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Fiscal Impact Analysis

*Hulls Creek at Port Norfolk
Portsmouth, Virginia
H-E File No. 3202.00.*

HULLS CREEK AT PORT NORFOLK

FISCAL IMPACT ANALYSIS

As part of a letter of intent submitted to the Portsmouth Economic Development Department by **Franciscus Homes** and **Coastal Virginia Developers**, this report from **Hoggard-Eure Associates (H-E)** presents estimates of the fiscal impact of the development planned for the approximately 7.5-acre site located between Detroit Street and Douglas Avenue in the Port Norfolk section of Portsmouth. A portion of the properties which constitutes the site was the location of the former Port Norfolk Elementary School. For purposes of this report, the site will be referred to as "Hulls Creek at Port Norfolk".

Introduction to the Study

The purpose of this report is to describe estimates of the **fiscal** revenues and expenditures that this development will generate for the City of Portsmouth. Fiscal impacts are those that directly affect a municipality's budget. Any new development that attracts new city residents generates the need for public services, such as emergency medical services, police and fire protection. In turn, the development generates additional tax revenue for the city. The major portion of the city's revenues from residential development is derived from real estates taxes and local household spending. Commercial developments involved in any project will generate revenues in several ways such as retail, meals, real property, business licensure and personal property taxes. All dollar figures contained in this report are expressed in 2010 dollars, and all fiscal impact estimates are based on the City of Portsmouth's *Comprehensive Annual Financial Report for Fiscal Year ending June 30, 2009*. No projection for economic inflation has been made.

The plans and estimates included in this report cover the development and sales schedules, construction investment, the employment directly associated with the construction of this development and the local spending of new residents in the development. Employment estimates are used to calculate the marginal cost of government services and no attribution is made as to the residence location of any employees. The **fiscal** impacts that flow from the development efforts and new residents are the new revenues that the City of Portsmouth will collect and the new expenditures that Portsmouth will incur to provide government services to Hulls Creek at Port Norfolk.

Development Plans and Construction Investment

The proposed development plans for Hulls Creek at Port Norfolk are detailed in Table 1. The developer proposes a total of 26 detached single-family homes. Community amenities will include a walking and bike trails.

**TABLE 1
HULLS CREEK AT PORT NORFOLK DEVELOPMENT**

Development Component	Number of Homes and Square Feet	Construction Costs*	Infrastructure Costs**	Average Market Value
Single-Family Homes	26 homes averaging 1,700 square feet	\$169,500	\$12,000	\$ 226,000
Residential Amenities	Includes walking trails	Included in Infrastructure Costs	\$15,000	n/a
* Construction costs shown include vertical construction, indirect costs (consulting fees, attorney fees, interest) and land cost for the property.				

Table 2A presents the development schedule and Table 2B presents the construction investment for Hulls Creek at Port Norfolk. Development is planned to begin in 2011 and be constructed in 4 phases. Using these assumptions, cumulative construction investment in Hulls Creek at Port Norfolk is estimated at over \$4.7 million. We estimate that at least 30% of construction materials will be purchased in Portsmouth, resulting in average sales of nearly \$354,000 a year (approximate cumulative construction investment of \$4.719 million divided by 4 phases of construction multiplied by 30%) for city businesses during the construction phase of this development.

Residential Population: The residential population of Hulls Creek at Port Norfolk is estimated at 70 persons at build-out. To arrive at this estimate, an average household of 2.69 persons has been assumed (source: United States Census Bureau) and multiplied by the number of proposed dwelling units (2.69 persons * 26 dwelling units = 70 persons – Refer to Table 2A). An estimate of 14 school-aged children is assumed to be generated by Hulls Creek at Port Norfolk using Table 2C.

**TABLE 2A
HULLS CREEK AT PORT NORFOLK
DEVELOPMENT SCHEDULE**

Development Component	Development Investment				BUILD OUT
	PHASE 1	PHASE 2	PHASE 3	PHASE 4	
Single Family	10	6	4	6	26
Residential Population	27	16	11	16	70
School-Aged Children	5	3	2	3	14
Cumulative Residential Population	27	43	54	70	
Cumulative School-Aged Children	5	8	10	14	

**TABLE 2B
HULLS CREEK AT PORT NORFOLK
CONSTRUCTION INVESTMENT**

Development Component	Development Investment					BUILD OUT
	2018	PHASE 1	PHASE 2	PHASE 3	PHASE 4	
Single Family A		\$1,815,000	\$1,069,000	\$726,000	\$1,069,000	\$4,719,000
Subtotal		\$1,815,000	\$1,069,000	\$726,000	\$1,069,000	
Off-Site Improvements						\$0
Total Construction Investment	\$0	\$1,815,000	\$2,904,000	\$3,630,000	\$4,719,000	\$4,719,000

**TABLE 2C
HULLS CREEK AT PORT NORFOLK
STUDENT GENERATION CALCULATIONS**

Housing Type	Dwelling Units	Elementary School	Middle School	High School	Subtotal
Single-Family	26	0.21	0.12	0.19	0.52
		5.46	3.12	4.94	13.52

EMPLOYMENT AND PAYROLL

The number of incremental full-time equivalent (FTE) employees is included in this fiscal impact analysis because it is one basis of local government expenditure estimates attributed to new construction activity. It is assumed that 50% of the construction workers will be full-time and 50% will be part-time. Assuming that payroll is 40% of construction costs and that construction workers earn an average of \$43,940 (source: Virginia Employment Commission), the construction efforts should provide an average of 10 workers per phase, as indicated in Table 3 (Total number of construction workers [42 per Table 3] divided by 4 phases of construction).

For purposes of payroll calculations for the project, the Full-Time Equivalent (FTE) basis has been used. Under this basis, each full-time employee counts as 1 permanent job. Each part-time employee counts as 75% of a full-time employee (part-time employment being considered a 30 hour work week). Based on the FTE calculation, the construction employment estimate starts off at 17 positions. Annual payroll is expected to average \$472,000 during construction.

**Table 3
HULLS CREEK AT PORT NORFOLK
EMPLOYMENT PROJECTIONS**

	2010	PHASE 1	PHASE 2	PHASE 3	PHASE 4	Buildout
Annual Construction Employment						
Avg. Full-time jobs	-	8	5	3	5	-
Avg. Annual Temp. jobs	-	8	5	3	5	-
Annual Total Const Jobs	-	17	10	7	10	-
Annual Const Payroll @ \$43,940	\$0	\$726,000	\$435,600	\$290,400	\$435,600	\$0
Avg. Annual Payroll	\$0	\$726,000	\$435,600	\$290,400	\$435,600	\$0

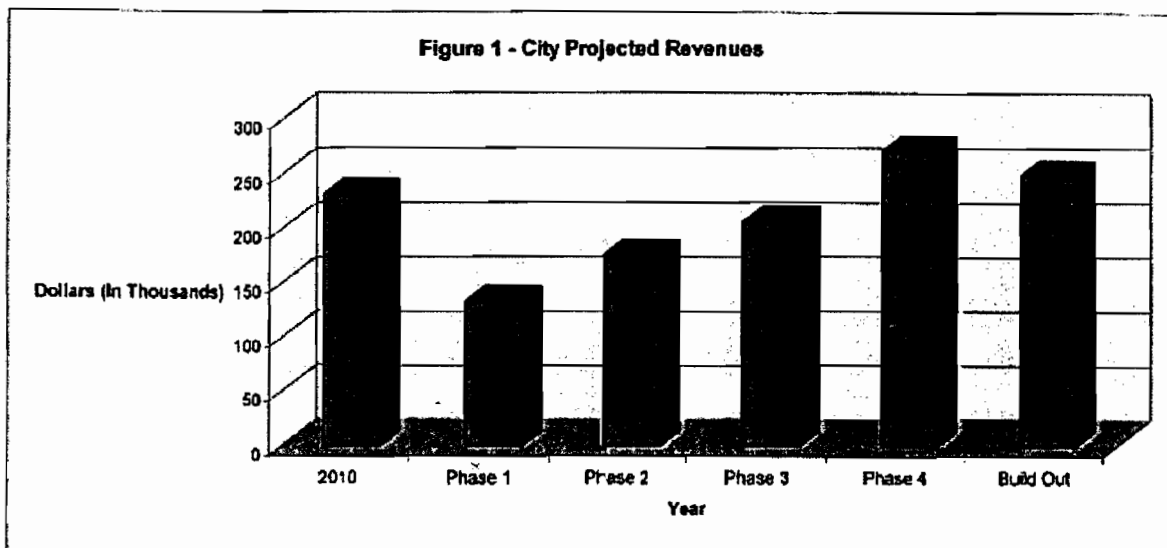
LOCAL GOVERNMENT REVENUES

Residential developments in Portsmouth generate several types of revenues, including real estate tax, personal property tax and retail sales tax. For the conservative purposes of this analysis, we are not going to calculate the retail sales tax benefits of the residential units as an income source. Also, construction efforts of the project will generate revenues such as meals tax (food sales from a restaurant) and building permit fees. Figure 1 illustrates the annual revenue streams that the City can expect from this development, including the ongoing annual revenue at build-out. The annual line-item estimates are contained in Table 4, and assumptions associated with the various components of the revenue stream follow. From Table 4, the total net revenues for the City of Portsmouth – at build-out – is approximately \$248,000.

**TABLE 4
HULLS CREEK AT PORT NORFOLK
CITY REVENUE PROJECTIONS**

Revenue	2010	PHASE 1	PHASE 2	PHASE 3	PHASE 4	Cumulative*	Build-Out
Real Estate Tax	\$0	\$25,705	\$41,128	\$51,410	\$68,834	\$185,078	\$68,834
Personal Property Tax	\$0	\$21,041	\$33,666	\$42,082	\$54,707	\$151,496	\$54,707
Meals Tax	\$0	\$1,160	\$896	\$484	\$696	\$3,016	\$0
Building Permits	\$0	\$27,771	\$16,983	\$11,589	\$16,983	\$73,325	\$0
Recordation Tax	\$1,320	\$7,458	\$4,475	\$2,983	\$4,475	\$20,711	\$0
Purchase of Property	\$230,000	\$0	\$0	\$0	\$0	\$230,000	\$0
Revenue for Education:							
From Commonwealth	\$0	\$30,009	\$48,014	\$60,018	\$78,023	\$216,065	\$78,023
Federal Funds	\$0	\$255	\$407	\$509	\$662	\$1,833	\$662
Miscellaneous Revenue	\$0	\$19,485	\$29,988	\$37,069	\$48,285	\$134,828	\$48,285
Total Annual Revenue	\$231,320	\$132,884	\$175,357	\$206,125	\$270,684	\$1,016,350	\$248,511

* Cumulative column indicates total revenues received by the City of Portsmouth from 2010 thru the completion of Phase 4.



Real Estate Property Taxes:

The City of Portsmouth's Fiscal Year 2009 Comprehensive Annual Report indicates that the current real estate tax rate is \$1.21 per hundred dollars of assessed value, and no change in this rate is assumed for this analysis. For the residential units, 94% of the future market value has been used in this analysis for determining the real estate taxes (Tax Revenue = {[0.94 times the market value] divided by 100} times the tax rate of \$1.21). This is based on information within the Fiscal Year 2009 Comprehensive Annual Report which estimates that the assessed value of residential properties is approximately 94% of the actual market value of the property.

No adjustment has been made for the current real estate taxes received on the property. At build-out, annual real estate taxes are estimated to be nearly \$69,000 for Hulls Creek at Port Norfolk. It is anticipated that the revenue stream will steadily increase for the City of Portsmouth; however, due to the level of uncertainty of real estate

values at future rates and assessments, no appreciation of the real estate value has been included in this analysis.

Personal Property Taxes:

The City of Portsmouth collects approximately \$89.8 million in personal property taxes. The City's tax rate is \$5.00 per \$100 of assessed value and no increase is accounted for in this analysis.

The residential personal property tax calculation has been based on current estimated value of personal property of residents in the City of Portsmouth. Per the *Fiscal Year 2009 Comprehensive Annual Report*, it is estimated the value of citizen's property is \$1,796,276,180. Per the same report, the City of Portsmouth has 97,599 residents. Dividing the estimated value of citizen's property by the number of citizens provides us with an estimated value of personal property for each resident of \$18,404.66 (\$1,796,276,180 divided by 97,599 = \$18,404.66). This estimated value of personal property has been multiplied by the cumulative number of residents in each phase of the development to calculate the tax revenue for residential personal property.

Applying these estimates, the City can expect to collect approximately \$55,000 annually in personal property taxes for Hulls Creek at Port Norfolk.

Meals Taxes:

The City of Portsmouth currently levies a 7.5-cent tax on prepared food and beverages. For the purposes of this calculation, we have not included any impact to meals taxes by the residential units.

In this analysis, we have assumed that the construction employees will eat out an average of 3 times per week with an average meal cost of \$6.00. Applying these estimates, the City can anticipate collecting approximately \$3,000 in meals taxes through the four phases of construction of the project.

Building Permits:

Revenue will be received by the City of Portsmouth from the application of building permit fees for development within Hulls Creek at Port Norfolk. Building permit fees – for the residential development – are derived by adding the water and sewer connection and availability charges, the plan review fee charged by the Inspections Department (varies between \$75 and \$80 based on the square footage of the building), the valuation fee (\$800 plus \$4 for every \$1,000, or portion thereof, in value over \$100,000), Mechanical, Plumbing and Electrical Permits and the sum of the square footage of the building times the review fee schedule listed below:

- \$7.00 per 100 square feet up to a 2,000 square foot building.
- \$6.00 per 100 square feet for a building between 2,001 and 5,000 square feet.
- \$5.00 per 100 square feet for any building larger than 5,001 square feet.

Based on these fees, the City of Portsmouth will receive over \$73,000 in building permit fees.

Recordation Taxes:

Portsmouth collects recording taxes on real estate transfers. These included a deed recording fee of \$0.33 per \$100 of the selling price and a deed of trust recording tax of \$0.33 per \$100 of selling price or the face value of the mortgage, whichever is greater.

It is anticipated, for the purposes of this report, that the Developer will close on the property in 2010 and the City of Portsmouth will receive recordation taxes for the sale of the property.

For the residential development, it is anticipated that – as building construction is complete – the buildings will be sold. We have used the market value of each type of residential construction and applied the appropriate recordation taxes to the sale. We have not included any resale of residential units after the initial sale occurs as part of this analysis.

Based on the information provided, the City can expect to receive nearly \$21,000 in recordation taxes as part of this development not including any resale of residential units after the initial sale.

Education Revenues from Commonwealth:

In the City's School Board budget for 2010-2011, the Commonwealth of Virginia provides the City with over \$82.5 million in revenue for public education. This amount includes the education sales tax revenue redistributed by the Commonwealth from sales taxes. To arrive at a per pupil revenue amount, \$82.5 million has been divided by the number of children within the public school system (14,300 pupils, source: City of Portsmouth School System website) to reach \$5,770.96 per pupil. The estimated number of children generated by Hulls Creek at Port Norfolk is estimated at 14 as calculated in Table 2C above. By buildout, the 14 children multiplied by the \$5,770.96 per child will generate over \$80,000 in this revenue stream annually.

Education Federal Funds:

The Federal Government also provides funding for public education to each of the localities. The 2010-2011 School Board budget indicates \$700,000 in federal funds will be given to the City of Portsmouth for public education spending (\$48.95 per pupil). Based upon 14 children residing in Hulls Creek at Port Norfolk at buildout, approximately \$700 is expected in annual federal funding.

Miscellaneous Taxes and Revenues:

Incidental and miscellaneous taxes and revenues are collected by the City of Portsmouth as part of normal activities. These taxes and revenues collected include

public service taxes, a variety of licenses, permits and fees, fines and forfeitures, revenues from the use of money and property, revenues from the Commonwealth and the Federal government and charges for services. As shown on Table 5, the City budget shows that miscellaneous revenue sources are expected to total about \$69.9 million. For this analysis, 95% of these revenues are attributed to residential uses and 5% are attributed to commercial uses.

The FY 2009 Comprehensive Annual Financial Report indicated that there are 48,576 employees working within the City of Portsmouth. On a per employee basis, 5% of the listed revenues total \$71.93 (\$69,879,108 divided by 48,576 employees * 5%). This figure has been applied to the employees created by construction for each Phase of construction. For example, in Phase 3 of the project, Table 3 indicates 7 construction jobs. Multiplying the total jobs (7) by the miscellaneous revenue generated by employee (\$71.93) provides the City of Portsmouth with \$503.51 in revenue during Phase 3.

The Fiscal Year 2009 Comprehensive Annual Report indicates that there are 97,599 people residing in the City of Portsmouth. On a per resident basis, 95% of the listed revenues totals \$680.18 (\$69,879,108 divided by 97,599 residents * 95%). This figure has been applied to the cumulative residents generated by the project in each Phase and at build-out. For example, in Phase 3 of the project, Table 2A indicates a total cumulative residential population in Hulls Creek at Port Norfolk of 54. Multiplying the total residents (54) by the miscellaneous revenue generated by resident (\$680.18) provides the City of Portsmouth with \$36,729.72 in revenue during Phase 3.

Based on these estimates, the City of Portsmouth – at buildout – is anticipated to receive approximately \$48,000 annually in miscellaneous revenues (Refer to Buildout column of Table 4).

**TABLE 5
MISCELLANEOUS REVENUE
FY2009 COMPREHENSIVE FINANCIAL REPORT**

CITY BUDGET LINE ITEM	AMOUNT
Admission and Amusement Taxes	\$ 262,460
Bank Franchise Taxes	558,460
Cigarette Taxes	2,578,777
Licensing Fees - Current	1,571,071
Licensing Fees - Delinquent	460,755
Lodging Taxes	828,155
Motor Vehicle License Fee	1,814
Sales and Use Tax - Local	7,147,057
Short-term Rental Taxes	35,059
Telecommunications	9,343,627
Electricity Taxes	4,143,697
Gas Taxes	1,429,610
Water Taxes	2,102,822
Mobile Home Sales Tax	2,567
Personal Property Tax Relief Act	9,862,962
Recordation Tax Distribution	310,872
Rolling Stock Taxes	27,776
Vehicle Rental Tax	151,617
Shared Expenses Reimbursed from the Commonwealth	7,442,165
Correctional Facilities Block Grant	1,105,117
Law Enforcement Grant	6,621,309
Library Funds - Books	189,908
Street and Highway Maintenance	9,504,902
Wireless E-911	44,488
Federal Reimbursements	1,910,339
Ambulance Fees - Current	1,236,798
Animal Crematory Fees	30
Circuit Court Clerk Fees	7,734
City Sheriff Fees	17,696
Concession Fees	14,561
Courthouse Maintenance Fees	49,662
Library Fines and Fees	43,366
Museum Admission Charges	478,832
Police Record Fees	28,288
Recreation Activity Fees	145,165
Rental Inspection Fees	70,831
Street Closure Applications	220
Swimming Fees	1,420
Miscellaneous Recoveries	149,221
TOTAL	\$ 69,879,108

LOCAL GOVERNMENT EXPENDITURES

Local government expenditures attributed to Hulls Creek at Port Norfolk have been estimated through the utilization of projected government expenses reported in the City's June 30, 2009 Comprehensive Financial Report. Table 6 shows that the City of Portsmouth has total government expenditures of \$265,053,134, including educational expenses, and \$211,171,829 without educational expenses. For this analysis, 95% of these expenditures are attributed to residential uses and 5% are attributed to commercial uses. The only exception to this is educational expenses, which are attributed as 100% for the residential uses.

The Fiscal Year 2009 Comprehensive Annual Report indicates that there are 97,599 people residing in the City of Portsmouth. On a per resident basis, 95% of the listed expenditures, and 100% of the educational expenditures, totals \$2,055.48 (\$211,171,829 divided by 97,599 residents * 95%). On a per student basis, 100% of the educational expenditures totals \$3,767.92 (\$53,881,305 [educational expenses] divided by 14,300 students). These figures have been applied to the cumulative residents and students generated by the project in each Phase and at build-out. For example, in Phase 3 of the project, Table 2A indicates a total cumulative residential population in Hulls Creek at Port Norfolk of 54 and a student population of 10. Multiplying the total residents (54) by the expenditures per resident (\$2,055.48) and the total students (10) by the expenditures per student (\$3,767.92) shows the City of Portsmouth with \$151,208 in expenditures at the completion of Phase 3 for Hulls Creek at Port Norfolk.

**Table 6
FY2009 Local Government Expenditures**

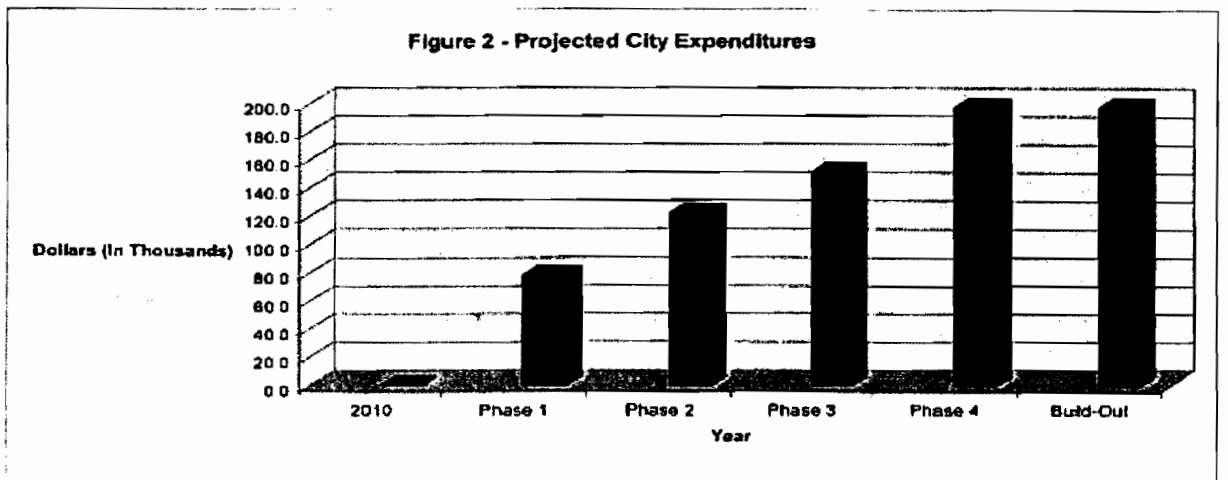
Expenditure Category	Costs
General Government	\$26,462,771
Judicial	\$22,068,062
Public Safety	\$59,957,146
Public Works	\$29,535,176
Health & Welfare	\$40,267,351
Education	\$53,881,305
Parks/Recreation/Culture	\$13,000,940
Community Development	\$9,306,525
Non-education: Debt Service	\$10,573,858
Total Expenditures	\$265,053,134

The results of the above methodology are reflected in Table 7 and Figure 2. From Table 7, the total net expenditures of the City of Portsmouth – at build-out – are approximately \$197,000 for Hulls Creek at Port Norfolk.

**TABLE 7
HULLS CREEK AT PORT NORFOLK
LOCAL GOVERNMENT EXPENDITURES**

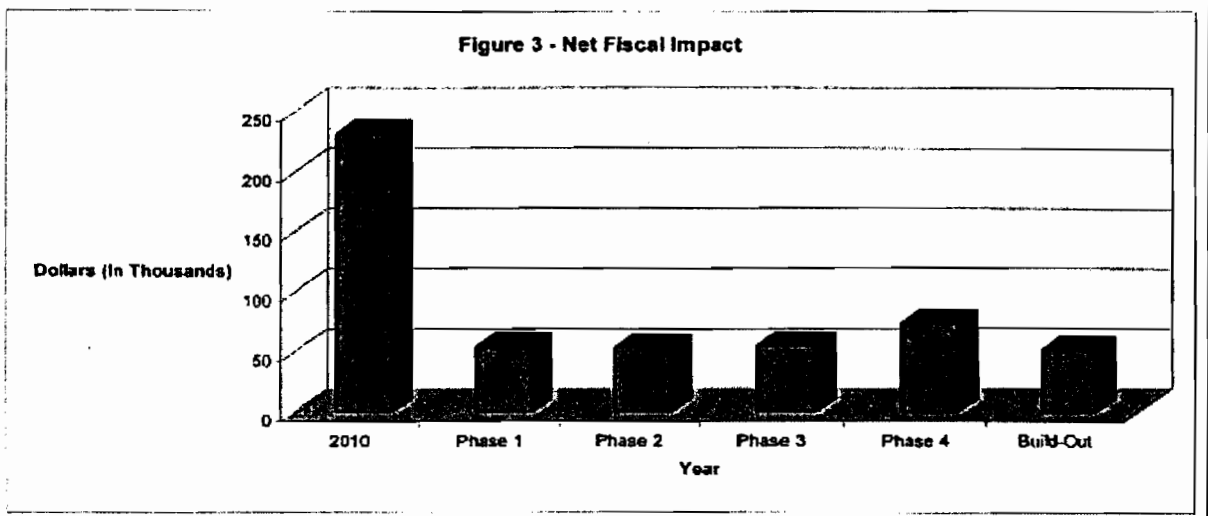
Government Expenditures	2010	PHASE 1	PHASE 2	PHASE 3	PHASE 4	Cumulative*	Build Out
General Government	\$0	\$7,379	\$11,356	\$14,038	\$18,285	\$51,058	\$18,285
Judicial	\$0	\$6,154	\$9,470	\$11,707	\$15,249	\$42,579	\$15,249
Public Safety	\$0	\$16,719	\$25,730	\$31,806	\$41,429	\$115,684	\$41,429
Public Works	\$0	\$8,236	\$12,675	\$15,668	\$20,408	\$56,986	\$20,408
Health & Welfare	\$0	\$11,228	\$17,280	\$21,361	\$27,824	\$77,694	\$27,824
Education	\$0	\$19,593	\$31,349	\$39,186	\$50,942	\$141,071	\$50,942
Recreation/Culture	\$0	\$3,625	\$5,579	\$6,897	\$8,983	\$25,085	\$8,983
Community Development	\$0	\$2,595	\$3,994	\$4,937	\$6,431	\$17,956	\$6,431
Non-education: Debt Service	\$0	\$2,948	\$4,538	\$5,609	\$7,306	\$20,402	\$7,306
Total Expenditures	\$0	\$78,477	\$121,972	\$151,208	\$196,858	\$548,515	\$196,858

* Cumulative column indicates total expenditures by the City of Portsmouth from 2010 thru the completion of Phase 4.



NET FISCAL IMPACT

The net fiscal impact of a development on the local government is calculated by subtracting the government expenditures from the government revenues. The annual estimated net fiscal impacts during the development period and at build-out are shown on Table 8 and in Figure 3. The City should realize a cumulative net fiscal impact of nearly \$468,000 from 2010 through Phase 4. Once build-out occurs, it is estimated that Hulls Creek at Port Norfolk will provide an annual positive net fiscal impact to the City of Portsmouth of nearly \$52,000.



PROJECTED CUMULATIVE FISCAL IMPACT

In an effort to illustrate the net fiscal benefit or cost of this development to the City of Portsmouth, Hoggard-Eure Associates has calculated the net present value based only on a constant ongoing revenue and expenditure stream of Hulls Creek at Port Norfolk of build-out (\$51,653). Beginning the calculation at build-out excludes the short term revenues and expenditures incurred by the construction activity of Hulls Creek at Port Norfolk such as building permit fees and taxes collected from the developer based on the value of the construction. Carried over a 20-year period and discounted at 5%, the net present value of this development is nearly \$839,000.