

MASSANUTTEN PROPERTY OWNERS ASSOCIATION

Financial Model — Feasibility of Incorporation

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CONFIDENTIAL

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MASSANUTTEN PROPERTY OWNERS ASSOCIATION FINANCIAL CONSEQUENCES OF INCORPORATION

Because no one can tell precisely what the future holds, financial models are usually filled with assumptions. This model is no exception. We've had to make assumptions to arrive at tax bases, tax rates, and future growth. Appendix A shows our assumptions and our rationale for making them. Of course, all of the assumptions are subject to quibbling, but we've tried to take a reasonable and conservative course. Because you asked us to look only into the financial aspects of incorporation, we've had to make certain assumptions about the relationship of the proposed town to MPOA. Basically, we've assumed that the municipality will completely supersede MPOA and will undertake all MPOA functions. The model is also premised on the unrealistic assumption that the municipality would be created on December 31, 1987. For our present purposes, it is sufficient to look only at whole years.

The heart of the model is the scenarios found in Appendices B, C, and D. Because the municipality would simply replace MPOA, we've assumed that it would require revenue roughly equivalent to MPOA's budget, or about \$500,000. The three scenarios demonstrate three different methods for obtaining the required revenue. Each appendix contains charts showing revenues for the next five years, the tax rates needed to achieve those revenues, the expenses to typical lot owners, and the proportion of revenues contributed by lot owners, homeowners, and businesses.¹

We set the rates in scenario 1 so that the typical homeowner would pay taxes in the same ball park as his 1988 assessments. Businesses—primarily contractors and GERC—would have to contribute a healthy chunk of the town's revenues. Owners of undeveloped lots

¹I refer to "lot owners" as people who own only unimproved property at Massanutten.

would pay very little to the town. This result wasn't intended; but very few municipal taxes can extend to non-residents.

In scenario 2 outlined in Appendix C, the municipality would receive the same total dollars from real estate taxes that MPOA now collects in assessments. This taxing scheme hits homeowners very hard. Businesses (except to the extent that they pay real estate taxes) would escape lightly. Lot owners would pay more than under the other two scenarios, but their burden would still be comparatively light.

Appendix D contains our final hypothetical situation: scenario 3. In that situation, the town would tax businesses at the maximum permissible rate. Homeowners would pay considerably less than they do now, and lot owners would pay practically nothing.

Of course the tax rates can be manipulated in more than three ways. We included the three scenarios to highlight two important points. First, a municipality can raise all the money it needs if it is willing to impose high enough taxes, just as MPOA can always raise money through higher assessments. In this sense, it seems silly to speak of the incorporation being "financially feasible." To some extent the incorporation decision is simply a decision between raising money through taxes or assessments.

The second point is that while the community-wide economic impact of incorporation is not tremendous, incorporation would shift the burden among the different sectors of the community. Currently, lot owners and homeowners shoulder most of the financial burden. About 90% of MPOA's current revenue is derived from assessments. Every property owner pays the same assessment (for each lot). At the other extreme, the post-incorporation town would derive a sizeable chunk of its revenues from business. While the town would have the power to allocate the tax burden between homeowners and businesses (or among different types of businesses) it cannot shift much of the burden to lot owners. As noted, towns have very little power to tax non-residents. In short, incorporation would shift much of the financial burden from lot owners to businesses.

I don't mean to imply that incorporation would *only* cause the financial pie to be split up differently. There would be a slight increase in the revenue pie, with no corresponding burden. This painless growth is due to what we've dubbed "free lunches." (A graph showing the effect of free lunches is reproduced in Appendix E.) There are three types of free lunches:

1. *Property and sales taxes which MPOA now pays, but from which a municipality would be exempt.* These total about \$5,000 per year.
2. *Taxes paid by residents which now flow to the county but would flow to the new town.* Massanutten residents currently pay \$19,452 in consumer utility taxes and \$14,040 in motor vehicle taxes. After incorporation, these would flow to the town, and the residents would face no additional expense.
3. *Grants and discounts from the state.* The state provides grants for local police forces, which in our case would amount to an estimated \$12,500. The state provides a litter grant in the amount of \$800. Finally, the state purchasing program allows municipalities to purchase many items from the state's suppliers at the "state" price. The "state" price is usually (but not always) a very low price. Because the value of the discount depends on the price of the particular items purchased, assigning a value to the discount program is very tricky. We think it is worth about \$1,000 per year.

Thus incorporation would provide about \$50,000 in free lunches. There are some additional free lunches which would become available after the town is established. For example, some sales tax revenues would be available to the town around 1993. We haven't taken these future, speculative free lunches into account.

These, then, are the factors to be weighed in making the incorporation decision. Before summarizing, I will mention one non-factor: streets. Street maintenance is an enormous burden on MPOA. Initially, we had hoped that by incorporating, MPOA could receive state money for maintaining its streets. Unfortunately, the General Assembly recently repealed the statute under which the new town could have gotten those funds. Now, the only way to relieve ourselves of the street maintenance burden is to dedicate the streets to the State Department of Transportation. In the dedication process, it does not matter whether we are incorporated or not. I think we should at least study the dedication issue, but it is an issue entirely separate from incorporation.

SUMMARY

Incorporation is financially feasible in two respects: (1) the new town should need no more money to provide services than does MPOA, and it can easily raise that money through taxes, and (2) there are certain "free lunches" which will supply some of the needed funds. For better or worse, however, much of the financial burden would be shifted from lot owners to homeowners and businesses.

Assumptions Underlying Revenue Model

I. REAL PROPERTY BASE.

Residential

	<u>1987</u>	<u>Est. Value</u>	<u>Real Prop. Base</u>
Undeveloped lots	798	\$ 7,000	\$ 5,586,000
Developed lots	408	80,000	32,640,000
Lots being developed now	56	80,000	4,480,000
Condos & Clusters	<u>41</u>	<u>60,000</u>	<u>2,460,000</u>
Total Residential	1303		45,166,000

Organizations

	<u>1987 Tax</u>	<u>R'ham County Rate</u>	<u>Calculated Real Prop. Base</u>
GERC	\$ 40,426	0.0062	\$ 6,520,000
MPOA	4,394	0.0062	708,000
MVOA*	45,000	0.0062	<u>7,258,000</u>
Total Organizations			\$ 14,486,000
Real Property Base			\$ 59,652,000
Less MPOA property			<u>708,000</u>
Net Real Property Base			\$ 58,894,000

*MVOA:	\$ 50,232	Total property tax
	<u>(5,232)</u>	Allowance for personal property tax
	\$45,000	Estimated real property tax

II. PUBLIC SERVICE CORP. PROPERTY BASE.

Est. Water & Sewer Company Assets	\$ 3,000,000
Est. Virginia Power Assets*	2,000,000
Est. Continental Telephone Assets**	<u>50,000</u>
Total P.S.C. Base	\$ 5,050,000

* 20 Transformers @ \$50,000.

** Conservative "blue sky" estimate.

III. PERSONAL PROPERTY BASE.

Developed lots	408
Casual rentals	-27
Lots being developed now	56
New casual rental estimate	-10
Condos & Clusters	<u>41</u>
Total resident families	468
 Resident families	 468
Est. average car price	4,000
Est. cars per family	<u>2</u>
Personal Property Base	\$ 3,744,000

IV. BUSINESS LICENSES.**A. Retail Sales**

GERC food and beverage	\$ 1,000,000
GERC retail sales	100,000
MPOA retail sales	3,000
Le Club pro shop	<u>15,000*</u>
Total retail sales	\$ 1,103,000

* "Blue sky" estimate.

B. Contractors

Homes - 60/year @\$80,000	\$ 480,000
Timeshare Sales	<u>20,000,000</u>

Total contractor sales	\$ 20,480,000
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—less estimate of state exemption for the first \$25,000 of each contractor's receipts (assumes 10 different contractors)	<u>250,000</u>
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Net contractor sales	\$ 20,230,000
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C. Financial, Real Estate, Professional

MPOA rental receipts	\$ 350,000
Individual owners' rental receipts*	108,540
TRI rental receipts	<u>0</u>

Total Financial, RE, Prof.	\$ 458,540
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*Estimated:	\$ 6,000	per year
	27	rental owners
	<u>0.67</u>	occupancy rate

\$ 108,540

D. Other (includes services)

Lift tickets	\$ 800,000
Ski rental	500,000
Greens fees	48,000
Cart rental	<u>48,000</u>

Total Other	\$ 1,396,000
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E. Utility

*Phone,
Electric & Gas*

MPOA	\$ 15,048
MPOA	340,831
GERC	422,491
Residential (505 residences x \$1500)	<u>757,500</u>

Total Utility Base	\$ 1,766,704
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F. Cable TV

Residential*	\$ 12,840
GERC	<u>6,600</u>
Total	\$ 19,440

* \$21.40/month x 12 months x 50 homes.

V. CONSUMER UTILITY TAXES.

Residential phone and electric utility base

Developed lots	408
Lots being developed now	56
Condos & Clusters	<u>41</u>
Residences	505
Monthly cap (assumes all electric and phone bills will be greater than \$15)	\$ 15
Number of months	<u>12</u>
Taxable Base	\$ 90,900

Business Utility Base

MPOA	\$ 15,048
MVOA	340,831
GERC	<u>422,491</u>
Total business utility base	\$ 778,370

VI. VEHICLE LICENSES.

Resident families	468
Estimated cars per family	<u>2</u>
Estimated total cars	936
Suggested license fee	<u>\$ 15</u>
Total	\$ 14,040

VII. GROWTH RATES.

Rockingham County projects a 7% growth rate in the number of full-time residents. The following tax bases are closely correlated to resident population, and will be increased by 7%:

- Real Property
- Personal Property
- Cable TV
- Resident Telephone Consumers Utility
- Resident Electric Consumers Utility
- Motor Vehicle Licenses

GERC projects a 20% increase in the number of skiers in 1988. However, further increases would require a substantial investment in ski slopes and equipment. The following tax bases will be increased by 20% in 1988 and a modest 3% thereafter:

- Retail Business Licenses
- Other (services) Business Licenses

The remaining tax bases will be increased by 5%, a conservative estimate of the overall business growth and development in the project:

- Contractors' Business Licenses
- Financial, RE, Prof. (landlord) Business Licenses
- Utility Business Licenses
- Business Consumers Utility

Due to the high degree of uncertainty of the public service corp. asset valuation, no increase was projected.

VII. GRANTS, etc.

Based on conversations with area towns and the State Office of Criminal Justice, we *estimate* that the new town would receive about \$12,500 in state law enforcement assistance.

The state purchasing program is extremely difficult to value. Basically, it allows towns to purchase certain goods at the same price the state pays. The discount usually averages 10-20%. We estimate that the purchase program is worth about \$1,000 per year.

SCENARIO 1

These tax rates have been set so the typical homeowner will pay about the same in real estate taxes as he currently pays in assessments. Because lot owners' loads would be greatly lessened, business would have to pick up the slack.

Massanutten Revenue Model

TAX REVENUE FORECAST	1988	1989	1990	1991	1992
Property Taxes					
Real Property	\$296,429	\$317,179	\$339,382	\$363,139	\$388,558
Public Service Corps	\$23,735	\$23,735	\$23,735	\$23,735	\$23,735
Personal Property	\$16,425	\$17,575	\$18,805	\$20,121	\$21,530
Subtotal	\$336,589	\$358,489	\$381,922	\$406,995	\$433,823
Business License Taxes					
Retail	\$1,901	\$2,281	\$2,349	\$2,420	\$2,492
Contractors	\$28,322	\$29,738	\$31,225	\$32,786	\$34,426
Financial, RE, Prof	\$2,155	\$2,263	\$2,376	\$2,495	\$2,620
Other	\$4,188	\$5,026	\$5,176	\$5,332	\$5,492
Utility License	\$8,834	\$9,275	\$9,739	\$10,226	\$10,737
Cable TV	\$58	\$62	\$67	\$71	\$76
Subtotal	\$45,458	\$48,645	\$50,932	\$53,330	\$55,843
Consumer's Utility Taxes					
Resid. Telephone	\$9,726	\$10,407	\$11,136	\$11,915	\$12,749
Resid. Electric	\$9,726	\$10,407	\$11,136	\$11,915	\$12,749
Business Utility	\$65,383	\$68,652	\$72,085	\$75,689	\$79,474
Subtotal	\$84,836	\$89,467	\$94,356	\$99,519	\$104,972
Vehicle Licenses					
Grants, etc.	\$14,040	\$15,023	\$16,074	\$17,200	\$18,404
	\$14,950	\$14,950	\$14,950	\$14,950	\$14,950
Total	\$495,873	\$526,573	\$558,235	\$591,994	\$627,991

Massanutten Revenue Model

TAX RATES

	Prop	Basis
Real Prop	\$0.0047	per \$1.00
PSCs	\$0.0047	per \$1.00
Pers Prop	\$0.0041	per \$1.00
Business Licenses:		
Retail	\$0.0017	per \$1.00
Contrs	\$0.0014	per \$1.00
F RE Prof	\$0.0047	per \$1.00
Other	\$0.0030	per \$1.00
Cable	\$0.0030	per \$1.00
Utils GR	\$0.0050	per \$1.00
Miscellaneous:		
Res Ph	\$0.1000	per \$1.00
Res Elec	\$0.1000	per \$1.00
Bus Ph	\$0.0800	per \$1.00
Bus Elec	\$0.0800	per \$1.00

TYPICAL PROPERTY OWNER EXPENSES

(Does not include taxes already being paid to Rockingham County.)

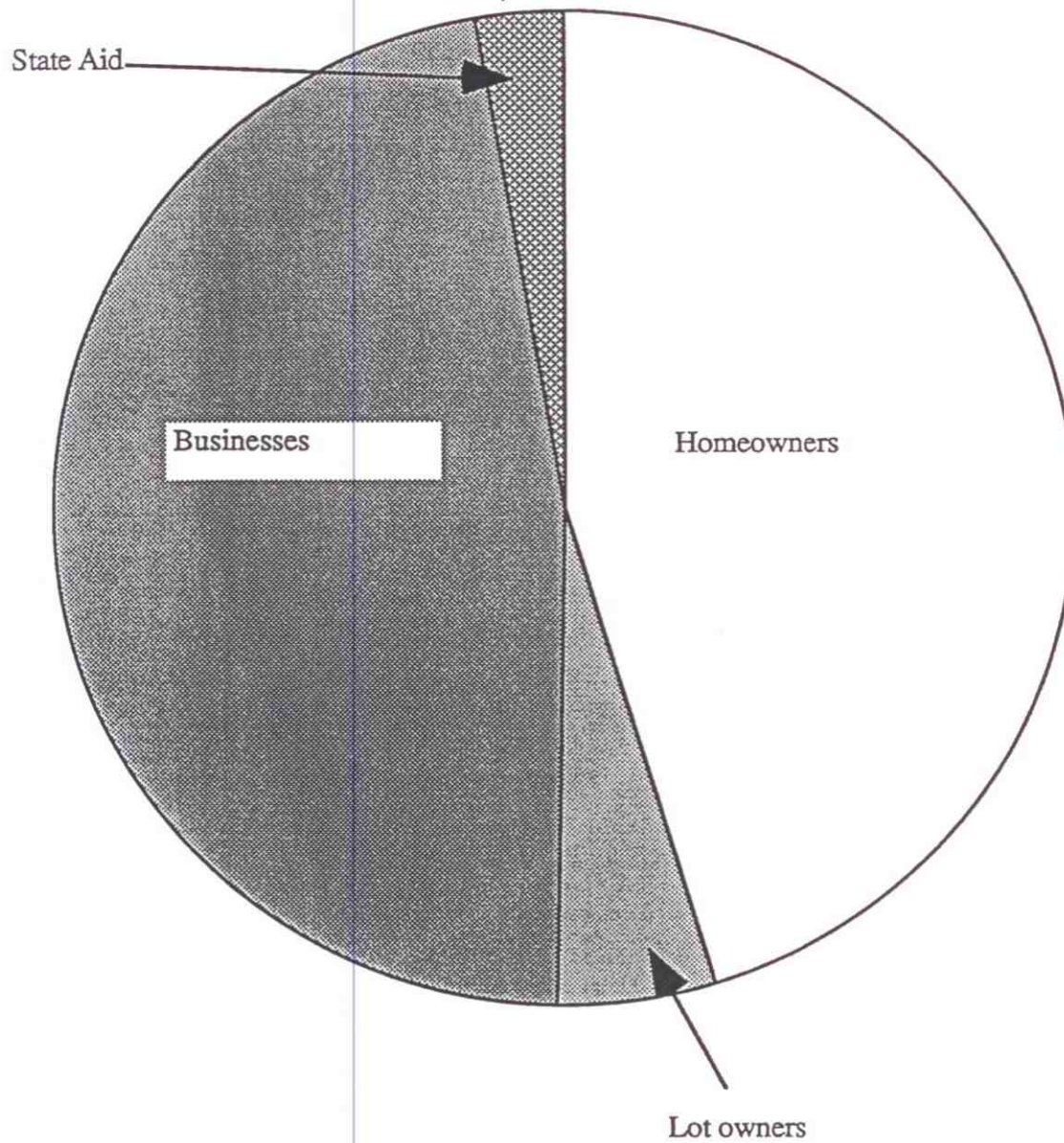
HOMEOWNERS

Real Property Tax	\$ 376.00
Personal Property Tax	<u>32.80</u>
Total	\$ 408.80

LOT OWNERS

Real Property Tax	\$ 32.90
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Who would pay for services: Scenario 1.



SCENARIO 2

Here the tax rates are set so that the new town would realize about as much from real estate taxes as MPOA realizes from assessments. Businesses (including MVOA, though technically not a business) would still shoulder a considerable burden, because they own a great deal of real estate.

Massanutten Revenue Model

	1988	1989	1990	1991	1992
Property Taxes					
Real Property	\$397,342	\$425,155	\$454,916	\$486,760	\$520,834
Public Service Corps	\$31,815	\$31,815	\$31,815	\$31,815	\$31,815
Personal Property	\$0	\$0	\$0	\$0	\$0
Subtotal	\$429,157	\$456,970	\$486,731	\$518,575	\$552,649
Business License Taxes					
Retail	\$559	\$671	\$691	\$712	\$733
Contractors	\$8,092	\$8,497	\$8,921	\$9,368	\$9,836
Financial, RE, Prof	\$688	\$722	\$758	\$796	\$836
Other	\$1,256	\$1,508	\$1,553	\$1,599	\$1,647
Utility License	\$8,834	\$9,275	\$9,739	\$10,226	\$10,737
Cable TV	\$17	\$19	\$20	\$21	\$23
Subtotal	\$19,446	\$20,691	\$21,683	\$22,722	\$23,813
Consumer's Utility Taxes					
Resid. Telephone	\$9,726	\$10,407	\$11,136	\$11,915	\$12,749
Resid. Electric	\$9,726	\$10,407	\$11,136	\$11,915	\$12,749
Business Utility	\$8,173	\$8,582	\$9,011	\$9,461	\$9,934
Subtotal	\$27,625	\$29,396	\$31,282	\$33,291	\$35,433
Vehicle Licenses					
Grants, etc.	\$14,040	\$15,023	\$16,074	\$17,200	\$18,404
	\$14,950	\$14,950	\$14,950	\$14,950	\$14,950
Total	\$505,218	\$537,030	\$570,720	\$606,739	\$645,247

Massanutten Revenue Model

TAX RATES

	Prop	Basis
Real Prop	\$0.0063	per \$1.00
PSCs	\$0.0063	per \$1.00
Pers Prop	\$0.0000	per \$1.00
Business Licenses:		
Retail	\$0.0005	per \$1.00
Contrs	\$0.0004	per \$1.00
F RE Prof	\$0.0015	per \$1.00
Other	\$0.0009	per \$1.00
Cable	\$0.0009	per \$1.00
Utils GR	\$0.0050	per \$1.00
Miscellaneous:		
Res Ph	\$0.1000	per \$1.00
Res Elec	\$0.1000	per \$1.00
Bus Ph	\$0.0100	per \$1.00
Bus Elec	\$0.0100	per \$1.00

TYPICAL PROPERTY OWNERS' EXPENSES

(Does not include taxes already being paid to Rockingham County.)

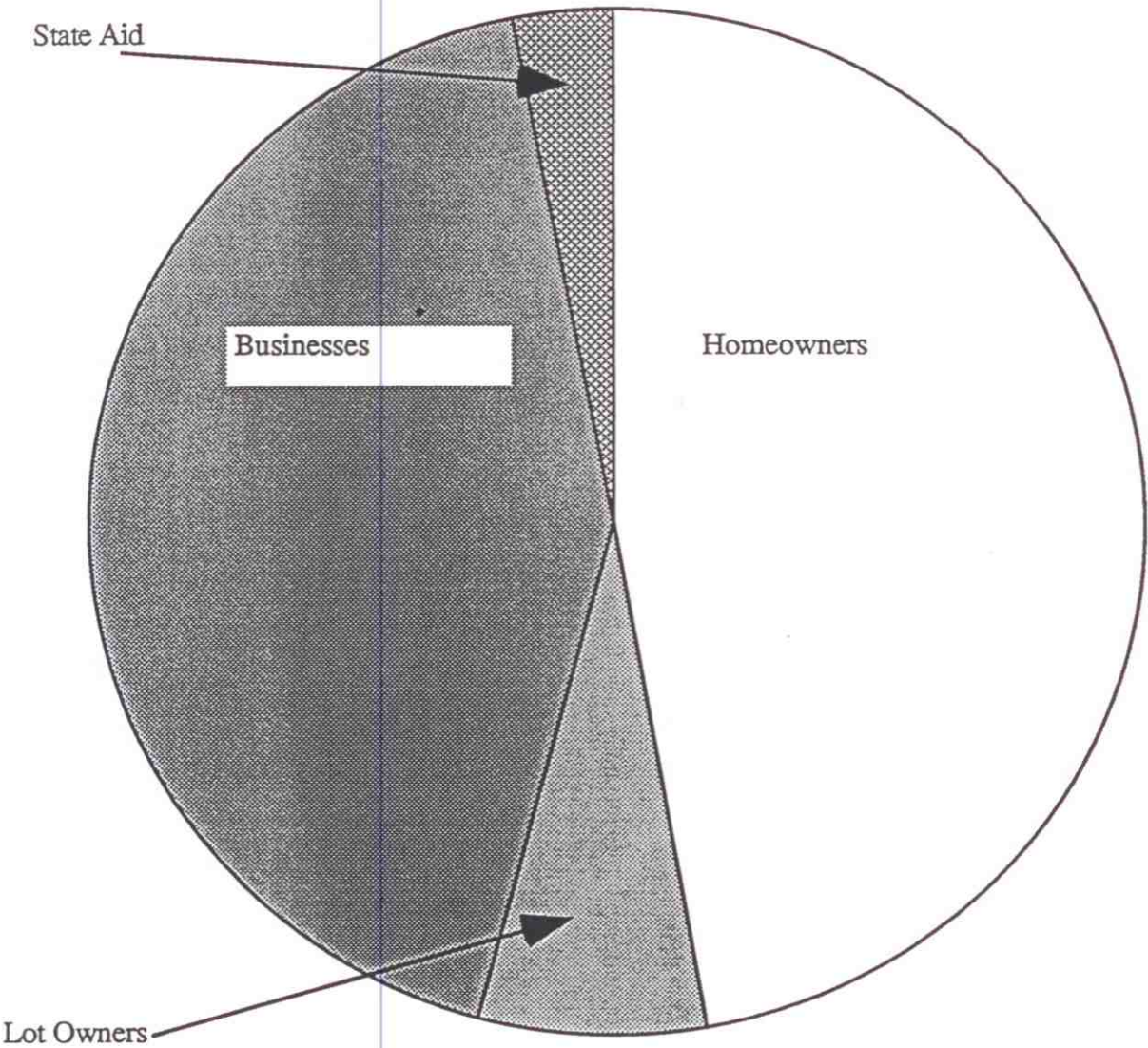
HOMEOWNERS

Real Property Tax	\$ 504
Personal Property Tax	<u>-0-</u>
Total	\$ 504

LOT OWNERS

Real Property Tax	\$ 44.10
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Who would pay for services: Scenario 2.



SCENARIO 3

Here businesses are taxed at the maximum allowable rates. The burden on property owners is lessened correspondingly.

Massanutton Revenue Model

TAX REVENUE FORECAST					
	1988	1989	1990	1991	1992
Property Taxes					
Real Property	\$208,131	\$222,700	\$238,289	\$254,970	\$272,818
Public Service Corps	\$16,665	\$16,665	\$16,665	\$16,665	\$16,665
Personal Property	\$12,018	\$12,860	\$13,760	\$14,723	\$15,753
Subtotal	\$236,815	\$252,225	\$268,714	\$286,358	\$305,236
Business License Taxes					
Retail	\$2,236	\$2,683	\$2,764	\$2,847	\$2,932
Contractors	\$32,368	\$33,986	\$35,686	\$37,470	\$39,344
Financial, RE, Prof	\$2,660	\$2,793	\$2,932	\$3,079	\$3,233
Other	\$5,026	\$6,031	\$6,212	\$6,398	\$6,590
Utility License	\$8,834	\$9,275	\$9,739	\$10,226	\$10,737
Cable TV	\$70	\$75	\$80	\$86	\$92
Subtotal	\$51,193	\$54,843	\$57,412	\$60,105	\$62,927
Consumer's Utility Taxes					
Resid. Telephone	\$9,726	\$10,407	\$11,136	\$11,915	\$12,749
Resid. Electric	\$9,726	\$10,407	\$11,136	\$11,915	\$12,749
Business Utility	\$163,458	\$171,631	\$180,212	\$189,223	\$198,684
Subtotal	\$182,910	\$192,445	\$202,483	\$213,053	\$224,182
Vehicle Licenses					
Grants, etc.	\$14,040	\$15,023	\$16,074	\$17,200	\$18,404
	\$14,950	\$14,950	\$14,950	\$14,950	\$14,950
Total	\$499,907	\$529,486	\$559,634	\$591,665	\$625,699

Massanutten Revenue Model

TAX RATES

	Prop	Basis
Real Prop	\$0.0033	per \$1.00
PSCs	\$0.0033	per \$1.00
Pers Prop	\$0.0030	per \$1.00
Business Licenses:		
Retail	\$0.0020	per \$1.00
Contrs	\$0.0016	per \$1.00
F RE Prof	\$0.0058	per \$1.00
Other	\$0.0036	per \$1.00
Cable	\$0.0036	per \$1.00
Utils GR	\$0.0050	per \$1.00
Miscellaneous:		
Res Ph	\$0.1000	per \$1.00
Res Elec	\$0.1000	per \$1.00
Bus Ph	\$0.2000	per \$1.00
Bus Elec	\$0.2000	per \$1.00

TYPICAL PROPERTY OWNER EXPENSES

(Does not include taxes already being paid to Rockingham County.)

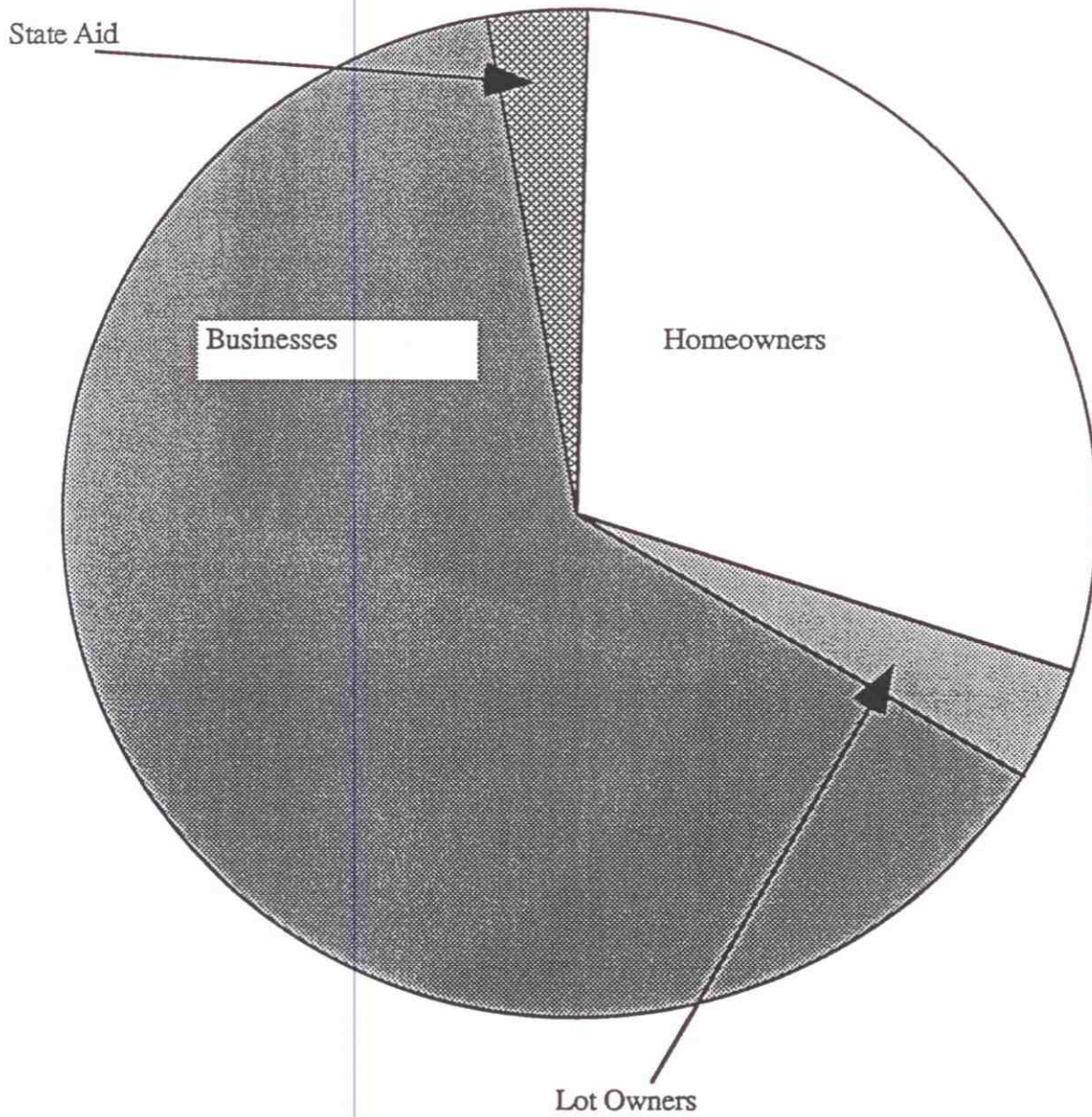
HOMEOWNERS

Real Property Tax	\$ 264
Personal Property Tax	<u>24</u>
Total	\$ 288

LOT OWNERS

Real Property Tax	\$23.10
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Who would pay for services: Scenario 3.



The benefits of incorporation: Free lunches.

