ROBERT CHARLES LESSER & CO., LLC

FISCAL IMPACT ANALYSIS

FARMS OF NEW KENT

NEW KENT COUNTY, VIRGINIA

Prepared for:

FARMS OF NEW KENT

July 14, 2004

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EXECUTIVE SUMMARY

Fiscal Impact Analysis and Supporting Market Analysis

Robert Charles Lesser & Co., LLC (RCLCo), a national independent real estate consulting and economic analysis firm, was retained to conduct an independent fiscal impact analysis for the proposed The Farms of New Kent to be developed in New Kent County, Virginia. The analysis took account of all categories of New Kent County revenues and operating expenditures, plus educational capital expenditures, expected to be received and incurred as a result of the development of the property, and incorporated them into a detailed model. The assumptions used for the fiscal impact analysis were based on:

- RCLCo's analysis of the New Kent County budget in effect at the time of our original analysis;
- Inputs and approaches devised and/or accepted by other counties, particularly in Virginia, as well as approaches recommended by New Kent County staff;
- Widely accepted techniques used throughout the United States for fiscal impact analyses; and
- 2000 U.S. Census data for New Kent County.

The results, assumptions and methodology for the fiscal impact analysis are described in this report and the accompanying exhibits.

In January 2003, RCLCo conducted an independent market analysis of the principal uses (active adult residential, conventional residential, retail and associated commercial office) at The Farms of New Kent to determine the market support for the planned development, the likely home prices, and the probable pace of sales and leasing. For other uses, including the golf course, winery, inn, weekend cottages, and extended care, the developer provided market assumptions.

The development as proposed will have the following uses:

- 1,450 active adult homes (may only be occupied by households with one member age 55 and over, and no children would be allowed to live in these units);
- 950 non-age-restricted homes of various sizes and types;
- 100 resort cottages
- Several retail centers and other highway-oriented retail, totaling 521,000 square feet through year 2024 (additional retail could be developed later);
- Related office development, totaling 95,000 square feet through year 2025;
- An 18-hole golf course;
- A winery;
- A country inn and spa, estimated to have 60 rooms;
- A conservation/equestrian facility.

The results of the detailed fiscal impact model show that the proposed development will have a highly positive fiscal impact on New Kent County. In other words, the development will generate so much in taxes and other revenues that it will pay its own way (including paying for any needed additional school capacity and paying to educate the children living in The Farms of New Kent) and still help to pay for other County operating and capital needs. Substantial net revenues would also be available to fund required infrastructure. (Because required non-educational capital improvements will be the topic of much evaluation and analysis, we have not estimated the cost of these improvements. We have also not assumed any proffer payments or tap fees, though we have included the cost of new schools, using the average cost per student for new schools in Virginia, for every student expected to be living in the development.)

As graphed on Exhibit 1 and detailed on Exhibit 2, the proposed development will generate a positive net fiscal benefit of $83 million over a 21-year period (2005-2025), in constant 2005 dollars. As shown on Exhibits 3 and 4, the development will have a positive impact on the County every year, with the benefit increasing over time. As shown on Exhibit 4, the annual net fiscal impact in 2025, in 2005 dollars, is $7.1 million (some additional development, which would further increase the positive impact, could occur after 2025).

Although The Farms of New Kent will undoubtedly have various indirect and induced benefits to the county (e.g., higher property values in surrounding areas; retail sales tax from spending by those constructing homes and buildings at The Farms of New Kent; etc.), to be conservative we have not taken account of any of these benefits, or the multiplier effects from these benefits.

* * * *

This engagement was conducted by Leonard Bogorad, Managing Director; and Neal Tsay, Senior Consultant. If you have any questions regarding the conclusions and recommendations included herein, or wish to learn about other RCLCo advisory services, please call (301) 907-6600.

RCLCo has unsurpassed experience in market and feasibility analysis, fiscal impact analysis, and strategic programming, much of it for master-planned communities and multi-use developments. Our client base includes developers, major investors, lenders and government agencies. Our fiscal impact clients include Loudoun County, the City of Charlottesville, Toll Brothers, Lansdowne, U.S. Home, K. Hovnanian, Pulte Homes, Andrews Community Investment Corporation and The Peterson Companies. We are well regarded by Loudoun County, and have conducted numerous studies for the County, as well as for developers making submissions to the County.

FISCAL IMPACT ANALYSIS--REVENUES

Real Property Tax Revenues

The real property tax rate used in this analysis is $0.79 per $100 of assessed value (the County's tax rate). The residential assessed values and sales paces were based on the sales prices determined in the independent market analysis previously conducted by RCLCo. The assessed values of the retail and office were estimated based on interviews with brokers and our assessment of the strength of the market for these uses. The developer provided values for various less significant uses. The model includes property tax revenues prior to construction, which was based upon an estimated value of $2,500 per acre, as suggested by the New Kent County Commissioner of Revenue. Total real property revenues for the 21-year period 2005-2025 were calculated at $87.3 million given the rezoning.

Personal Property Tax Revenues

The County personal property tax rate of $3.75 per $100 of assessed value was used. To determine the likely residential personal property tax revenues under the rezoning, RCLCo used calculations of vehicle expenditures for specific income ranges derived from Bureau of Labor Statistics (BLS) Consumer Expenditures Survey data. These were applied to the average residential personal property tax paid per household, allocating personal property revenues in proportion to the number of persons and employees. Household incomes were calculated based on home prices. Personal property revenues for non-residential uses were calculated based upon the estimated current personal property tax revenues per employee in New Kent County. The development is expected to generate $26.5 million in revenues for the County between the initial occupancy of the first homes in 2006 and 2025.

Sales Tax Revenues

Sales taxes will be generated by retail at The Farms of New Kent as well as by residents who make purchases elsewhere in the county, with adjustment to avoid double counting (approximately 70% of neighborhood center expenditures by The Farms of New Kent residents are assumed to be made within the development once the town center opens, and virtually all of the residents' neighborhood center expenditures are assumed to be made within the development once the neighborhood center opens). Retail sales tax was calculated based on estimated sales per square foot of $400, based on sales typical of and required by the types of retailers likely to locate in the town center. Sales tax per household was based on household income brackets. RCLCo used the taxable expenditures within each income bracket in the BLS consumer expenditure survey high income tables multiplied by the sales tax rate to determine sales tax revenues generated by each household. These expenditure figures were applied to household income for each property type to calculate sales tax revenues generated by residents. Based upon the BLS data, it was estimated that 35% of retail spending by residents will be in neighborhood shopping centers. It was estimated that 35% of retail expenditures by The Farms of New Kent residents will be within the county, based upon the types of retail needs that can be met most easily within the county.

We also took account of sales taxes from construction materials.

The development will generate $20.5 million in sales tax between 2005 and 2025.

Business, Professional and Occupational License (BPOL) Tax Revenues

The County receives BPOL revenues for various types of business activities. These were estimated based upon typical amounts per employee; estimated retail sales; and construction costs. Total BPOL revenues from the development will be $4.9 million, for the period from 2005 through 2025.

Miscellaneous Revenues

RCLCo calculated permit fees based on County permit fees.

Non-development miscellaneous revenues were allocated between residential and non-residential uses based on the approaches used in various counties. These values were then divided by the number of employees and persons in the county to calculate the average revenues per resident and per employee. As of 2002, these calculations result in miscellaneous revenues of $73 per employee and $202 per resident.

Recordation taxes of $0.20 per $1,000 of sales price were applied to anticipated sales prices of new homes only, which is conservative, as it does not include the impact of units that are resold.

Total miscellaneous revenues with the rezoning are $17.6 million from 2005 to 2025. State aid was allocated as is done by various other Virginia counties, with adjustment for the relative percentage of population versus employment in New Kent County.

Educational Revenues

The development will result in an estimated $26.9 million in revenues through the year 2025.[1] We have determined student generation rates for New Kent County by beginning with the rates used by several other counties, and adjusting them to be consistent with 2000 Census data for New Kent County. These calculations result in student generation rates of 0.5442 per single-family detached unit, 0.2908 per townhome and 0.1564 per condominium unit. The active adult units will not generate any school children. (To be conservative, we have assumed that maintenance free single-family detached units on very small lots will generate the same number of school children as standard single-family detached units, even though in reality they will attract very few, if any, households with school age children.)

[1] It is possible that state aid per student will decline somewhat in the future if the county becomes more affluent relative to the remainder of the state. However, it is impossible to predict the future composite index with any precision. In any case, even dramatic changes in the composite index would still result in highly positive fiscal impact of the development.

FISCAL IMPACT ANALYSIS--EXPENDITURES

Non-Educational Operating Expenditures

RCLCo estimated on a per capita basis the non-educational operating expenditures that is attributable to the development. Based on recommendations from New Kent County staff, the analysis assumes that residents of the development (and not employees) will be responsible for the generation of all county expenditures resulting from the proposed development. The resulting non-educational operating cost is $604 per resident in 2002 dollars. Total non-educational operating expenditures through 2025 are $92.3 million.

Educational Operating Expenditures

Educational operating costs of $6,691 per student (in 2002 dollars) were derived from the New Kent County budget and multiplied by the estimated students who will be living in The Farms of New Kent. This is conservative because some of these costs are in fact fixed.

Capital Costs

Educational capital costs that might be incurred as a result of the development were estimated conservatively by assuming that new school capacity was built for each student expected to live in the development (the development is estimated to generate 457 public school students at build-out in the year 2020. The average cost per student for new schools in Virginia, for schools of various types, was used. These expenditures were assumed to be bonded, with 5% interest over 20 years. Total debt service payments through 2025 are estimated to be $8.0 million.

OTHER FISCAL IMPACT ANALYSIS ASSUMPTIONS

Inflation

Unless otherwise noted, all dollar amounts are expressed in constant 2005 dollars. For assumptions based on figures expressed in 2002 dollars, inflation is assumed to average 3% per year through 2005 to be consistent with the remainder of the study.

Demographic and Related Factors

Population is based on the number of residents per occupied household. Average household sizes for single-family detached and townhomes were obtained from the 2000 Census for New Kent County. Average household sizes for active adult units and seniors apartments were based upon RCLCo experience with such developments in other jurisdictions.

Households are the number of occupied units.

Residential and non-residential occupancy rates were based on approved inputs devised by Loudoun County.

Total county population (13,462) and households (5,000) were estimated from Vision 2020 and the U.S. Census. Total county employment (7,104) was obtained from the Virginia Employment Commission.

GENERAL LIMITING CONDITIONS

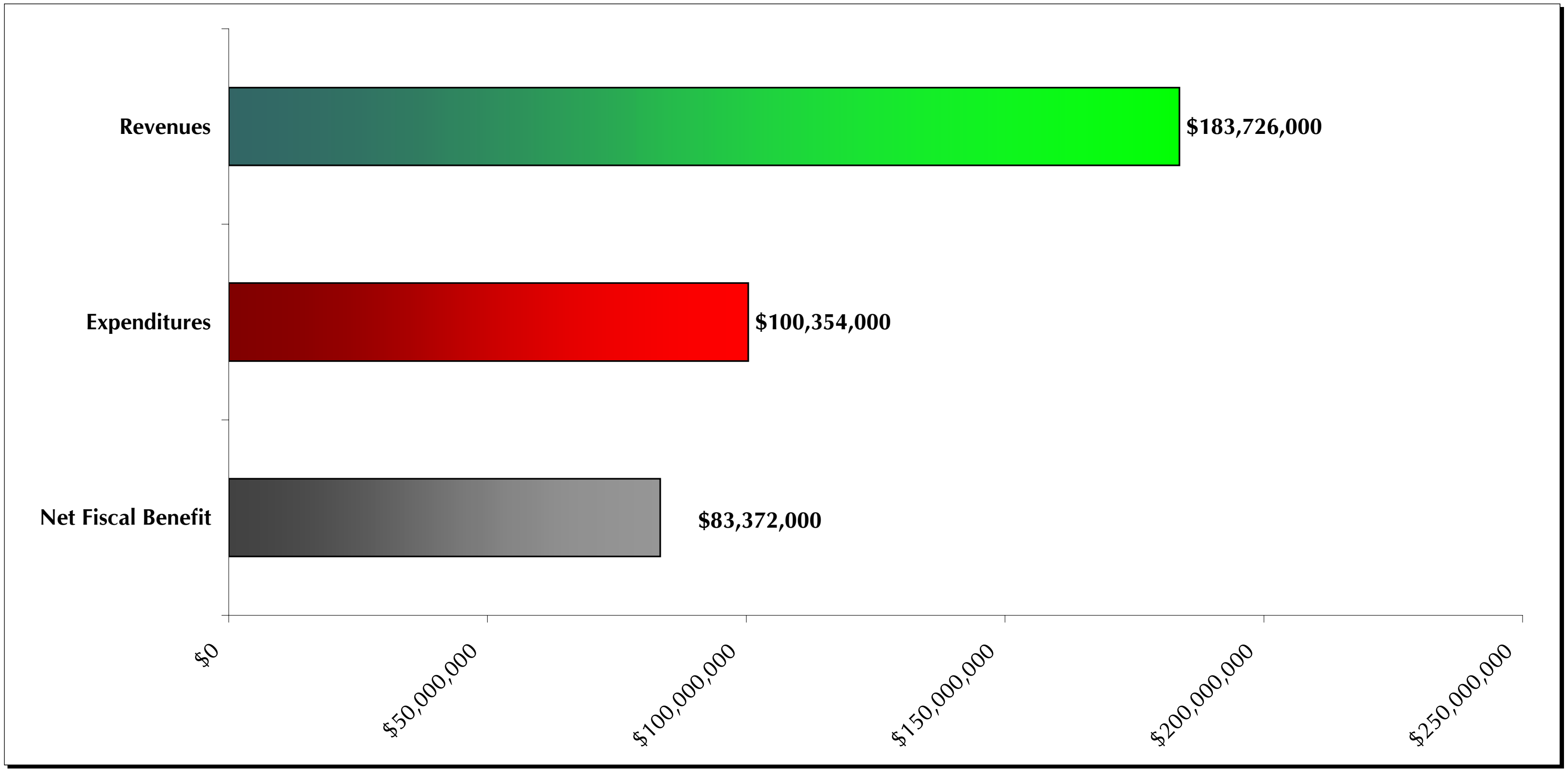
Every reasonable effort has been made to insure that the data contained in this study reflect the most accurate and timely information possible and it is believed to be reliable. This study is based on estimates, assumptions and other information developed by RCLCo from its independent research effort, general knowledge of the industry and consultations with the Client and its representatives. No responsibility is assumed for inaccuracies in reporting by the Client, its agent and representatives or any other data source used in preparing or presenting this study. This report is based on information that was current as of June 2004, and RCLCo has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates or opinions that represent our view of reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, that events will occur or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report and the variations may be material. Therefore, no warranty or representation is made by RCLCo that any of the projected values or results contained in this study will actually be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCo" in any manner without first obtaining the prior written consent of RCLCo. No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of RCLCo. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the Client without first obtaining the prior written consent of RCLCo. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCo.

Exhibit 1

NET FISCAL IMPACT ANALYSIS
THE FARMS OF NEW KENT
NEW KENT COUNTY, VIRGINIA
21 Years (2005 - 2025)



SOURCE: Robert Charles Lesser & Co., LLC

Exhibit 2

SUMMARY OF FISCAL IMPACT ANALYSIS
THE FARMS OF NEW KENT
NEW KENT COUNTY, VIRGINIA
21 Years (2005 - 2025)

CATEGORY	23-YEAR TOTAL 2005$	%
REVENUES		
Real Property Taxes	$87,317,000	48%
Personal Property Taxes	$26,479,000	14%
Sales Taxes	$20,487,000	11%
BPOL Taxes	$4,936,000	3%
Miscellaneous Revenues	$17,622,000	10%
Educational Revenues	$26,886,000	15%
TOTAL	$183,726,000	100%
EXPENDITURES		
Operating Costs	$92,320,000	92%
Capital Costs	$8,034,000	8%
TOTAL	$100,354,000	100%
NET FISCAL IMPACT	**$83,372,000**	

Exhibit 3

SUMMARY OF FISCAL IMPACT ANALYSIS
THE FARMS OF NEW KENT
CUMULATIVE NET FISCAL BENEFIT

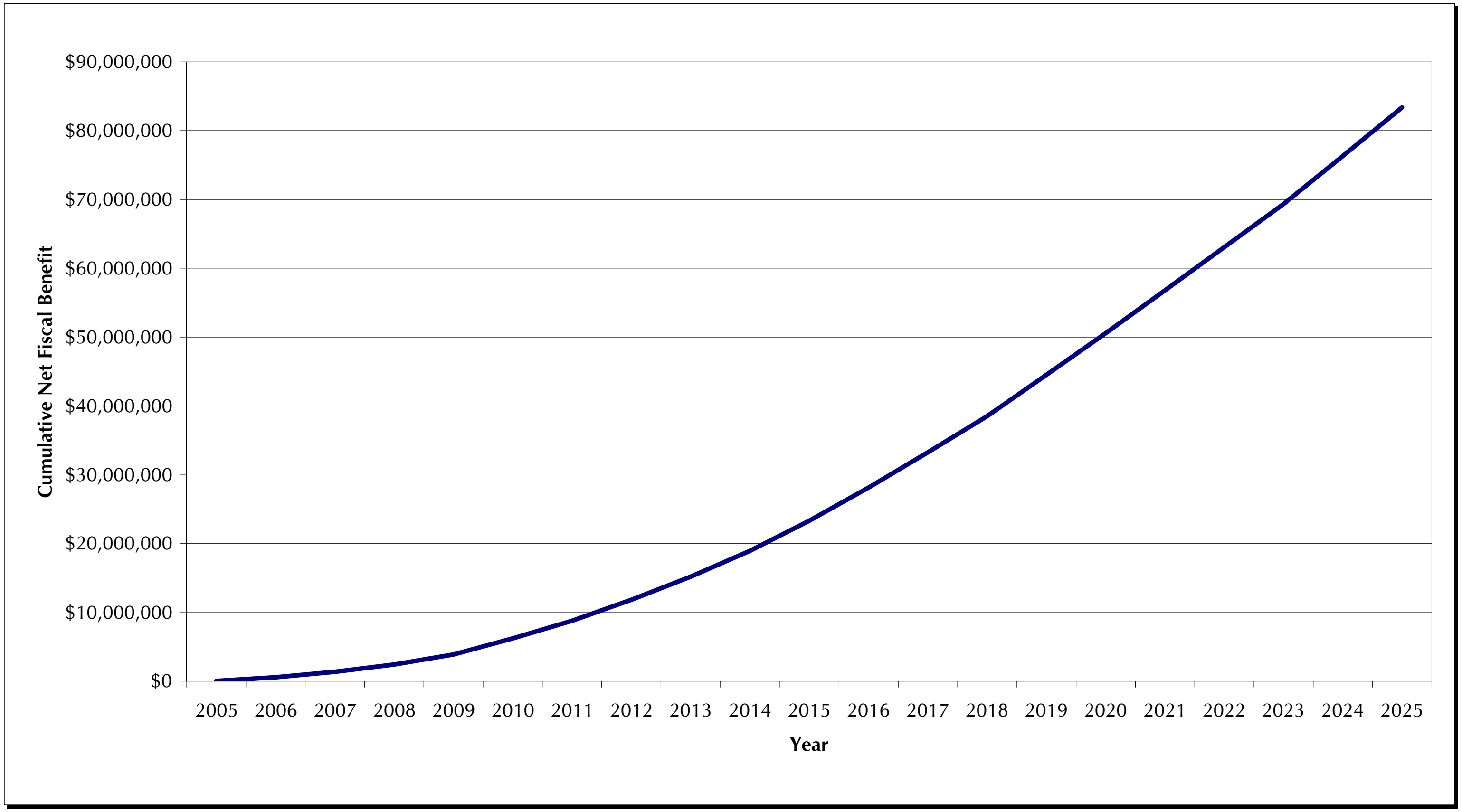


Exhibit 4

SUMMARY OF FISCAL IMPACT ANALYSIS
THE FARMS OF NEW KENT
ANNUAL NET FISCAL IMPACT
CONSTANT 2005 DOLLARS

YEAR	REVENUES	EXPENDITURES	NET FISCAL IMPACT (NFI)	CUMULATIVE NFI
2005	$30,640	$0	$30,640	$30,640
2006	$919,213	$384,877	$534,336	$564,976
2007	$1,740,085	$921,074	$819,011	$1,383,987
2008	$2,555,303	$1,493,912	$1,061,391	$2,445,379
2009	$3,542,553	$2,098,218	$1,444,335	$3,889,714
2010	$5,190,174	$2,861,981	$2,328,193	$6,217,906
2011	$6,188,565	$3,631,340	$2,557,225	$8,775,131
2012	$7,376,197	$4,306,297	$3,069,900	$11,845,031
2013	$8,230,607	$4,880,557	$3,350,049	$15,195,080
2014	$9,128,443	$5,385,589	$3,742,853	$18,937,933
2015	$10,163,919	$5,783,631	$4,380,287	$23,318,221
2016	$10,935,802	$6,132,858	$4,802,945	$28,121,165
2017	$11,561,515	$6,431,020	$5,130,495	$33,251,660
2018	$11,955,520	$6,677,440	$5,278,081	$38,529,741
2019	$12,839,930	$6,866,942	$5,972,988	$44,502,729
2020	$13,097,879	$7,030,574	$6,067,305	$50,570,034
2021	$13,333,605	$7,093,509	$6,240,096	$56,810,131
2022	$13,355,636	$7,093,509	$6,262,127	$63,072,257
2023	$13,368,204	$7,093,509	$6,274,696	$69,346,953
2024	$14,061,171	$7,093,509	$6,967,663	$76,314,616
2025	$14,151,031	$7,093,509	$7,057,523	$83,372,138