Chicago Metropolitan Agency for Planning

Fiscal Impact of Annexation, Maine-Northfield Unincorporated Area Plan

April 6, 2018

SB Friedman
Development Advisors
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Introduction

In April 2012, the Cook County Unincorporated Task Force along with Board President Toni Preckwinkle began prioritizing studies of unincorporated areas. Since unincorporated areas are by definition not a part of a municipality, the jurisdictional authority to provide government services in these areas rests with Cook County (the "County"). The Civic Federation produced 2014 and 2016 reports concluding that the costs to the County to provide municipal-level services to these unincorporated areas exceeds the revenue generated by them. Among the many pockets of unincorporated land and communities, the most populated exist in Maine and Northfield Townships in a mostly contiguous area bounded by Des Plaines, Glenview, Niles, and Park Ridge (the "Study Area"). The Civic Federation's 2014 report called out the Study Area as a top priority to examine. Annexation of portions of the Study Area by neighboring municipalities have been discussed by the County, the Civic Federation and the municipalities, as it is typically more efficient for services such as police, fire, public works, permitting and inspections to be provided by a municipality rather than the County. However, from a municipal perspective, annexation of these unincorporated areas would likely be feasible only if the revenues generated from the properties offset the cost of providing municipal services and needed infrastructure upgrades.

The Chicago Metropolitan Agency for Planning's (CMAP) Local Technical Assistance (LTA) program is assisting Cook County with the Maine-Northfield Unincorporated Area Plan. The plan evaluates the Study Area's challenges and opportunities, identifies viable strategies to help guide future growth and development, and focuses on issues of stormwater management, housing, transportation, public services, and image and identity. In addition, the plan will examine the Study Area's relationship with neighboring incorporated communities, each of which is represented on a steering committee.

CMAP engaged SB Friedman Development Advisors (SB Friedman) to estimate the revenues and costs of annexation from a municipal perspective as part of a benefit-cost analysis (BCA). Important to understanding the methodology behind the BCA is understanding the connection between a property owner's overall property tax rate and the services received for those services. The overall tax rate paid by a property owner is also known as the "composite tax rate" as it is made up of the many taxing bodies (i.e., school districts, fire protection districts, municipalities, townships, and many others) which provide services to a property. Each taxing body levies a property tax for their services which collectively sum to the property's overall tax rate.

Most taxing bodies would not change their service boundaries in an annexation scenario and therefore are not being reviewed as part of the BCA. For instance, the area served by the Cook County Forest Preserve District would not change in an annexation scenario, therefore that portion of the composite tax rate would not change. However, as subareas are annexed into a municipality, residents of those subareas would be required to pay the municipal property taxes in exchange for the provision of municipal services. In some cases, this may mean that an existing taxing body is consolidated into the municipality. Therefore, this report considers only the revenues and expenses associated with the provision of municipal services.

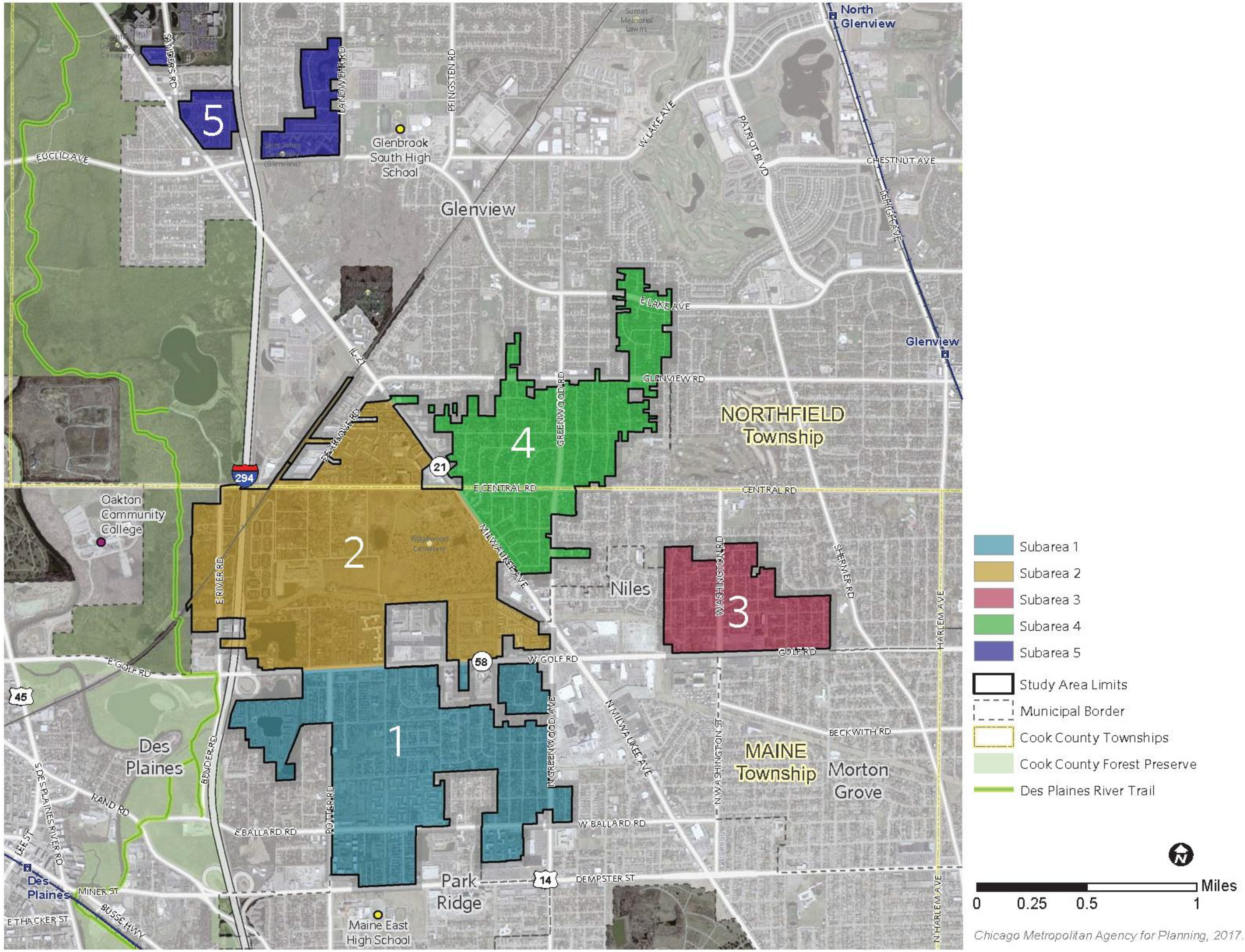
This report summarizes the methodology for conducting the BCA for municipalities and the analysis findings. The BCA will be included with the final Unincorporated Area Plan, and BCA findings will affect some overall policy recommendations of the plan. It should be noted that the BCA revenues and costs are order of magnitude estimates based on data obtained from the County, CMAP, municipal staff interviews, and analysis of municipal Comprehensive Annual Financial Reports (CAFRs) and other budget documents. Further analysis may be needed to refine revenue and cost estimates outlined in this study if the County and any of the municipalities move towards crafting Intergovernmental Agreements regarding annexation or cost/revenue sharing. The BCA is an initial attempt to quantify the impact on municipalities of providing services to unincorporated areas in a manner that is consistent with the standards by which the adjacent municipalities are currently serviced.

Overview of Scenarios

The Study Area BCA is organized around a series of ten (10) possible annexation scenarios (collectively, the “Scenarios”). CMAP divided the Study Area into five subareas as shown in **Map 1**. Four neighboring municipalities – Des Plaines, Glenview, Niles and Park Ridge, were analyzed as potential annexing jurisdictions over the various subareas. For the purposes of the BCA, SB Friedman assumed that:

- Only adjacent municipalities would consider annexation of any subarea;
- Municipalities would annex each subarea in its entirety (though it is possible for multiple municipalities to annex different pieces within Subareas 1, 2, and 3).

Map 1. Study Area Subareas



Source: CMAP, 2017

Based on these assumptions, the 10 Scenarios to be analyzed are laid out in **Table 1**. SB Friedman completed separate benefit-cost calculations for each Scenario given the fiscal framework of each municipality.

Table 1. Potential Annexing Municipalities by Subarea

Subarea	Potential annexing municipalities
1	Park Ridge, Des Plaines, Niles
2	Glenview, Des Plaines, Niles
3	Glenview, Niles
4	Glenview
5	Glenview

Source: CMAP

Through existing conditions analysis, CMAP has found the Study Area to be predominantly residential (approximately 90% of equalized assessed value ("EAV"), 70% of parcel land). The Study Area features more than 60% of its residential units in multi-family structures as opposed to single-family homes – only in Subarea 4 does the number of units in single-family homes significantly outweigh those in multi-family buildings. Other conditions which may significantly impact BCA results include:

- Population ranges from approximately 12,500-15,000 in Subareas 1 and 2 to 2,000-3,500 in Subareas 3, 4 and 5. With limited employment, Daytime Population (residential population plus non-resident workers) is not significantly different from the residential profile (13,000-15,500 in Subareas 1 and 2, 2,000-4,000 in Subareas 3, 4, and 5);
- Though retail square footage is relatively limited with only Subarea 3 featuring a significant level of retail development, the presence of food service and gas stations throughout the subareas creates opportunities for sales tax revenue in other subareas as well;
- Township-maintained centerline roadway miles (which would become the responsibility of the annexing municipality) are variable, ranging from less than a mile in Subarea 5 to over 10 miles in Subarea 1;
- Police calls were also variable, ranging from roughly 1.0 call per resident in Subarea 1 to 1.7 calls per resident in Subarea 5.

Existing conditions by subarea are outlined in **Table 2** on the following page.

Table 2. Subarea Existing Conditions

Subarea Existing Conditions	SA1	SA2	SA3	SA4	SA5
Total Residential Units	5,905	5,470	863	1,230	1,230
Single-family	*2,342*	*1,055*	*534*	*1,045*	*402*
Multi-family	*3,563*	*4,415*	*329*	*185*	*828*
Total SF of Retail Development	54,280	12,600	149,982	20,588	-
Retail Sales [1]	$11,121,000	$3,500,000	$12,834,000	$13,715,000	-
Total Food and Beverage Sales [2]	$8,124,000	$1,186,000	$8,847,000	$4,410,000	-
Total Gas Sales (Gallons) [3]	779,000	812,000	-	3,162,000	-
Total Population	15,155	12,445	1,871	3,461	2,891
Total Employment	607	505	191	326	28
Total Non-Resident Employment	527	475	185	320	24
Total Daytime Population	15,682	12,920	2,056	3,781	2,915
Total Centerline Miles [4]	10.74	4.35	5.12	9.11	0.78
Total EAV	$146,963,022	$62,190,666	$48,196,426	$101,803,123	$33,604,911
Acres	539	744	168	390	109
Total Number of Police Calls [5]	15,307	20,532	2,491	3,600	5,039
Total Number of Fire Calls [6]	1,956	314	163	283	712

[1] Retail sales figures estimated based on the retail mix and square footages provided to SB Friedman by CMAP. Sales per square foot figures estimated using Dollars & Cents, e-Marketer and SB Friedman's market knowledge
[2] Food and beverage sales estimated based on the retail mix and square footages provided to SB Friedman by CMAP. Sales per square foot figures were estimated using Dollars & Cents and SB Friedman's market knowledge
[3] Gas sales were estimated by gas station location using SB Friedman experience and market averages from National Association of Convenience Stores
[4] Township-maintained roads only
[5] Count of police calls provided by the Cook County Sheriff
[6] Fire call counts for Subareas 1 and 2 were provided by the Des Plaines Fire Department. Fire call counts for Subareas 3, 4 and 5 were provided by the Glenview Fire Department
Source: CMAP (unless otherwise noted)

Fiscal Impact Model Structure and Methodology

To estimate the overall fiscal impacts of each Scenario, a stabilized net fiscal impact model was created. SB Friedman created this model based on a review of current municipal service standards and budgets. This model was used to estimate the operational fiscal impact, and accounts for the revenues and costs associated with municipal operations by major department. Additionally, SB Friedman converted large one-time capital costs into annual payments and included these estimates into the net fiscal impact model.

- **Operational Revenues.** Operating revenue projections in the model account for the key ongoing municipal revenue sources derived from newly annexed properties, including:
    - Property tax;
    - Sales tax (including food and beverage tax);

  - Fines, fees, licenses and charges for services (collectively "Charges");
  - Municipal motor fuel tax;
  - Per capita rebates from the State of Illinois (the "State"); and
  - Utility tax.

- **Operational Expenses.** To estimate the municipal operating expenses in each Scenario, SB Friedman utilized an interview-based marginal cost approach. The interview-based marginal cost approach combined in-person interviews of municipal staff and officials with a review of municipal CAFRs and other budget documents. SB Friedman reviewed operational expenses related to the following departments:

  - General Government;
  - Community Development;
  - Police/Public Safety;
  - Fire and EMS; and
  - Public Works.

- **Capital Expenses**. Capital costs that each municipality would likely incur due to annexation in each Scenario were compiled. Capital costs include:

  - Upgrades to roadway and sewer infrastructure to municipal standards;
  - Maintaining infrastructure improvements; and
  - Building or acquiring new infrastructure and equipment to accommodate greater service area and/or population.

  SB Friedman and CMAP conducted interviews with department directors and municipal staff to understand anticipated capital improvements due to annexation in each Scenario. As capital expenses are not typically paid for upfront but are typically paid for out of municipal bond proceeds, SB Friedman converted large one-time capital costs into annual costs by applying typical public sector bonding assumptions and generating an annual payment value. Capital expenses were broken into long-term (i.e., facilities) and short-term (i.e., equipment) categories based on the lifecycle of the capital with different bonding assumptions applied for each category.

- **Net Fiscal Impact.** The total net fiscal impact is total revenues less total operating and annualized capital expenses. If projected revenues are anticipated to be greater than projected operating and capital expenses, the Scenario would be fiscally positive and could improve a municipality's financial position. If projected revenues are anticipated to be less than projected operating and capital expenses, the Scenario would be fiscally negative and could require additional sources of funds to be fiscally neutral from a municipal perspective.

Revenues

The annexation proposed in each Scenario will increase the overall tax base and generate additional revenue for each municipality, but also increase the demand and cost for municipal services. As part of the stabilized fiscal impact model, SB Friedman projected future revenues attributable to annexation by municipality and subarea, detailed below in **Table 4**.

SB Friedman projected the typical revenues associated with the General and Capital Fund of each municipality because taxpayer dollars to support municipal operations and capital expenditures are deposited in these fund. Other funds, such as self-supporting enterprise funds, fiduciary funds, internal service funds, special revenue funds, and trust and agency funds, are excluded from this analysis, and are not separately modeled. These funds were excluded because they are either self-supported by user fees or special charges (such as enterprise funds), or because they do not represent core departmental operations associated with municipal service provision.

ANNUAL MUNICIPAL OPERATING REVENUES

The BCA reviews six primary sources of revenue supporting General Fund operations:

- Property tax;
- Sales tax (including food and beverage tax);
- Fines, fees, licenses and charges for services (collectively “Charges”);
- Municipal motor fuel tax;
- Per capita rebates from the State; and
- Utility tax.

The operating revenue factors and assumptions utilized to project annual municipal revenues are detailed below and outlined in **Table 3**.

Table 3. Municipal Tax Rates/Revenue Assumptions

	Des Plaines	Glenview	Niles	Park Ridge
Property Tax Rate	1.242%	0.493%	0.509%	1.003%
Composite Sales Tax Rate	2.00%	1.75%	2.25%	2.00%
Local Distributive Share	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Home Rule	*1.00%*	*0.75%*	*1.25%*	*1.00%*
Food and Beverage Sales Tax Rate	1.00%	0.00%	1.00%	1.00%
Municipal Motor Fuel Tax Rate	$0.04 per gallon	$0.04 per gallon	$0.04 per gallon	$0.04 per gallon
Per Capita Rebates (2017)				
Income Tax	*$95.22*	*$95.22*	*$95.22*	*$95.22*
Motor Fuel Tax	*$25.43*	*$25.43*	*$25.43*	*$25.43*
Use Tax	*$24.44*	*$24.44*	*$24.44*	*$24.44*
Utility Tax Rates				
Electricity	*Variable by use*	*Variable by use*	*Variable by use*	*Variable by use*
Natural Gas	*$0.025 per therm*	*$0.045 per therm*	*$0.030 per therm*	*$0.020 per therm*
Telecom	*6.00%*	*6.00%*	*6.00%*	*6.00%*

Source: City of Des Plaines, City of Park Ridge, Cook County, Illinois Department of Revenue, Illinois Municipal League, SB Friedman, Village of Glenview, Village of Niles

- **Property Tax.** SB Friedman utilized an average of total EAV data by subarea for the years from 2013 to 2015, as provided by CMAP. EAV by subarea was multiplied by property tax rates for the relevant municipality in each Scenario, as presented in **Table 3**. This property tax rate is only the municipal portion of the overall composite tax rate and does not reflect the total property tax rate a homeowner or business owner would pay. Property tax is one of the largest revenue sources across Scenarios, typically representing about one-fifth (18.2%) of total projected revenue, with a range from only 7.5% up to 25.9%.

- **Fines, Fees, Licenses and Charges for Service ("Charges").** SB Friedman compiled a listing of fines, fees, licenses, and charges for service for each municipality from 2016 CAFRs. Charges were classified in the following ways:

    - **Development or Non-Development Related**. Charges are classified as either related to development (i.e., revenue that would only be realized one time in the event of new development, such as building permit fees) or not related to development (i.e., revenue realized in the course of day-to-day business, such as vehicle licenses). This classification is meant to differentiate between ongoing operational revenue sources versus one-time sources, which are excluded from analysis in the BCA.
    - **Resident or Daytime Population.** Charges are also classified by who is likely to pay them. Charges are classified as "Resident" if only residents are anticipated to pay them or "Daytime Population" if both residents and non-resident employees are expected to pay them. One example of a "Resident" charge is a vehicle permit which only applies to vehicles whose owners reside in the municipality. An example of a "Daytime Population" charge is a traffic fine which could be paid by either a resident or non-resident. This classification is meant to clarify how the Charge is normalized and applied to the analysis in the BCA.

  In this way, each Charge is classified by its relationship to the development process and by whom it would be paid – "Non-Development Related, Daytime Population," for example. Additionally, Glenview included a charge for Dispatch Services, a large line item related to an emergency dispatch center Glenview operates for several communities in north Cook County. As this is more akin to an intergovernmental transfer and is unlikely to change in an annexation scenario, this revenue source (and corresponding cost) was omitted from the analysis.

- **Sales Tax.** SB Friedman used the composite sales tax rates sourced from the Illinois Department of Revenue (ILDOR), as outlined above in **Table 3,** and applied them to estimated data on the dollar volume of sales for the retail mix in each of the five subareas. Sales volume data was estimated using data from CMAP, industry sources and SB Friedman estimates. Composite sales tax rates outlined above include both the 1.00% distributive share received from the State's sales tax as well as home rule sales tax rates which vary by municipality. As not all subareas have sales tax generating land uses, not all Scenarios feature revenue from this source.

- **Food and Beverage Sales Tax.** SB Friedman utilized the food and beverage sales tax rates sourced from each municipality, as outlined above in **Table 3,** and applied them to estimated data on the dollar volume of food and beverage sales for the restaurant mix in each of the five subareas. Sales volume data was estimated using data from CMAP, industry sources and SB Friedman estimates. As not all municipalities in the analysis levy a food and beverage tax and not all subareas have food and beverage sales tax generating land uses, not all Scenarios include revenue from this source.

- **Municipal Motor Fuel Taxes.** SB Friedman used the municipal motor fuel tax rates sourced from each municipality, as outlined above in **Table 3,** and applied them to estimated data on the number of gallons of gasoline sold in each subarea. Gasoline sales volume was estimated using data from CMAP, industry sources and SB Friedman estimates. As not all five subareas feature gasoline sales, not all Scenarios will feature revenue from this source.

- **Per Capita Rebates.** Per capita rebates are distributed to municipalities from taxes collected by the State. Municipalities receive the following reimbursements from the State:

    - **Income Tax.** Illinois municipalities receive a share of statewide income tax collections based on their population relative to the statewide population. For purposes of analysis in the BCA, SB Friedman used the standard metric produced by the Illinois Municipal League (IML) for income tax rebate per resident and applied that value to the anticipated number of new residents. For 2017, the IML reported the income tax per capita rebate at $95.22.
    - **Motor Fuel Tax.** Illinois municipalities receive a share of statewide motor fuel tax collections based on their population relative to the statewide population. SB Friedman used the standard metric produced by the IML for motor fuel tax rebate per resident and applied that value to the anticipated number of new residents. For 2017, the IML reported the motor fuel tax per capita rebate at $25.43.
    - **Use Tax.** Municipalities receive a share of statewide use tax collections designated as "local" use taxes based on their population relative to the statewide population. For purposes of analysis in the BCA, SB Friedman used the standard metric produced by the IML for use tax rebate per resident and applied that value to the anticipated number of new residents. For 2017, the IML reports the use tax per capita rebate at $24.44.

- **Utility Tax.** Utility taxes vary by the utility and the municipality in which they are levied:

    - **Electricity.** Each municipality taxes electricity by usage according to unique use schedules. Usage by housing unit or square foot was estimated using most recent data available from the U.S. Energy Information Administration (EIA) from 2009 (for residential land uses) and 2012 (for commercial land uses). Estimated usage levels were applied to the relevant inventory in each subarea and then multiplied by the tax rate in appropriate usage level brackets to generate revenue estimates for each Scenario.
    - **Natural Gas.** Natural gas is taxed by the therm at variable rates by municipality. Usage by housing unit or square foot was estimated using most recent data available from the U.S. EIA from 2009 (for residential land uses) and 2012 (for commercial land uses). Estimated usage levels were applied to the relevant inventory in each subarea and then multiplied by the tax rate to generate revenue estimates for each Scenario.
    - **Telecom.** Telecom is taxed at 6.0% in all four communities. To estimate the new revenues for each municipality from telecom taxes, SB Friedman utilized a per capita approach. SB Friedman normalized each municipality's 2016 telecom receipts by the municipality's total number of residents and employees (2015) and multiplied the quotient by total residents and employees of each subarea.

- **Other.** Other revenue generation considered as part of the BCA include:

    - **Community Development Block Grant.** Some municipalities, through the annexations modeled in this analysis, may become eligible for Community Development Block Grants (CDBG), while others may see their annual CDBG allocation rise. Modeling projected CDBG receipts is beyond the scope of the BCA. However, based on information from CMAP, a municipality which crosses the 50,000 population threshold and becomes eligible for CDBG funds could expect an allocation of between $250,000 and $300,000. This amount has not been included in the analysis.

- **Revenue Loss Due to Annexation**. In cases where an annexing municipality is already providing a service to a subarea, it is possible for annexation to actually reduce existing levels of revenue. Examples include:
  - Glenview Fire Department currently provides fire protection services to Subareas 3, 4, and 5 via the Glenbrook Fire Protection District. This district functions purely as a “paper district” in which areas outside of Glenview that are being served by Glenview Fire Department are charged a levy to cover costs associated with service by the Glenview Fire Department. The property tax rate for the Glenbrook Fire Protection District is 0.720% whereas Glenview’s property tax rate is 0.493%. However, based on interviews, Glenview officials stated that even the current Glenbrook tax rate is insufficient to cover the costs of service to the covered areas. If Glenview were to annex these areas, the Village tax rate would apply instead of the Glenbrook Fire Protection District rate producing a loss of revenue. In this case, the same level of service would be provided (as well as other municipal services besides just fire protection), however, there would be a loss in revenue. The loss of revenue based on current tax rate differentials has been factored into the model in the appropriate Scenarios.
  - Although water typically operates as an enterprise fund, Glenview may lose water-related revenue through annexation of certain subareas. Currently, non-Glenview residents receiving water service from the Village of Glenview pay a non-resident rate greater than the resident rate. Upon annexation these customers would pay the lower Glenview resident rates but require the same level of service. However, water systems are assumed to be self-supporting enterprise funds and were not included in this analysis.

Table 4. Summary of Revenues

Subarea	SA1	SA1	SA1	SA2	SA2	SA2	SA3	SA3	SA4	SA5
Municipality	Park Ridge	Des Plaines	Niles	Des Plaines	Niles	Glenview	Glenview	Niles	Glenview	Glenview
MUNICIPAL REVENUES										
Property Tax	1.003%	1.242%	0.509%	1.242%	0.509%	0.493%	0.493%	0.509%	0.493%	0.493%
Municipality Tax Revenue	$ 1,474,039	$ 1,825,281	$ 748,042	$ 772,408	$ 316,550	$ 306,600	$ 237,608	$ 245,320	$ 501,889	$ 165,672
Sales Tax										
Local Distributive 1%	$ 95,318	$ 95,318	$ 95,318	$ 35,000	$ 35,000	$ 35,000	$ 128,335	$ 128,335	$ 137,154	$ -
Home Rule	$ 95,318	$ 95,318	$ 119,148	$ 35,000	$ 43,750	$ 26,250	$ 96,251	$ 160,419	$ 102,866	$ -
Food & Beverage	$ 66,979	$ 66,979	$ 66,979	$ 11,863	$ 11,863	$ -	$ -	$ 88,474	$ -	$ -
Municipal Motor Fuel Taxes										
Municipal Motor Fuel Taxes	$ 28,880	$ 28,880	$ 28,880	$ 32,480	$ 32,480	$ 32,480	$ -	$ -	$ 124,720	$ -
Utility Tax										
Gas	$ 80,864	$ 101,080	$ 121,295	$ 81,047	$ 97,256	$ 145,885	$ 33,745	$ 22,497	$ 50,782	$ 35,595
Electric	$ 277,694	$ 284,148	$ 207,012	$ 235,885	$ 171,852	$ 223,811	$ 53,413	$ 40,790	$ 73,769	$ 52,224
Telecom	$ 388,048	$ 363,398	$ 346,844	$ 298,567	$ 284,966	$ 322,268	$ 51,314	$ 45,374	$ 94,242	$ 72,641
Per Capita Rebates										
Motor Fuel Tax	$ 385,392	$ 385,392	$ 385,392	$ 316,476	$ 316,476	$ 316,476	$ 47,580	$ 47,580	$ 88,013	$ 73,518
Income Tax	$ 1,443,059	$ 1,443,059	$ 1,443,059	$ 1,185,013	$ 1,185,013	$ 1,185,013	$ 178,157	$ 178,157	$ 329,556	$ 275,281
Use Tax	$ 370,388	$ 370,388	$ 370,388	$ 304,156	$ 304,156	$ 304,156	$ 45,727	$ 45,727	$ 84,587	$ 70,656
Non-Development-Related Fines/Fees/Licenses/Permits										
Residential	$ 503,508	$ 1,182,156	$ 386,266	$ 970,764	$ 317,194	$ 406,543	$ 61,120	$ 47,687	$ 113,061	$ 94,441
Daytime Population	$ 952,212	$ 753,780	$ 734,236	$ 621,020	$ 604,918	$ 796,815	$ 126,800	$ 96,263	$ 233,186	$ 179,777
Glenbrook Fire District										
Change in receipts	$ -	$ -	$ -	$ -	$ -	$ -	$ (109,406)	$ -	$ (231,093)	$ (76,283)
TOTAL MUNICIPAL RELATED REVENUES	**$ 6,161,700**	**$ 6,995,177**	**$ 5,052,859**	**$ 4,899,678**	**$ 3,721,475**	**$ 4,101,297**	**$ 950,644**	**$ 1,146,623**	**$ 1,702,732**	**$ 943,522**

Source: City of Des Plaines, City of Park Ridge, CMAP, Cook County, Dollars & Cents, e-Marketer, Illinois Municipal League, National Association of Convenience Stores, SB Friedman, State of Illinois Department of Revenue, U.S. Energy Information Administration, Village of Glenview, Village of Niles

Expenses

ANNUAL MUNICIPAL OPERATING EXPENSES

The General Fund service costs were summarized by major categories/departments and include:

- General Government;
- Community Development;
- Police/Public Safety;
- Fire and EMS; and
- Public Works.

SB Friedman utilized an interview-based marginal cost approach to estimate municipal operating expenses in one of two ways. Estimates of new operating and capital costs to service annexed areas were used when provided by municipal department representatives. In other cases, municipal staff were requested to separate departmental costs into fixed costs that do not change with population or employment growth and variable costs that change as new people or employees are added. The service cost impact of annexation was estimated by applying the percentage of current department budget estimated to be variable to an appropriate per capita metric (i.e., population, employment, area, centerline miles), and multiplied by the expected increase in said metric due to annexation. The final costs of service provision in the fiscal model are based on a reconciliation of these two approaches.

The benefit of utilizing a marginal cost approach, rather than an overall per capita approach, is that this method is based on detailed review of individual departmental budgets. This method assumes that some costs are fixed and increase on a "step" function based on capacity. In cases where a department is close to capacity on its staffing or capital resources and new service demands are added, the cost of expanding capacity can appear to fall solely on the final development or annexation that pushes service requirements to the point of requiring new investment. The result is a "stair step pattern" of costs wherein investments are made (i.e., the first "step") which provides significant new capacity until some point in the future where that capacity is exhausted and another investment is required (i.e., the next "step"). Under this method, expenses are driven primarily by each municipality's departmental capacity and estimated expenses more accurately reflect the potential cost of service.

As part of the stabilized fiscal impact model, SB Friedman projected future operating costs attributable to annexation by municipality and subarea, detailed below in **Table 5**. A summary of typical operational expenses analyzed as part of the BCA is provided below by department.

- **General Government.** General government typically accounts for costs associated with the following local government functions:
  - Finance;
  - Human resources, resident service, and other administration;
  - Human services (i.e., social services);
  - Information technology;
  - Legal;
  - Village Board; and

  - Village Manager.

- **Community Development.** Community development typically accounts for costs associated with the following local government functions:

  - Building/engineering/site plan review;
  - Building inspection/code enforcement;
  - Community development; and
  - Planning.

- **Police/Public Safety.** Police or public safety costs typically account for the costs associated with operating municipal police forces. This includes the following:

  - Personnel salary and benefits; and
  - Maintenance of equipment and facilities.

- **Fire and EMS.** Fire and EMS costs typically account for the costs associated with operating municipal fire protection and emergency medical response (ambulance) services. This includes the following:

  - Personnel salary and benefits; and
  - Maintenance of equipment and facilities.

- **Public Works.** Per municipal policies, the municipality is responsible for all maintenance costs associated with new municipal roads after annexation. Routine maintenance typically includes snow removal, street lighting, street sweeping, mud-jacking and pad-leveling, grinding and resurfacing, crack fill and repair, curb repairs, pothole patching, pavement markings, traffic signage, traffic signals, landscaping and beautification, median maintenance, and other miscellaneous services. Public works may also be responsible for maintenance of public buildings, municipal engineering studies, and maintenance of other infrastructure.

As previously mentioned, enterprise funds (i.e., sewer, water, or parking operations) were excluded from the analysis because their operations are supported by user fees or special charges. Park and library districts, as separate taxing districts, are also excluded from analysis in the BCA.

Table 5. Summary of Operating and Capital Costs

Subarea	SA1	SA1	SA1	SA2	SA2	SA2	SA3	SA3	SA4	SA5
Municipality	**Park Ridge**	**Des Plaines**	**Niles**	**Des Plaines**	**Niles**	**Glenview**	**Glenview**	**Niles**	**Glenview**	**Glenview**
MUNICIPAL EXPENDITURES										
General Government	$ -	$ 902,316	$ 476,405	$ 743,395	$ 392,144	$ 1,489,685	$ 237,058	$ 61,455	$ 435,952	$ 336,101
Community Development	$ -	$ 266,000	$ 880,767	$ 266,000	$ 725,641	$ 882,013	$ 132,603	$ 115,474	$ 245,291	$ 204,893
Public Safety	$ -	$ 2,597,735	$ 2,115,225	$ 3,484,465	$ 2,837,251	$ 3,471,340	$ 461,700	$ 344,223	$ 863,000	$ 731,000
Fire and EMS	$ -	$ 4,284,243	$ 3,048,034	$ 687,757	$ 489,306	$ 3,300,000		$ 347,014		
Public Works	$ -	$ 595,137	$ 781,346	$ 821,856	$ 316,528	$ 257,078	$ 302,581	$ 372,553	$ 537,972	$ 46,126
Capital and Debt - Roadway Upgrade to Municipal Standards	$ -	$ 1,607,034	$ 1,208,775	$ 1,096,711	$ 876,407	$ 603,231	$ 870,257	$ 525,683	$ 1,349,954	$ 90,461
Capital and Debt - Ongoing maintenance	$ -	$ 448,450	$ 177,085	$ 181,670	$ 71,738	$ 206,055	$ 242,526	$ 84,436	$ 431,199	$ 36,971
Capital and Debt - Other Capital Needs [1]	$ -	$ 1,377,481	$ 1,957,069	$ 1,049,342	$ 1,125,531	$ 1,979,508	$ 48,086	$ 102,993	$ 82,978	$ 51,582
TOTAL MUNICIPAL EXPENDITURES	$ -	**$ 12,078,398**	**$ 10,644,705**	**$ 8,331,196**	**$ 6,834,546**	**$ 12,188,909**	**$ 2,294,811**	**$ 1,953,831**	**$ 3,946,346**	**$ 1,497,136**

[1] Other Capital Needs includes vehicles, facilities, and one-time investments required upon annexation

Source: City of Des Plaines, City of Park Ridge, CMAP, Cook County Sheriff, Gewalt Hamilton, Internal Revenue Service, SB Friedman, Village of Glenview, Village of Niles

CAPITAL EXPENSES

Capital expenses include all municipal capital costs associated with the Scenarios. A summary of capital costs attributable to annexation by municipality and subarea is detailed above in **Table 5**. Three categories of capital costs are estimated as follows:

- **Upgrades of Roadway and Sewer Infrastructure to Municipal Standards.** The BCA assumes that each subarea will require infrastructure investment to bring the existing infrastructure up to the standards of the annexing municipality. For these costs, SB Friedman has relied upon the results of a study conducted by Gewalt Hamilton Associates, Inc. ("Gewalt Hamilton") that reviewed the costs associated with upgrading infrastructure to the standards of the annexing community in each Scenario. Gewalt Hamilton prepared concept-level cost opinions for the following infrastructure:

    - Expanded roadway width and pavement resurfacing;
    - Additional sidewalks;
    - Additional streetlights;
    - Installing curbs and gutters; and
    - Installing sewer mains.

  Values and modeling assumptions were validated by public officials responsible for the respective capital improvements. SB Friedman applied bonding assumptions (as described above) to the provided cost estimates to generate an annual cost associated with these upgrades. Variability in cost assumptions by Scenario is driven by the different statutory requirements infrastructure must meet in each municipality. Additionally, Glenview indicated there would be further costs not accounted for in the Gewalt Hamilton study to bring storm sewers up to Village standards. Those costs were added to the estimates provided by Gewalt Hamilton and were annualized using similar bonding assumptions as the other infrastructure.

- **Long-term Maintenance Costs for Infrastructure Improvements.** It is assumed that annexing municipalities will become responsible for long-term maintenance of all roads currently under Township jurisdiction in each subarea. The annexation of additional roads creates a long-term liability for the municipality, as this infrastructure will need to be maintained. Major repair costs for roads are typically incurred in one-time lump sums at some future date (20, 40 or more years in the future). To approximate municipal roadway maintenance standards, SB Friedman reviewed municipal Capital Improvement Plans ("CIPs") for the 2016 to 2020 period, where available. Total annual expenditures for roadway maintenance were pulled from the CIPs to estimate the average expenditure per year. This value was normalized by the total mileage in the municipality to generate an average annual expenditure for roadway maintenance per mile of municipally-maintained roadway. This value was applied to the roadway mileage the municipalities will inherit upon annexation to generate an annual operational cost requirement for roadway maintenance.

- **New Infrastructure and Equipment Costs Required to Accommodate Increased Service Area and Population.** Some Scenarios will require new infrastructure or equipment to support operational activities to serve the expanded service areas or population. Estimates of new capital and equipment needs were provided by municipal staff and department directors in interviews and in follow up correspondence. Typical capital costs incurred by departments are as follows:

- **General Government.** No responding municipalities indicated there would be new capital costs associated with general government functions if annexation were to proceed.
- **Community Development.** Only one community reported new capital costs associated with community development, for new vehicles to serve an expanded staff.
- **Police/Public Safety.** Typical capital costs for police/public safety include new vehicles and equipment for expanded police forces and costs associated with new facilities (building and land).
- **Fire and EMS.** Typical capital costs for fire and EMS include new vehicles and equipment and costs associated with new facilities (for example, fire trucks and building and land associated with a new fire station).
- **Public Works.** Typical capital costs for public works include new vehicles and equipment and costs associated with new facilities (for example, building and land associated with a new satellite garage).

The BCA does not account for any additional park, public transit or library development within the subareas.

Net Fiscal Impact

The total net fiscal impact is total revenues less total operating and annualized capital expenses. The net fiscal analysis presents the projected costs of service delivery and annualized capital improvements to each subarea against projected revenues to determine whether or not each Scenario is fiscally positive or negative. A summary of net fiscal impact is available below in **Table 6**. A net fiscal impact was not included for the City of Park Ridge because expense data was not available within the timeframe for completing this report.

Table 6. Annual Net Fiscal Impact

Subarea	SA1	SA1	SA1	SA2	SA2	SA2	SA3	SA3	SA4	SA5
Municipality	Park Ridge	Des Plaines	Niles	Des Plaines	Niles	Glenview	Glenview	Niles	Glenview	Glenview
MUNICIPAL REVENUES										
Property Tax	1.003%	1.242%	0.509%	1.242%	0.509%	0.493%	0.493%	0.509%	0.493%	0.493%
Municipality Tax Revenue	$ 1,474,039	$ 1,825,281	$ 748,042	$ 772,408	$ 316,550	$ 306,600	$ 237,608	$ 245,320	$ 501,889	$ 165,672
Sales Tax										
Local Distributive 1%	$ 95,318	$ 95,318	$ 95,318	$ 35,000	$ 35,000	$ 35,000	$ 128,335	$ 128,335	$ 137,154	$ -
Home Rule	$ 95,318	$ 95,318	$ 119,148	$ 35,000	$ 43,750	$ 26,250	$ 96,251	$ 160,419	$ 102,866	$ -
Food & Beverage	$ 66,979	$ 66,979	$ 66,979	$ 11,863	$ 11,863	$ -	$ -	$ 88,474	$ -	$ -
Municipal Motor Fuel Taxes										
Municipal Motor Fuel Taxes	$ 28,880	$ 28,880	$ 28,880	$ 32,480	$ 32,480	$ 32,480	$ -	$ -	$ 124,720	$ -
Utility Tax										
Gas	$ 80,864	$ 101,080	$ 121,295	$ 81,047	$ 97,256	$ 145,885	$ 33,745	$ 22,497	$ 50,782	$ 35,595
Electric	$ 277,694	$ 284,148	$ 207,012	$ 235,885	$ 171,852	$ 223,811	$ 53,413	$ 40,790	$ 73,769	$ 52,224
Telecom	$ 388,048	$ 363,398	$ 346,844	$ 298,567	$ 284,966	$ 322,268	$ 51,314	$ 45,374	$ 94,242	$ 72,641
Per Capita Rebates										
Motor Fuel Tax	$ 385,392	$ 385,392	$ 385,392	$ 316,476	$ 316,476	$ 316,476	$ 47,580	$ 47,580	$ 88,013	$ 73,518
Income Tax	$ 1,443,059	$ 1,443,059	$ 1,443,059	$ 1,185,013	$ 1,185,013	$ 1,185,013	$ 178,157	$ 178,157	$ 329,556	$ 275,281
Use Tax	$ 370,388	$ 370,388	$ 370,388	$ 304,156	$ 304,156	$ 304,156	$ 45,727	$ 45,727	$ 84,587	$ 70,656
Non-Development-Related Fines/Fees/Licenses/Permits										
Residential	$ 503,508	$ 1,182,156	$ 386,266	$ 970,764	$ 317,194	$ 406,543	$ 61,120	$ 47,687	$ 113,061	$ 94,441
Daytime Population	$ 952,212	$ 753,780	$ 734,236	$ 621,020	$ 604,918	$ 796,815	$ 126,800	$ 96,263	$ 233,186	$ 179,777
Glenbrook Fire District										
Change in receipts	$ -	$ -	$ -	$ -	$ -	$ -	$ (109,406)	$ -	$ (231,093)	$ (76,283)
TOTAL MUNICIPAL RELATED REVENUES	**$ 6,161,700**	**$ 6,995,177**	**$ 5,052,859**	**$ 4,899,678**	**$ 3,721,475**	**$ 4,101,297**	**$ 950,644**	**$ 1,146,623**	**$ 1,702,732**	**$ 943,522**
MUNICIPAL EXPENDITURES										
General Government	$ -	$ 902,316	$ 476,405	$ 743,395	$ 392,144	$ 1,489,685	$ 237,058	$ 61,455	$ 435,952	$ 336,101
Community Development	$ -	$ 266,000	$ 880,767	$ 266,000	$ 725,641	$ 882,013	$ 132,603	$ 115,474	$ 245,291	$ 204,893
Public Safety	$ -	$ 2,597,735	$ 2,115,225	$ 3,484,465	$ 2,837,251	$ 3,471,340	$ 461,700	$ 344,223	$ 863,000	$ 731,000
Fire and EMS	$ -	$ 4,284,243	$ 3,048,034	$ 687,757	$ 489,306	$ 3,300,000		$ 347,014		
Public Works	$ -	$ 595,137	$ 781,346	$ 821,856	$ 316,528	$ 257,078	$ 302,581	$ 372,553	$ 537,972	$ 46,126
Capital and Debt - Roadway Upgrade to Municipal Standards	$ -	$ 1,607,034	$ 1,208,775	$ 1,096,711	$ 876,407	$ 603,231	$ 870,257	$ 525,683	$ 1,349,954	$ 90,461
Capital and Debt - Ongoing maintenance	$ -	$ 448,450	$ 177,085	$ 181,670	$ 71,738	$ 206,055	$ 242,526	$ 84,436	$ 431,199	$ 36,971
Capital and Debt - Other Capital Needs [1]	$ -	$ 1,377,481	$ 1,957,069	$ 1,049,342	$ 1,125,531	$ 1,979,508	$ 48,086	$ 102,993	$ 82,978	$ 51,582
TOTAL MUNICIPAL EXPENDITURES	$ -	**$ 12,078,398**	**$ 10,644,705**	**$ 8,331,196**	**$ 6,834,546**	**$ 12,188,909**	**$ 2,294,811**	**$ 1,953,831**	**$ 3,946,346**	**$ 1,497,136**
NET FISCAL IMPACT FOR MUNICIPALITY	$ -	**$ (5,083,221)**	**$ (5,591,846)**	**$ (3,431,518)**	**$ (3,113,071)**	**$ (8,087,612)**	**$ (1,344,167)**	**$ (807,207)**	**$ (2,243,614)**	**$ (553,614)**

[1] Other Capital Needs includes vehicles, facilities, and one-time investments required upon annexation

Source: City of Des Plaines, City of Park Ridge, CMAP, Cook County, Cook County Sheriff, Dollars & Cents, e-Marketer, Gewalt Hamilton, Illinois Municipal League, Internal Revenue Service, National Association of Convenience Stores, SB Friedman, State of Illinois Department of Revenue, U.S. Energy Information Administration, Village of Glenview, Village of Niles

IMPLICATIONS OF FISCAL IMPACT RESULTS

Each of the Scenarios reviewed as part of the BCA returns a negative fiscal impact for the annexing municipality. Based on the above analysis, there are three primary factors driving the negative fiscal results, as described below:

1. **High Costs of Infrastructure Upgrades.** Capital costs related to upgrading existing road, sewer and stormwater infrastructure to municipal standards are one of the significant drivers of costs related to annexation. On average, these costs represent approximately 36% of the total negative fiscal impact.

2. **Capital Costs of New Facilities and Equipment.** Communities with departments operating at or near capacity in terms of personnel, equipment and facilities are required to make significant investments in new facilities, equipment or staffing to accommodate the annexed subareas (i.e., the "stair step" function described above). Many of the adjacent communities indicated the need to build, staff and equip new facilities such as fire stations, public works garage, etc. On average, these costs represent approximately 20% of the total negative fiscal impact.

3. **Lack of a Diversified Tax Base.** Many of the commercial areas adjacent to the five subareas are part of adjacent municipalities or have been annexed by adjacent municipalities leaving a more residentially-focused tax base. As a comparative benchmark, the share of non-residential EAV in Cook County is 35%, while the non-residential EAV in the subareas range from only 16% down to 1%. Since residents tend to demand more municipal services than employees in non-residential uses, municipalities rely heavily on property and sales taxes from commercial uses to help offset the costs of providing services to residential uses.

   The predominance of residential uses also means that retail sales tax generation in the subareas are lower than a typical municipality in the Chicago region. On average, based on CoStar data, the CMAP seven-county Chicago region have approximately 53 square feet of retail per capita, while the subareas in aggregate have less than 7 square feet of retail per capita. Only in Subarea 3 is the square foot per resident greater than the regional average (80 square feet per resident).

The fiscal impact analysis shows that despite efficiencies that may be gained or expected from municipal provision of services to these areas, the costs related to infrastructure upgrades, capital costs of new facilities and the lack of a diversified tax base make it challenging for municipalities to provide services in a fiscally neutral way. In practical terms, annexation by municipalities would likely only be viable if the following outcomes can be achieved:

- Residents receive an improved level of service and upgrades to existing infrastructure for a nominal increase in taxes or fees;
- The County can reduce operational losses currently being incurred; and
- Municipalities can annex without assuming a fiscal burden/structural deficit.

Achieving such a win-win-win scenario will require strategies to overcoming the structural imbalance observed in providing services to the subareas. While no single strategy is likely to unlock all three wins, there are potential strategies to consider which could move the subareas closer to the outcome described above.

- **State and/or County Infrastructure Cost Financial Assistance.** This model assumes substantial investments by annexing municipalities to upgrade existing infrastructure to municipal standards. Reducing the annexing municipality's financial contribution through securing other sources of funding would decrease the amount the municipalities would need to bond to finance these improvements. For example, the County had previously used a tool called the Unincorporated Cook Infrastructure Improvement Fund (the "UCIIF") as a matching source of funds for municipalities to upgrade infrastructure as part of an annexation. Utilizing this tool along with other State and County funds could reduce the costs borne by the annexing municipality to bring existing infrastructure up to municipal standards.

- **County Financial Assistance from Reduced Operating Costs.** Cook County is currently spending more to provide municipal-level services to the subareas than it is collecting from them in revenue. Instead of ceasing its spending on operations costs for the subareas immediately upon annexation, the County could convert *a portion* of the spending that would have occurred to service these areas to a payment to the annexing municipality. Over time this payment could be reduced in phases once other capital costs incurred by the municipality have been paid off. In this way, the County still receives an immediate benefit – a reduction in its fiscal losses, while reducing some of the costs to municipalities associated with annexation of the subareas.

- **Special Service Areas (SSA).** In some instances, services provided by existing taxing districts may be replaced by municipal services in the process of annexation. In the event that such a process would result in a reduced property tax rate, that differential could be captured via an SSA to support capital improvements or operations in the subarea.

  In Illinois, counties and municipalities have the authority to establish SSAs to provide a means of funding improvements within a designated area. An SSA is a property-taxing mechanism that can be used to fund a wide range of special or additional services and/or physical improvements in a defined geographic area within a municipality or jurisdiction. In an SSA, a small percentage is added to the property tax of the properties within the defined service area. The revenue received from this targeted increase is channeled back into projects and programs benefiting those properties. An SSA can be rejected if 51 percent of the property owners and electors within a designated area object.

  For example, if the North Maine Fire Protection District (NMFPD) were to be replaced with a municipal fire department, the 1.664% NMFPD tax rate would be removed and replaced with a lower municipal property tax rate (all four municipalities reviewed had property tax rates below 1.664%). An SSA could be used to capture some of the difference between the higher NMFPD and lower municipal property tax rates, providing the municipality additional resources to support the integration of the annexed subarea while keeping tax rates relatively stable for residents.

  Potential SSA scenarios are shown below in **Table 7**. If an SSA were to be used alone as a means to close the fiscal gap, the tax rate could potentially range from 1.647% up to 13.005%. If, however, an SSA was used in conjunction with other forms of financial assistance (i.e., to handle capital costs as described in the first bullet point above), the SSA tax rate could be reduced and range from 0.370% to 8.852% depending on the subarea and municipality.

- **Combine Subareas in Annexation Agreements.** Certain subareas present greater fiscal challenges than others upon annexation due to factors such as differing amounts of sales tax-generating uses or calls for emergency services. This disparity can present challenges in making all of the subareas attractive as annexation targets. It may be possible to combine the subareas in such a way as to offset land uses which require more services with those that generate more revenues, thereby making the aggregate subareas attractive as a target for annexation.

- **Leverage Existing Capital Facilities and Assets.** To the extent possible, annexing municipalities could explore acquiring the facilities and assets of agencies currently providing services to the subareas and incorporating them into the municipal departments which will be providing services upon annexation. For example, a fire protection district that is no longer providing service to a subarea, may have surplus equipment which the annexing municipality could acquire. Acquisition in this manner may be lower-cost than new construction as the annexing municipality could likely acquire the equipment or facility by taking on the outstanding debt only and not paying the entire cost for the new equipment or facility. SB Friedman understands, however, that the value of existing facilities in annexed subareas is in some ways relative to the siting of existing municipal facilities; therefore, this may not always be a practical solution to new facility needs.

Table 7. Potential SSA Scenarios

Subarea	SA1	SA1	SA1	SA2	SA2	SA2	SA3	SA3	SA4	SA5
Municipality	Park Ridge	Des Plaines	Niles	Des Plaines	Niles	Glenview	Glenview	Niles	Glenview	Glenview
SSA Test										
Net Fiscal Impact for Municipality	$ -	$ (5,083,221)	$ (5,591,846)	$ (3,431,518)	$ (3,113,071)	$ (8,087,612)	$ (1,344,167)	$ (807,207)	$ (2,243,614)	$ (553,614)
Total EAV	--	$ 146,963,022	$ 146,963,022	$ 62,190,666	$ 62,190,666	$ 62,190,666	$ 48,196,426	$ 48,196,426	$ 101,803,123	$ 33,604,911
SSA Rate Needed to Equalize Fiscal Impact	--	**3.459%**	**3.805%**	**5.518%**	**5.006%**	**13.005%**	**2.789%**	**1.675%**	**2.204%**	**1.647%**
SSA Test - Less Up-Front Capital Costs [1]										
Net Fiscal Impact for Municipality	$ -	$ (5,083,221)	$ (5,591,846)	$ (3,431,518)	$ (3,113,071)	$ (8,087,612)	$ (1,344,167)	$ (807,207)	$ (2,243,614)	$ (553,614)
Up-Front Capital Costs	$ -	$ 2,984,516	$ 3,165,843	$ 2,146,053	$ 2,001,938	$ 2,582,739	$ 918,343	$ 628,676	$ 1,432,933	$ 142,044
Net Fiscal Impact for Municipality Without Up-front Capital Costs	$ -	$ (2,098,705)	$ (2,426,003)	$ (1,285,465)	$ (1,111,133)	$ (5,504,873)	$ (425,824)	$ (178,532)	$ (810,682)	$ (411,571)
Total EAV	--	$ 146,963,022	$ 146,963,022	$ 62,190,666	$ 62,190,666	$ 62,190,666	$ 48,196,426	$ 48,196,426	$ 101,803,123	$ 33,604,911
SSA Rate Needed to Equalize Fiscal Impact	--	**1.428%**	**1.651%**	**2.067%**	**1.787%**	**8.852%**	**0.884%**	**0.370%**	**0.796%**	**1.225%**

[1] Assumes capital costs to upgrade infrastructure and expand/upgrade department facilities and equipment are funded through other sources (e.g. the UCIIF administered by the County)

Source: City of Des Plaines, City of Park Ridge, CMAP, Cook County, Cook County Sheriff, Dollars & Cents, e-Marketer, Gewalt Hamilton, Illinois Municipal League, Internal Revenue Service, National Association of Convenience Stores, SB Friedman, State of Illinois Department of Revenue, U.S. Energy Information Administration, Village of Glenview, Village of Niles

Next Steps

As noted above, the BCA is intended to provide an order of magnitude estimate of revenues and costs based on data received from the County, CMAP, municipal staff interviews and analysis of municipal budget documents. If the County and any of the municipalities were to move toward crafting an Intergovernmental Agreement regarding annexation or cost/revenue sharing, further analysis may be needed to refine costs and revenues estimates.

Limitations of Our Engagement

Our report is based on estimates, assumptions and other information developed from research of local government fiscal policies, knowledge of the industry, and meetings during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the report. While sources used are ones which we deem reliable, no guarantee can be made as to their accuracy. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from those described in our memorandum, and the variations may be material.

The terms of this engagement are such that we will have no obligation to revise the report to reflect events or conditions that occur subsequent to the date of the report. These may include changes in local fiscal policy or other factors.

Our report is intended for your information and for submission to local governmental entities reviewing the Project and should not be relied upon for any other purposes. Otherwise, neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document without our prior written consent.