

Technical Memorandum:

Proposed North Milton Annexation Cost / Revenue Analysis

Prepared for:

Town of Milton

Prepared by:

Urban Partners

December, 2005

Overview

This Technical Memorandum provides an assessment of the fiscal impacts of a proposed annexation to the Town of Milton, Delaware, of several large parcels located immediately northwest of the Town. A developer team—headed by Meridian Architects & Engineers—has proposed an extensive development program for these parcels and has requested annexation. The project is known as the North Milton Annexation.

Urban Partners has been retained by the Town of Milton to prepare this analysis of municipal costs and revenues likely to result from this proposed annexation. This analysis is based on the development program and construction cost estimates provided by the developer. The development program detailed here and the parallel assessment of fiscal impacts are based on the best information available as of December, 2005. Subsequent changes in economic conditions may cause adjustments to the development program just as any changes in the structure of government finance and services in the Town of Milton or the State of Delaware could adjust underlying fiscal conditions. The conclusions of this analysis should be revisited periodically to adjust for such changes and to update the assessment of impacts and costs as well as to incorporate additional benefits that may be derived from program or fiscal adjustments.

As part of this analysis, Urban Partners held a series of interviews with Town of Milton department representatives to gather information and data regarding cost and revenue sources. During these interviews, department representatives relayed anticipated service requirements, such as extra policing or utility capacity, specific to this particular annexation to be accounted for in our analysis. Urban Partners analysis has also been based on a review of the Town's 2006 Annual Budget. Throughout this process, Urban Partners worked extensively with the Town Manager and other Town staff to ensure that the approach being taken and the data sources being used were appropriate.

Proposed Development Program

The proposed North Milton Annexation includes a total development program of 2,812 housing units to be built-out over an eleven-year period, supplemented by 608,300 SF of retail/commercial space, a 50,000 SF YMCA, and a small community center (see **Table 1**). The developer proposes to begin construction of housing units in 2008 and to begin retail/commercial/service space construction in 2009. The proposed residential program involves multiple housing types ranging from 1,500 SF condominium units to 2,400 SF single-family homes.

Table 1
North Milton Annexation
Proposed Development Program

	Total	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential:												
City Townhomes (1,700 SF)	704	96	96	96	96	128	96	96				
Cluster Townhomes (1,800 SF)	390	36	36	36	54	42	40	34	60	52		
Garden Townhomes (1,700 SF)	196	39	35	44	41	37						
Duplex (2,000 SF)	220	42	30	22	16	42		38	16	14		
Condominium (1,500 SF)	432	18	54	54	54	54	72	54	72			
Single-Family Homes I (2,200 SF)	623	31	48	55	58	51	59	55	49	67	78	72
Single-Family Homes II (2,400 SF)	247	49	45	56	48	49						
Total Units	2,812	311	344	363	367	403	267	277	197	133	78	72
Retail/Commercial/Service:												
Village Shops I			150,400									
The Marketplace—Phase I				230,400								
Village Community Center				8,400								
YMCA					50,000							
Village Shops II							98,700					
Marketplace II									128,800			
Total Retail/Commercial/Service	666,700 SF											

Source: Meridian Architects & Engineers

Development Period Tax Revenues

During the development period, the North Milton Annexation will generate fee and tax revenues to the Town of Milton from a variety of sources (see **Table 2**). Allowing for 3% annual inflation during the development period the developer estimates that total construction costs from 2008 through 2018 will approach \$735 million, generating building permit income to the Town of Milton exceeding \$5.5 million. Based on the Town of Milton's fee schedule for water tapping

(\$300), impact (\$550), and meter (\$400-\$1,000) fees as of December, 2005, the proposed development program will generate more than \$3.8 million in water fees over the eleven year period. Similarly, under the Town of Milton's fee schedule for sewer tapping (\$700) and impact (\$2500) fees as of December, 2005, the proposed development program will generate nearly \$9.5 million in sewer fees over the eleven year period.

Finally, the development will provide significant revenues for the Town through the 1.5% property transfer tax. The developer anticipates that all 2,812 proposed residential units will be sold to homeowners, while the retail/commercial space will be rented. Residential sales prices are estimated by the developer in the \$170,000 to \$350,000 range for 2008 sales. Inflating these prices by 3% annually through 2019 and assuming a twelve-year absorption period consistent with the developer's proposed construction schedule, we estimate the total price of initial residential sales at nearly \$759 million, yielding transfer tax revenue for the Town of Milton of nearly \$11.4 million. We should note that the Town of Milton may also derive transfer tax revenue from the developer's initial purchase of land from current property owners. However, we do not know the sales price of this land nor do we know whether this transfer will occur before or after annexation. Therefore, we have not included this potential revenue in the estimate of development period fee income for the Town.

Table 2
Estimated Municipal Tax Revenue Impact
From Development Program (12 Year Period)

Year	Development Program Residential (Units)	Development Program Commercial (SF)	Estimated Construction Costs	Estimated Residential Sales Prices	Building Permit Fees (@.75%)	Water Tapping, Impact, Meter & Inspection Fees	Sewer Tapping, Impact & Inspection Fees	Transfer Tax	Total Development Period Revenues
2008	311		\$63,694,000	\$37,100,000	\$478,000	\$400,000	\$1,006,000	\$557,000	\$2,441,000
2009	344	150,400	\$88,085,400	\$78,800,000	\$661,000	\$491,000	\$1,197,000	\$1,182,000	\$3,531,000
2010	363	238,800	\$103,714,800	\$87,900,000	\$778,000	\$534,000	\$1,291,000	\$1,318,000	\$3,921,000
2011	367	50,000	\$92,879,600	\$93,900,000	\$697,000	\$473,000	\$1,190,000	\$1,409,000	\$3,769,000
2012	403		\$96,576,500	\$101,000,000	\$724,000	\$518,000	\$1,304,000	\$1,515,000	\$4,061,000
2013	267	98,700	\$68,750,000	\$87,200,000	\$516,000	\$381,000	\$928,000	\$1,308,000	\$3,133,000
2014	277		\$66,122,800	\$71,100,000	\$496,000	\$356,000	\$896,000	\$1,066,000	\$2,814,000
2015	197	128,800	\$60,573,000	\$64,500,000	\$454,000	\$306,000	\$728,000	\$968,000	\$2,456,000
2016	133		\$39,826,000	\$50,100,000	\$299,000	\$171,000	\$430,000	\$751,000	\$1,651,000
2017	78		\$27,970,800	\$39,100,000	\$210,000	\$100,000	\$252,000	\$587,000	\$1,149,000
2018	72		\$26,611,200	\$32,300,000	\$200,000	\$93,000	\$233,000	\$484,000	\$1,010,000
2019				\$15,900,000				\$239,000	\$239,000
Total	2,812	666,700	\$734,804,100	\$758,900,000	\$5,513,000	\$3,823,000	\$9,455,000	\$11,384,000	\$30,175,000

Sources: Meridian Architects & Engineers; Town of Milton; Urban Partners

Note: All Construction Costs & Property Values Inflated 3% Annually--Revenue Estimates Rounded To The Nearest \$1000

Taken together, these **development period fees total nearly \$30.2 million** during the twelve-year development period.

Post-Development Tax Revenues

After individual properties are developed, the Town of Milton will derive on-going fee and tax revenues from multiple sources, including: property tax; property transfer tax; water, sewer, and trash collection fees; cable franchise fees; state grants based on population and other formulas; on-going code enforcement fees; and miscellaneous revenues.

Property Tax Revenue

The Town of Milton property tax is \$0.41 per \$100 of assessed property value. Property tax assessments are based on 1994 property values. A preliminary review by the Town's Assessor suggests that the 2,812 proposed housing units can be expected to have assessed values in the \$130,000 to \$180,000 range based on the development program described by the developer and predicated on 1994 valuations. Similarly, retail/commercial space is likely to be valued in the range of \$80 to \$100 per square foot. We assume that the proposed YMCA will be exempt from property taxes.

Based on these valuation assumptions and the proposed eleven-year build-out period, increased assessments of slightly more than \$23 million will be achieved in 2008, growing to nearly \$465 million by 2019 (see **Table 3**). Based on the current property tax rate, tax revenues to the Town of Milton will grow from \$95,000 in 2008 to a bit over \$1.9 million in 2019 and beyond.

Table 3
North Milton Annexation
Estimated Property Tax Revenues

Year	Estimated Residential Assessed Value	Estimated Retail/Commercial Assessed Value	Total Estimated Assessed Value	Property Tax (@\$.41 Per \$100 AV)
2008	\$23,080,000		\$23,080,000	\$95,000
2009	\$70,855,000	\$13,536,000	\$84,391,000	\$346,000
2010	\$122,360,000	\$35,028,000	\$157,388,000	\$645,000
2011	\$175,615,000	\$35,028,000	\$210,643,000	\$864,000
2012	\$231,710,000	\$35,028,000	\$266,738,000	\$1,094,000
2013	\$279,460,000	\$43,911,000	\$323,371,000	\$1,326,000
2014	\$317,760,000	\$43,911,000	\$361,671,000	\$1,483,000
2015	\$351,380,000	\$55,503,000	\$406,883,000	\$1,668,000
2016	\$375,430,000	\$55,503,000	\$430,933,000	\$1,767,000
2017	\$391,640,000	\$55,503,000	\$447,143,000	\$1,833,000
2018	\$403,690,000	\$55,503,000	\$459,193,000	\$1,883,000
2019	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2020	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2021	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2022	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2023	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2024	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2025	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2026	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
2027	\$409,400,000	\$55,503,000	\$464,903,000	\$1,906,000
Total				\$30,158,000

Sources: Meridian Architects & Engineers; Town of Milton; Urban Partners

Transfer Tax Revenue

The Town of Milton levies a 1.5% transfer tax on all property sales. The revenue impact from the transfer tax during the development period has been considered above. After development, the Town will also receive transfer tax revenues from the resale of already developed homes and from any transfer of commercial properties. We estimated that approximately 7% of existing homes will sell each year and that commercial property will be transferred on average every 12 years. As shown on **Table 4**, under these assumptions, the Town of Milton will derive more than \$18 million in Transfer Tax revenue from this development over a 20 year period beginning in 2008.

Table 4
Estimated Transfer Tax Revenue
North Milton Annexation

Year	Cumulative Sold Residential Units	Cumulative Commercial Space (SF)	Estimated Market Value Cumulative Sold Residential Units	Estimated Market Value Cumulative Commercial Space (SF)	Estimated Market Value Transferred Residential Units (7% Rate)	Estimated Market Value Transferred Commercial Space	Transfer Tax Revenue
2008	156		\$37,100,000		\$2,597,000		\$39,000
2009	483	150,400	\$116,900,000	\$22,560,000	\$8,183,000		\$123,000
2010	837	380,400	\$208,400,000	\$58,771,800	\$14,588,000		\$219,000
2011	1,202	380,400	\$308,500,000	\$60,534,954	\$21,595,000		\$324,000
2012	1,587	380,400	\$418,800,000	\$62,351,003	\$29,316,000		\$440,000
2013	1,922	479,100	\$518,500,000	\$80,884,691	\$36,295,000		\$544,000
2014	2,194	479,100	\$605,100,000	\$83,311,231	\$42,357,000		\$635,000
2015	2,431	607,900	\$687,700,000	\$108,879,659	\$48,139,000		\$722,000
2016	2,596	607,900	\$758,500,000	\$112,146,048	\$53,095,000	\$37,400,000	\$1,357,000
2017	2,701	607,900	\$820,300,000	\$115,510,430	\$57,421,000		\$861,000
2018	2,776	607,900	\$877,100,000	\$118,975,743	\$61,397,000		\$921,000
2019	2,812	607,900	\$919,400,000	\$122,545,015	\$64,358,000	\$40,800,000	\$1,577,000
2020	2,812	607,900	\$947,000,000	\$126,221,366	\$66,290,000		\$994,000
2021	2,812	607,900	\$975,400,000	\$130,008,006	\$68,278,000		\$1,024,000
2022	2,812	607,900	\$1,004,700,000	\$133,908,247	\$70,329,000	\$44,600,000	\$1,724,000
2023	2,812	607,900	\$1,034,800,000	\$137,925,494	\$72,436,000		\$1,087,000
2024	2,812	607,900	\$1,065,800,000	\$142,063,259	\$74,606,000		\$1,119,000
2025	2,812	607,900	\$1,097,800,000	\$146,325,157	\$76,846,000	\$48,800,000	\$1,885,000
2026	2,812	607,900	\$1,130,700,000	\$150,714,911	\$79,149,000		\$1,187,000
2027	2,812	607,900	\$1,164,600,000	\$155,236,359	\$81,522,000		\$1,223,000
Total							\$18,005,000

Sources: Meridian Architects & Engineers; Town of Milton; Urban Partners

Note: Property Values Inflated 3% Annually--Revenue Estimates Rounded To The Nearest \$1000

Water, Sewer, Trash Collection & Cable Franchise Revenue

The typical sewer and water bill per customer in Milton is \$260 for water and \$330 for sewer service annually. The cost for residential trash collection is \$160 annually. The Town of Milton is considering a rate schedule adjustment for sewer service that will increase rates by 12% annually for three years (a cumulative 40%). Therefore, for this analysis we have assumed that the typical sewer customer bill will be \$460 annually in 2008. Furthermore, we assume that the fee for trash collection will increase to \$180 annually by 2008 to keep pace with increasing contract costs. Cable Franchise revenues are \$16.68 per customer annually. We assume that the current 80% rate of cable utilization will continue in the North Milton Annexation area.

Table 5
North Milton Annexation
Incremental Water, Sewer, Trash Collection, and Cable Franchise Revenues

Year	Incremental Customers Residential	Cumulative Customers Residential	Incremental Customers Retail/Commercial	Cumulative Customers Retail/Commercial	Incremental Water Revenues (@\$260)	Incremental Sewer Revenues (@\$460)	Incremental Trash Collection Revenues (@\$180)	Incremental Cable Franchise Revenues (@\$16.68)
2008	156	156			\$41,000	\$72,000	\$28,000	\$2,000
2009	327	483	38	38	\$135,000	\$240,000	\$87,000	\$6,000
2010	353	836	97	135	\$252,000	\$447,000	\$150,000	\$11,000
2011	365	1,201	73	208	\$377,000	\$668,000	\$223,000	\$17,000
2012	385	1,586	12	220	\$498,000	\$881,000	\$303,000	\$22,000
2013	335	1,921	25	245	\$615,000	\$1,089,000	\$378,000	\$28,000
2014	272	2,193	24	269	\$720,000	\$1,275,000	\$444,000	\$33,000
2015	237	2,430	32	301	\$823,000	\$1,456,000	\$492,000	\$38,000
2016	165	2,595	32	333	\$909,000	\$1,608,000	\$526,000	\$41,000
2017	106	2,701		333	\$970,000	\$1,716,000	\$547,000	\$44,000
2018	75	2,776		333	\$1,024,000	\$1,812,000	\$562,000	\$47,000
2019	36	2,812		333	\$1,067,000	\$1,888,000	\$570,000	\$49,000
2020		2,812		333	\$1,099,000	\$1,945,000	\$587,000	\$50,000
2021		2,812		333	\$1,132,000	\$2,003,000	\$605,000	\$52,000
2022		2,812		333	\$1,166,000	\$2,063,000	\$623,000	\$54,000
2023		2,812		333	\$1,201,000	\$2,125,000	\$642,000	\$56,000
2024		2,812		333	\$1,237,000	\$2,189,000	\$661,000	\$58,000
2025		2,812		333	\$1,274,000	\$2,255,000	\$681,000	\$60,000
2026		2,812		333	\$1,312,000	\$2,323,000	\$701,000	\$62,000
2027		2,812		333	\$1,351,000	\$2,393,000	\$722,000	\$64,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Note: 2008 Sewer Usage Rates Set At 40% Above 2005 Rates; All Rates Increased Annually By 3% Beginning In 2011.

Applying these rates to the incremental customer activity from the North Milton Annexation beginning in 2008 results in the estimated annual revenues shown on **Table 5**. Note that after adjustment for the sewer rate increases, we have assumed that water and sewer rates will remain constant until 2010. After 2010, we assume 3% rate increases annually for all services.

Municipal Street Aid Fund Revenue

The Town receives an annual grant from the State of Delaware’s Municipal Street Aid Fund which shares a portion of Delaware’s motor fuel tax reserve with local municipalities. The amount of the grant depends on Milton’s population and miles of streets maintained. The current allocation provides \$8.20 per capita and \$4,097 per mile of street. On Table 6 we show the estimated increase in aid anticipated on the basis of the proposed development program. We have roughly estimated the total street mileage in the North Milton Annexation at 20 miles and have assumed a typical household size of 2.35 persons. Again, we assume no increase in aid rates through 2013, with annual 3% increases thereafter.

Table 6
North Milton Annexation
Municipal Street Aid

Year	Estimated Incremental Dedicated Mileage	Cumulative Additional Dedicated Mileage	Cumulative Additional Residential Population	Estimated Additional Municipal Street Aid
2008			367	\$3,000
2009			1,135	\$9,000
2010			1,967	\$16,000
2011	10	10	2,825	\$64,000
2012	2	12	3,729	\$80,000
2013	2	14	4,517	\$94,000
2014	1	15	5,156	\$107,000
2015	1	16	5,713	\$119,000
2016	1	17	6,101	\$131,000
2017	1	18	6,350	\$142,000
2018	1	19	6,526	\$152,000
2019	1	20	6,611	\$163,000
2020		20	6,611	\$168,000
2021		20	6,611	\$173,000
2022		20	6,611	\$178,000
2023		20	6,611	\$183,000
2024		20	6,611	\$188,000
2025		20	6,611	\$194,000
2026		20	6,611	\$200,000
2027		20	6,611	\$206,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Permits & Licenses, State Pension Reimbursement, and Miscellaneous Revenues

The Town of Milton receives annual revenue for permits and licenses from business activity, new development, and on-going renovations/additions to existing property. Town officials estimate that 50% of revenues are derived from new development and 50% from current businesses and residential properties. Based on that allocation of revenue, we estimate that Milton derives approximately \$71,500 per year in on-going permits and licenses activity.

Similarly, the Town receives grants of approximately \$85,000 from the State of Delaware to support police pensions and derives approximately \$84,000 annually from a variety of miscellaneous sources including fines.

Based on a current population estimate of 2,301, these revenues cumulatively yield about \$104 per capita for the Town. The proposed population growth in the North Milton Annexation area results in increased revenues as shown on **Table 7**, after adjusting for 3% annual inflation.

Table 7
North Milton Annexation
Permits & Licenses, State Pension Grants & Miscellaneous Revenues

Year	Cumulative Additional Residential Population	Estimated Additional Permits & Licenses, State Pension Grants, and Miscellaneous Revenues
2008	367	\$42,000
2009	1,135	\$133,000
2010	1,967	\$237,000
2011	2,825	\$351,000
2012	3,729	\$477,000
2013	4,517	\$595,000
2014	5,156	\$700,000
2015	5,713	\$798,000
2016	6,101	\$878,000
2017	6,350	\$942,000
2018	6,526	\$997,000
2019	6,611	\$1,040,000
2020	6,611	\$1,071,000
2021	6,611	\$1,103,000
2022	6,611	\$1,136,000
2023	6,611	\$1,170,000
2024	6,611	\$1,205,000
2025	6,611	\$1,241,000
2026	6,611	\$1,278,000
2027	6,611	\$1,316,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Total Estimated Post-Development Revenues

On **Table 8**, we have aggregated all these post-development revenue sources together to estimate the total incremental revenue likely to be derived by the Town of Milton from the North Milton Annexation. These revenues are estimated to begin at approximately \$322,000 in 2008 and are expected to grow to approximately \$9.2 million by 2027.

**Table 8
North Milton Annexation
Total Post-Development Revenues**

Year	Incremental Property Tax Revenues	Incremental Transfer Tax Revenues	Incremental Water Revenues	Incremental Sewer Revenues	Incremental Trash Collection Revenues	Incremental Cable Franchise Revenues	Estimated Additional Municipal Street Aid	Estimated Permits & Licenses, Pension Grants, & Miscellaneous Revenues	Total Estimated Incremental Revenues
2008	\$95,000	\$39,000	\$41,000	\$72,000	\$28,000	\$2,000	\$3,000	\$42,000	\$322,000
2009	\$346,000	\$123,000	\$135,000	\$240,000	\$87,000	\$6,000	\$9,000	\$133,000	\$1,079,000
2010	\$645,000	\$219,000	\$252,000	\$447,000	\$150,000	\$11,000	\$16,000	\$237,000	\$1,977,000
2011	\$864,000	\$324,000	\$377,000	\$668,000	\$223,000	\$17,000	\$64,000	\$351,000	\$2,888,000
2012	\$1,094,000	\$440,000	\$498,000	\$881,000	\$303,000	\$22,000	\$80,000	\$477,000	\$3,795,000
2013	\$1,326,000	\$544,000	\$615,000	\$1,089,000	\$378,000	\$28,000	\$94,000	\$595,000	\$4,669,000
2014	\$1,483,000	\$635,000	\$720,000	\$1,275,000	\$444,000	\$33,000	\$107,000	\$700,000	\$5,397,000
2015	\$1,668,000	\$722,000	\$823,000	\$1,456,000	\$492,000	\$38,000	\$119,000	\$798,000	\$6,116,000
2016	\$1,767,000	\$1,357,000	\$909,000	\$1,608,000	\$526,000	\$41,000	\$131,000	\$878,000	\$7,217,000
2017	\$1,833,000	\$861,000	\$970,000	\$1,716,000	\$547,000	\$44,000	\$142,000	\$942,000	\$7,055,000
2018	\$1,883,000	\$921,000	\$1,024,000	\$1,812,000	\$562,000	\$47,000	\$152,000	\$997,000	\$7,398,000
2019	\$1,906,000	\$1,577,000	\$1,067,000	\$1,888,000	\$570,000	\$49,000	\$163,000	\$1,040,000	\$8,260,000
2020	\$1,906,000	\$994,000	\$1,099,000	\$1,945,000	\$587,000	\$50,000	\$168,000	\$1,071,000	\$7,820,000
2021	\$1,906,000	\$1,024,000	\$1,132,000	\$2,003,000	\$605,000	\$52,000	\$173,000	\$1,103,000	\$7,998,000
2022	\$1,906,000	\$1,724,000	\$1,166,000	\$2,063,000	\$623,000	\$54,000	\$178,000	\$1,136,000	\$8,850,000
2023	\$1,906,000	\$1,087,000	\$1,201,000	\$2,125,000	\$642,000	\$56,000	\$183,000	\$1,170,000	\$8,370,000
2024	\$1,906,000	\$1,119,000	\$1,237,000	\$2,189,000	\$661,000	\$58,000	\$188,000	\$1,205,000	\$8,563,000
2025	\$1,906,000	\$1,885,000	\$1,274,000	\$2,255,000	\$681,000	\$60,000	\$194,000	\$1,241,000	\$9,496,000
2026	\$1,906,000	\$1,187,000	\$1,312,000	\$2,323,000	\$701,000	\$62,000	\$200,000	\$1,278,000	\$8,969,000
2027	\$1,906,000	\$1,223,000	\$1,351,000	\$2,393,000	\$722,000	\$64,000	\$206,000	\$1,316,000	\$9,181,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Service Costs

In this section, we will assess the incremental service costs likely to be incurred by the Town of Milton due to this potential North Milton Annexation. Irrespective of the disposition of this annexation, Milton faces certain major capital facility concerns which will need to be addressed regarding sewage treatment plant capacity and office facilities for police and general government. Therefore, in estimating the incremental costs to the Town of Milton resulting from the proposed annexation, we have made the following assumptions concerning major capital facilities and user fees:

1. that the Town of Milton will acquire or construct expanded office facilities for the police department and for general government whether or not the North Milton Annexation is approved;
2. that the Town of Milton will constructed a new sewage treatment facility (most likely in the range of 1.5 million gallons capacity) whether or not the North Milton Annexation is approved;
3. that the structure of and rates for sewer service will be adjusted in accordance with an on-going rate study;
4. that fire service will remain volunteer and that any adjustments in the budgeted “fire allotment” by the Town of Milton will be independent of this proposed North Milton Annexation; and
5. that trash collection and disposal will continue to be contracted to a private service provider.

Water/Sewer Costs

Based on the FY 2006 budget for the Town of Milton, total water and sewer costs are calculated at approximately \$290,000 for water and \$375,000 for sewer. These budgets include \$47,000 in loan expense and depreciation for the water system and \$50,000 for the sewer system. Deducting these capital finance and accounting costs, the total operating and maintenance budget for the water system is \$243,000 and the same budget for the sewer system is \$325,000, as shown on **Table 9**. The systems currently service approximately 1,100 customers, resulting in a per-customer operating and maintenance cost of \$221 annually for water and \$295 annually for sewer. We should note that the proposed replacement sewage treatment plant may result in changes in the operating and on-going maintenance costs for the sewer system.

Table 9
Town of Milton
Water & Sewer Budget--FY 2006

	Water	Sewer
Salaries & Benefits	\$142,609	\$137,466
Chemicals & Testing	\$40,100	\$38,500
Other Operating Expense	\$13,650	\$56,700
Repair & Maintenance	\$35,800	\$72,000
Engineering Fees	\$11,000	\$20,000
Loan Expense & Depreciation	\$47,168	\$50,050
Total Expense	\$290,327	\$374,716
Total Expense--Less: Loan & Depreciation	\$243,159	\$324,666
Estimated Customer Base	1,100	1,100
Operating/Maintenance Cost Per Customer	\$221	\$295

Sources: Town of Milton; Urban Partners

Applying these operating costs to the proposed development program results in a significant growth in operating expenses beginning at approximately \$88,000 in 2008 and growing to more than \$3.1 million by 2027 (see **Table 10**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006.

Table 10
North Milton Annexation
Incremental Water & Sewer Service Costs

Year	Incremental Customers Residential	Incremental Customers Retail/Commercial Service	Total Incremental Customers	Cumulative Incremental Customers	Incremental Water & Sewer Operating Costs
2008	156		156	156	\$88,000
2009	327	38	365	521	\$303,000
2010	354	97	451	972	\$582,000
2011	365	73	438	1,410	\$869,000
2012	385	12	397	1,807	\$1,147,000
2013	335	25	360	2,167	\$1,417,000
2014	272	24	296	2,463	\$1,659,000
2015	237	32	269	2,732	\$1,895,000
2016	165	32	197	2,929	\$2,093,000
2017	106		106	3,035	\$2,233,000
2018	75		75	3,110	\$2,357,000
2019	36		36	3,146	\$2,456,000
2020				3,146	\$2,530,000
2021				3,146	\$2,606,000
2022				3,146	\$2,684,000
2023				3,146	\$2,765,000
2024				3,146	\$2,848,000
2025				3,146	\$2,933,000
2026				3,146	\$3,021,000
2027				3,146	\$3,112,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Trash Collection Service Costs

The Town of Milton currently contracts for residential trash collection at a cost of \$12.09 per house per month. It is anticipated that this arrangement will continue. Applying this cost to the proposed development program results in a significant growth in trash collection expenses beginning at approximately \$25,000 in 2008 and growing to \$785,000 by 2027 (see **Table 11**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006.

Table 11
North Milton Annexation
Incremental Trash Collection Costs

Year	Incremental Residential Units	Cumulative Residential Units	Incremental Trash Collection Costs
2008	156	156	\$25,000
2009	327	483	\$79,000
2010	353	836	\$141,000
2011	365	1,201	\$209,000
2012	385	1,586	\$284,000
2013	335	1,921	\$354,000
2014	272	2,193	\$416,000
2015	237	2,430	\$475,000
2016	165	2,595	\$523,000
2017	106	2,701	\$560,000
2018	75	2,776	\$593,000
2019	36	2,812	\$619,000
2020		2,812	\$638,000
2021		2,812	\$657,000
2022		2,812	\$677,000
2023		2,812	\$697,000
2024		2,812	\$718,000
2025		2,812	\$740,000
2026		2,812	\$762,000
2027		2,812	\$785,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Police Costs

The Milton Police Department currently has nine full-time and two part-time officers. Department administration includes a Chief, a Staff Sergeant, and a Secretary. Two of the other seven full-time equivalent officers (FTEs) are currently in the Academy in anticipation of growing needs. The other five FTE officers have been hired generally in proportion to the growing population of the Town. At the current estimated population of 2,301, police staffing involves one field officer per 460 population. For analysis purposes, we will assume that this staffing ratio will continue in the future and that each increment of 460 in population growth will require an additional FTE officer.

The estimated cost per new FTE officer includes:

- salary (estimated at \$36,000 in 2005 dollars)
- a reserve of 10% for overtime (\$3,600)
- fringe benefits (currently at 45% of salaries or \$16,200)

- a package of equipment including an automobile (@\$26,000), radio (\$4,500), and uniform/handgun/body armor/etc. (\$4000). We assume a five-year utilization period for this auto/equipment package resulting in an annual cost per employee of \$6500
- automobile operation and maintenance at \$3,500 annually
- supplies & uniform maintenance at \$1000 annually.

This results in an annual cost per incremental FTE officer of \$66,800, measured in 2005 dollars. Applying this cost to the proposed development program results in a significant growth in police service costs as the population of the Town grows. These increased costs begin at approximately \$73,000 in 2008 and grow to nearly \$1.8 million by 2027 (see **Table 12**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006.

Table 12
North Milton Annexation
Incremental Police Service Costs

Year	Incremental Residential Units	Incremental Residential Population	Cumulative Additional Residential Population	Additional Officers Required	Incremental Police Service Costs
2008	156	367	367	1	\$73,000
2009	327	768	1,135	2	\$150,000
2010	354	832	1,967	4	\$310,000
2011	365	858	2,825	6	\$479,000
2012	385	905	3,729	8	\$657,000
2013	335	787	4,517	10	\$846,000
2014	272	639	5,156	11	\$959,000
2015	237	557	5,713	12	\$1,077,000
2016	165	388	6,101	13	\$1,202,000
2017	106	249	6,350	14	\$1,333,000
2018	75	176	6,526	14	\$1,373,000
2019	36	85	6,611	14	\$1,415,000
2020			6,611	14	\$1,457,000
2021			6,611	14	\$1,501,000
2022			6,611	14	\$1,546,000
2023			6,611	14	\$1,592,000
2024			6,611	14	\$1,640,000
2025			6,611	14	\$1,689,000
2026			6,611	14	\$1,740,000
2027			6,611	14	\$1,792,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Fire Service Costs

The Milton Fire Department is a volunteer fire company that serves residents of the Town of Milton as well as other areas including the City of Milford and Broadkill Beach. The Fire

Department currently has 55 volunteers, 12 fire engines, and one rescue boat. For fiscal year 2006, the Town of Milton contributed \$6,200 toward the operation of the Fire Department.

The addition of housing units due to the construction of the North Milton Development will not affect the current level of service provided by the Milton Fire Department. The Department’s existing fire equipment is sufficient to handle any increase in service demand due to these new units.

Code Enforcement Costs

The Town of Milton incurs costs for code enforcement activity due to business activity inspections, new development, and on-going renovations/additions to existing property. Town officials estimate that 50% of costs are attributable to new development and 25% to current businesses and 25% to code enforcement of existing properties. Operating costs for code enforcement and this allocation of costs are shown on **Table 13**. This information suggests that the Town of Milton expends approximately \$24 per year per existing structure and \$17 per year per capita on on-going code enforcement efforts.

**Table 13
Town of Milton
Code Enforcement Budget--FY 2006**

		Code Enforcement	
Salaries & Benefits			\$84,364
Other Expense			\$6,500
Engineering Fees			\$65,000
Total Expense			\$155,864
Expense Allocation:		Total	
New Development Code Enforcement	50%	\$77,932	
Existing Property Remodeling Enforcement	25%	\$38,966	\$24 Per Developed Property
Business Activity Inspection	25%	\$38,966	\$17 Per Capita

Sources: Town of Milton; Win2Data; Urban Partners

Applying these costs to the proposed development program results in growth in code enforcement costs as the population of the Town grows and the number of structures increases. These increased costs begin at approximately \$11,000 in 2008 and grow to \$360,000 by 2027 (see **Table 14**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006.

Table 14
North Milton Annexation
Code Enforcement Costs

Year	Cumulative Additional Population	Cumulative Additional Properties	Incremental Existing Property Enforcement Costs	Incremental Business Activity Enforcement Costs	Total Incremental Enforcement Costs
2008	367	156	\$4,000	\$7,000	\$11,000
2009	1,135	521	\$14,000	\$22,000	\$36,000
2010	1,967	972	\$27,000	\$39,000	\$66,000
2011	2,825	1,410	\$40,000	\$57,000	\$97,000
2012	3,729	1,807	\$53,000	\$78,000	\$131,000
2013	4,517	2,167	\$66,000	\$97,000	\$163,000
2014	5,156	2,463	\$77,000	\$114,000	\$191,000
2015	5,713	2,732	\$88,000	\$131,000	\$219,000
2016	6,101	2,929	\$97,000	\$144,000	\$241,000
2017	6,350	3,035	\$104,000	\$154,000	\$258,000
2018	6,526	3,110	\$110,000	\$163,000	\$273,000
2019	6,611	3,146	\$114,000	\$170,000	\$284,000
2020	6,611	3,146	\$117,000	\$175,000	\$292,000
2021	6,611	3,146	\$121,000	\$180,000	\$301,000
2022	6,611	3,146	\$125,000	\$185,000	\$310,000
2023	6,611	3,146	\$129,000	\$191,000	\$320,000
2024	6,611	3,146	\$133,000	\$197,000	\$330,000
2025	6,611	3,146	\$137,000	\$203,000	\$340,000
2026	6,611	3,146	\$141,000	\$209,000	\$350,000
2027	6,611	3,146	\$145,000	\$215,000	\$360,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Streets Maintenance Costs

The Town of Milton currently budgets \$69,112 for streets maintenance expenses. The current maintained street distance is estimated at 9.55 miles. Dividing the cost of streets maintenance by the number of miles of maintained roads results in an estimated cost of \$7,237 per mile.

As a matter of policy, developers of proposed developments assume the capital costs of constructing new streets. The proposed North Milton Annexation area will include approximately 20 miles of streets. We assume that these streets will not be dedicated to the Town until development is approximately 50% completed in 2011.

Applying these costs to the proposed development program results in growth in streets maintenance costs as these streets are dedicated to the Town. These increased costs begin at approximately \$87,000 in 2011 and grow to \$279,000 by 2027 (see **Table 15**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006.

Table 15
North Milton Annexation
Incremental Streets Costs

Year	Incremental Dedicated Mileage	Cumulative Additional Dedicated Mileage	Incremental Streets Costs (@\$7200 Per Mile In 2005 Dollars)
2008			
2009			
2010			
2011	10	10	\$87,000
2012	2	12	\$108,000
2013	2	14	\$129,000
2014	1	15	\$143,000
2015	1	16	\$157,000
2016	1	17	\$171,000
2017	1	18	\$187,000
2018	1	19	\$203,000
2019	1	20	\$220,000
2020		20	\$227,000
2021		20	\$234,000
2022		20	\$241,000
2023		20	\$248,000
2024		20	\$255,000
2025		20	\$263,000
2026		20	\$271,000
2027		20	\$279,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Parks & Recreation Costs

The current Milton Parks & Recreation expense is a minimal \$16,825, including \$7,000 for the Concert in the Park program. This budget is approximately \$7.30 per capita based on the current estimated population of 2,301. The Town anticipates growth in its parks and recreation program largely in parallel with population growth. For this analysis, we will assume an on-going parks & recreation budget for operations and maintenance at \$7.30 per capita measured in 2005 dollars.

Applying these costs to the proposed development program results in growth in parks and recreation costs as the population of the Town grows. These increased costs begin at approximately \$3,000 in 2008 and grow to \$91,000 by 2027 (see **Table 16**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006.

Table 16
North Milton Annexation
Incremental Parks & Recreation Costs

Year	Incremental Residential Units	Incremental Residential Population	Cumulative Additional Residential Population	Incremental Parks & Recreation Costs (@\$7.30 Per Capita In 2005 Dollars)
2008	156	367	367	\$3,000
2009	327	768	1,135	\$9,000
2010	354	832	1,967	\$17,000
2011	365	858	2,825	\$25,000
2012	385	905	3,729	\$34,000
2013	335	787	4,517	\$42,000
2014	272	639	5,156	\$49,000
2015	237	557	5,713	\$56,000
2016	165	388	6,101	\$62,000
2017	106	249	6,350	\$66,000
2018	75	176	6,526	\$70,000
2019	36	85	6,611	\$73,000
2020			6,611	\$75,000
2021			6,611	\$77,000
2022			6,611	\$79,000
2023			6,611	\$81,000
2024			6,611	\$83,000
2025			6,611	\$85,000
2026			6,611	\$88,000
2027			6,611	\$91,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

General Administrative Costs

The Town of Milton currently budgets \$644,834 for general and administrative expenses (see **Table 17**), including \$133,329 for trash collection and a \$6,200 “fire allotment.” For our analysis General Administrative costs exclude trash collection and fire service costs, yielding a budget of \$505,306 for town management, the tax assessor, council, mayor, central administrative services, and insurance. Based on the current estimated population of 2,301, the per capita cost of general administrative services is estimated at \$220.

Table 17
Town of Milton
General Administrative Budget--FY 2006

	General Administrative
Salaries & Benefits	\$241,106
General Government & Administrative Expense	\$124,700
Insurance	\$120,000
Engineering Fees	\$10,000
Repair & Maintenance	\$9,500
 Total Expense	 \$505,306
 Population	 2,301
 General Administrative Expense Per Capita	 \$220

Sources: Town of Milton; Urban Partners

Applying these costs to the proposed development program results in growth in general administrative costs as the population of the Town grows. These increased costs begin at approximately \$88,000 in 2008 and grow to \$2.6 million by 2027 (see **Table 18**). In estimating these expenses, we have used a 3% annual inflation rate beginning in 2006. We have also assumed that there will be some efficiencies in general government costs as the scale of government becomes larger. In particular, the per capita costs of advertising, insurance, council operations, and senior management should be reduced as population increases.

Table 18
North Milton Annexation
Incremental General Administrative Costs

Year	Incremental Residential Units	Incremental Residential Population	Cumulative Additional Residential Population	Incremental General Administrative Costs (@\$220 Per Capita In 2005 Dollars)
2008	156	367	367	\$88,000
2009	327	768	1,135	\$281,000
2010	354	832	1,967	\$501,000
2011	365	858	2,825	\$741,000
2012	385	905	3,729	\$1,008,000
2013	335	787	4,517	\$1,257,000
2014	272	639	5,156	\$1,441,000
2015	237	557	5,713	\$1,616,000
2016	165	388	6,101	\$1,759,000
2017	106	249	6,350	\$1,874,000
2018	75	176	6,526	\$1,976,000
2019	36	85	6,611	\$2,058,000
2020			6,611	\$2,120,000
2021			6,611	\$2,184,000
2022			6,611	\$2,250,000
2023			6,611	\$2,318,000
2024			6,611	\$2,388,000
2025			6,611	\$2,460,000
2026			6,611	\$2,534,000
2027			6,611	\$2,610,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Total Estimated Service Costs

On **Table 19**, we have aggregated all these service costs together to estimate the total incremental costs likely to be incurred by the Town of Milton from the North Milton Annexation. These costs are estimated to begin at approximately \$288,000 in 2008 and are expected to grow to approximately \$9.0 million by 2027.

Table 19
North Milton Annexation
Total Incremental Service Costs

Year	Incremental Water & Sewer Operating Costs	Incremental Trash Collection Costs	Incremental Police Service Costs	Incremental Enforcement Costs	Incremental Streets Costs	Incremental Parks & Recreation Costs	Incremental General Administrative Costs	Total Incremental Service Costs
2008	\$88,000	\$25,000	\$73,000	\$11,000		\$3,000	\$88,000	\$288,000
2009	\$303,000	\$79,000	\$150,000	\$36,000		\$9,000	\$281,000	\$858,000
2010	\$582,000	\$141,000	\$310,000	\$66,000		\$17,000	\$501,000	\$1,617,000
2011	\$869,000	\$209,000	\$479,000	\$97,000	\$87,000	\$25,000	\$741,000	\$2,507,000
2012	\$1,147,000	\$284,000	\$657,000	\$131,000	\$108,000	\$34,000	\$1,008,000	\$3,369,000
2013	\$1,417,000	\$354,000	\$846,000	\$163,000	\$129,000	\$42,000	\$1,257,000	\$4,208,000
2014	\$1,659,000	\$416,000	\$959,000	\$191,000	\$143,000	\$49,000	\$1,441,000	\$4,858,000
2015	\$1,895,000	\$475,000	\$1,077,000	\$219,000	\$157,000	\$56,000	\$1,616,000	\$5,495,000
2016	\$2,093,000	\$523,000	\$1,202,000	\$241,000	\$171,000	\$62,000	\$1,759,000	\$6,051,000
2017	\$2,233,000	\$560,000	\$1,333,000	\$258,000	\$187,000	\$66,000	\$1,874,000	\$6,511,000
2018	\$2,357,000	\$593,000	\$1,373,000	\$273,000	\$203,000	\$70,000	\$1,976,000	\$6,845,000
2019	\$2,456,000	\$619,000	\$1,415,000	\$284,000	\$220,000	\$73,000	\$2,058,000	\$7,125,000
2020	\$2,530,000	\$638,000	\$1,457,000	\$292,000	\$227,000	\$75,000	\$2,120,000	\$7,339,000
2021	\$2,606,000	\$657,000	\$1,501,000	\$301,000	\$234,000	\$77,000	\$2,184,000	\$7,560,000
2022	\$2,684,000	\$677,000	\$1,546,000	\$310,000	\$241,000	\$79,000	\$2,250,000	\$7,787,000
2023	\$2,765,000	\$697,000	\$1,592,000	\$320,000	\$248,000	\$81,000	\$2,318,000	\$8,021,000
2024	\$2,848,000	\$718,000	\$1,640,000	\$330,000	\$255,000	\$83,000	\$2,388,000	\$8,262,000
2025	\$2,933,000	\$740,000	\$1,689,000	\$340,000	\$263,000	\$85,000	\$2,460,000	\$8,510,000
2026	\$3,021,000	\$762,000	\$1,740,000	\$350,000	\$271,000	\$88,000	\$2,534,000	\$8,766,000
2027	\$3,112,000	\$785,000	\$1,792,000	\$360,000	\$279,000	\$91,000	\$2,610,000	\$9,029,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Fiscal Impact

The net fiscal impact of the proposed development program is shown on **Table 20** for the 20-year period beginning in 2008. The Town of Milton will achieve a significant net fiscal benefit during the development period from 2008 through 2018 due to the substantial development period fees of more than \$30 million. After the completion of development in 2020, net fiscal benefits are expected to become much more modest as annual tax and fee revenues exceed service cost expenses by approximately \$500,000. Over time these net fiscal benefits are expected to diminish to approximately \$150,000 in 2027.

Table 20
North Milton Annexation
Fiscal Impact

Year	Total Development Period Revenues	Incremental Post- Development Revenues	Total Incremental Service Costs	Net Fiscal Impact
2008	\$2,441,000	\$322,000	\$288,000	\$2,475,000
2009	\$3,531,000	\$1,079,000	\$858,000	\$3,752,000
2010	\$3,921,000	\$1,977,000	\$1,617,000	\$4,281,000
2011	\$3,769,000	\$2,888,000	\$2,507,000	\$4,150,000
2012	\$4,061,000	\$3,795,000	\$3,369,000	\$4,487,000
2013	\$3,133,000	\$4,669,000	\$4,208,000	\$3,594,000
2014	\$2,814,000	\$5,397,000	\$4,858,000	\$3,353,000
2015	\$2,456,000	\$6,116,000	\$5,495,000	\$3,077,000
2016	\$1,651,000	\$7,217,000	\$6,051,000	\$2,817,000
2017	\$1,149,000	\$7,055,000	\$6,511,000	\$1,693,000
2018	\$1,010,000	\$7,398,000	\$6,845,000	\$1,563,000
2019	\$239,000	\$8,260,000	\$7,125,000	\$1,374,000
2020		\$7,820,000	\$7,339,000	\$481,000
2021		\$7,998,000	\$7,560,000	\$438,000
2022		\$8,850,000	\$7,787,000	\$1,063,000
2023		\$8,370,000	\$8,021,000	\$349,000
2024		\$8,563,000	\$8,262,000	\$301,000
2025		\$9,496,000	\$8,510,000	\$986,000
2026		\$8,969,000	\$8,766,000	\$203,000
2027		\$9,181,000	\$9,029,000	\$152,000
Total	\$30,175,000	\$56,173,001	\$49,732,001	\$36,616,000

Source: Meridian Architects & Engineers; Town of Milton; Urban Partners

Calculating these revenues and service costs together, *cumulative net fiscal impact is estimated to result in a net revenue gain of \$36.6 million over the 2008 to 2027 period.*

We should, however, note three factors which need to be considered in interpreting this analysis.

First, there is some uncertainty inherent in any analysis that extrapolates from one scale of operation to a significantly larger scale. The estimates of service costs included in this analysis are based on current practices of the various departments of the Town in servicing a population of 2,300 people and on the perception of municipal officials about how these functions will be carried out after the annexation. However, the North Milton Annexation will significantly enlarge the population base of the Town of Milton, adding nearly three times the current Milton population by 2019. This larger scale of operation may cause some changes in business practices that are not accounted for in the current analysis.

Secondly, because property assessments are frozen at 1994 levels, revenues received from the property tax do not keep pace with inflation. It is highly likely that some adjustment will be made in property tax receipts over a 20 year period, either through an incremental increase in millage rates or through reassessments. Therefore, the analysis presented here underestimates likely revenues from the North Milton Annexation.

Thirdly, the analysis of service costs presented here includes provisions for regular maintenance and repair of all capital facilities and equipment and replacement of vehicles and functional equipment such as police radios. However, the analysis does not include direct provision for payment of debt service on new capital facilities such as the proposed sewage treatment plant and new facilities for police and general government. Presumably, some of the revenues shown as net fiscal impact on Table 20 will be available to support payment of this debt service.

However, in the longer term (probably near the end of or after the 20-year analysis period), additional capital investment will be required to update or reconstruct roads, to upgrade or replace major capital plant for sewage and water, and to modernize other government facilities. Any contribution by the North Milton Annexation to meeting the costs of this replacement of capital plant will be over and above the service costs detailed in this above analysis.