixed		$1,000	$1,000	$0	0.0%
Auditing & Accounting	$11,855	Fixed		$11,855	$11,855	$0	0.0%
Board of Zoning Appeals	$850	Fixed		$850	$850	$0	0.0%
Clerk Treasurer, Clerk to HDC/ARC etc.	$63,881	Marginal		$95,820	$0	($95,820)	-100.0%
Town Staff		Marginal		$0	$261,740	$261,740	100.0%
Maryland Unemployment Insurance	$500	Fixed		$500	$500	$0	0.0%
Social Security & Medicare	$5,284	8.3%	of Payroll	$7,953	$21,724	$13,771	173.2%
Engineering	$5,000	Fixed		$5,000	$5,000	$0	0.0%
Conferences & Continuing Education	$250	Fixed		$250	$250	$0	0.0%
Donations	$250	Fixed		$250	$250	$0	0.0%
Dues & Subscriptions	$2,700	Fixed		$2,700	$2,700	$0	0.0%
Employee Benefits	$0	Fixed		$0	$0	$0	0.0%
General Maintenance Labor	$1,500	Fixed		$1,500	$1,500	$0	0.0%
General Maintenance Supplies	$500	Fixed		$500	$500	$0	0.0%
HDC/ARC Guidelines	$250	Fixed		$250	$250	$0	0.0%
Legal Counsel	$30,000	Fixed		$30,000	$30,000	$0	0.0%
Mayoral Expense Account	$250	Fixed		$250	$250	$0	0.0%
Mayoral Salary	$3,800	Fixed		$3,800	$3,800	$0	0.0%
Municipal Building Utilities	$6,500	Fixed		$6,500	$6,500	$0	0.0%
MML Meeting	$150	Fixed		$150	$150	$0	0.0%
Office Supplies & Technology	$5,435	$12.50	Household	$8,023	$19,585	$11,563	144.1%
Insurance	$3,100	Fixed		$3,100	$3,100	$0	0.0%
Planning Commission Master Planner	$6,300	Marginal		$6,300	$0	($6,300)	-100.0%
Permitting & Inspections	$3,400	Marginal		$3,400	$0	($3,400)	-100.0%
Code Enforcement Officer	$2,000	Marginal		$2,000	$0	($2,000)	-100.0%
Printing	$0	Fixed		$0	$0	$0	0.0%
Public Restroom Labor	$5,175	Marginal		$0	$0	$0	0.0%
Public Restroom Supplies	$250	Fixed		$250	$250	$0	0.0%
Telephone	$2,110	$1,055	per Employee	$3,165	$6,330	$3,165	100.0%
Tourism	$500	Fixed		$500	$500	$0	0.0%
Age 65 Rebate	$500	Fixed		$500	$500	$0	0.0%
Website/Newsletter	$1,000	Fixed		$2,500	$2,500	$0	0.0%
Workman's Compensation	$1,000	Fixed		$1,000	$1,000	$0	0.0%
	$165,290			$199,866	$382,584	$182,719	91.4%
Public Safety							
Police Protection	$15,000	Marginal		$120,000	$240,000	$120,000	100.0%
Crossing Guards	$0	Fixed		$0	$0	$0	0.0%
Volunteer Fire Department	$2,000	Fixed		$2,000	$2,000	$0	0.0%
	$17,000			$122,000	$242,000	$120,000	98.4%
Public Works							
Mowing	$7,500	Fixed		$7,500	$7,500	$0	0.0%
Snow & Ice Removal	$8,260	$3,655	Mile	$26,425	$49,633	$23,208	87.8%
Street Maintenance	$5,000	$1,920	Mile	$13,882	$26,074	$12,192	87.8%
Parkway Maintenance (Town share)	$0	Marginal		$0	$24,000	$24,000	100.0%
Sidewalk Maintenance	$5,000	Marginal		$10,000	$30,000	$20,000	200.0%
Street Lighting & Park Lighting	$6,000	Fixed		$6,000	$6,000	$0	0.0%
Tree Management	$4,000	Fixed		$4,000	$4,000	$0	0.0%
Waste Collection	$82,197	$245	Household	$132,912	$359,537	$226,625	170.5%
	$117,957			$200,718	$506,744	$306,025	152.5%
Miscellaneous							
NMES Community Track	$0	Fixed		$0	$0	$0	0.0%
New Market Days	$3,000	Fixed		$3,000	$3,000	$0	0.0%
Christmas in New Market	$3,000	Fixed		$3,000	$3,000	$0	0.0%
Parks & Recreation	$1,000	Fixed		$1,000	$1,000	$0	0.0%
	$7,000			$7,000	$7,000	$0	0.0%
Total Anticipated Expenditures	**$307,247**			**$529,584**	**$1,138,328**	**$608,744**	**114.9%**
NET REVENUES OVER EXPENDITURES	**$138,758**			**$132,102**	**$378,658**	**$246,556**	**186.6%**
Capital Reserves							
Roads, Curb & Gutter	$20,000			$60,622	$128,615	$67,993	112.2%
Sidewalks	$10,000			$39,785	$103,230	$63,445	159.5%
Depreciation	$12,359			$12,359	$12,359	$0	0.0%
	$42,359			$112,766	$244,204	$131,438	116.6%
Unappropriated Reserve/Surplus	**$96,399**			**$19,336**	**$134,454**	**$115,118**	**595.3%**

The Hazelnut Run subdivision is, therefore, responsible for an increase in operating expenses of $608,744 over and above the remainder of the Town at Growth Area build-out. All expenses are stated in 2012 dollars.

Net Revenues

Net revenues over expenses in the Town's operating budget, then, change from $138,758 in FY 2013 to $132,102 at Growth Area build-out and $378,658 at Hazelnut Run build-out. Hazelnut Run contributes $246,556 to that swing in net revenues—almost two thirds (65.1%) of the total.

Capital Reserves

Above and beyond its annual operating costs, the Town must set aside reserves against the capital expense of replacing public assets (e.g., roads, sidewalks, public buildings, Town equipment) over time. Based on estimates of those capital expenses and the estimated useful lives of those assets, LF&M has estimated the annual amount which the Town should be adding to reserves at $42,359 currently, $112,766 at Growth Area build-out and $244,204 at Hazelnut Run build-out.

Unappropriated Reserves/Surplus

Based on all of the calculations above, unappropriated net revenues estimated at $96,339 in FY 2013 increase to $134,454 at the Hazelnut Run build-out. Annual unappropriated reserves accommodate unexpected expenses, enhancement of existing service levels and discretionary spending on a year-to-year basis by the Mayor and Town Council.

The lower $19,336 surplus forecast at Growth Area build-out is a matter of timing, reflecting the addition in particular of certain marginal personnel costs (Town staff and Deputy) somewhat before the growth in revenues can fully cover them. In practice, the surplus will be higher since Hazelnut Run will be selling homes concurrent with the build-out of the other new home subdivisions.

IV. IMPACT OF ANNEXATION

LF&M has outlined the principal changes in the Town of New Market's operating revenues and expenses. The same format and line items as the Town's FY 2013 approved budget are used in order to clarify the impact of the build-out of the Town and to facilitate comparison.

LF&M finds that the Smith/Cline annexation and Hazelnut Run development offer significant benefits to the residents of New Market and pay for themselves as regards the net revenues produced for the Town's annual budget:

- Benefits - Residents will benefit in particular from increased police protection, with the Town being able to afford two full-time deputies at total build-out.

- Net Revenue - The Town can extend services to 925 new households and increase appropriated capital reserves appropriately, while yet increasing its annual unappropriated reserves to accommodate unexpected expenses, enhancement of existing service levels and discretionary spending by the Mayor and Town Council.

Lipman Frizzell & Mitchell finds, therefore, that the annexation of the Smith/Cline property and development of the Hazelnut Run subdivision are favorable for the Town of New Market. We project the net benefit (the excess of revenues over expenses) of annexation to the Town's operating budget and reserves as at least $134,454 annually in 2012 dollars.