

LAKESIDE SPECIAL TAXING DISTRICT
SPECIAL TAX REPORT
TOWN OF TRAPPE, MARYLAND

REPORT ON THE REASONABLE BASIS OF THE SPECIAL TAX

Prepared By:
MuniCap, Inc.

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LAKESIDE SPECIAL TAXING DISTRICT SPECIAL TAX REPORT

Purpose of Report

The Town of Trappe (the "Town") is an incorporated municipality which was founded in 1856, located in Talbot County, Maryland. As of the 2000 census, Trappe had 1,146 residents. The Town owns and operates its own water and sewer services, which serve 493 properties.

In the 1990's the Town began a comprehensive planning program. The Town adopted a new comprehensive land use plan on August 15, 2002. As part of the Town's comprehensive planning process, the Town established growth areas pursuant to discussions with county officials, the Maryland Department of Planning and citizens' committees. One of the growth areas identified in the Trappe Comprehensive Plan was the "Trappe East" annexation area, which had been identified in the Talbot County Comprehensive Plan as a Trappe growth area for more than 20 years.

In accordance with the Talbot County Comprehensive Plan and the Trappe Comprehensive Plan, in February 2003, the Town of Trappe annexed approximately 900 acres of the "Trappe East" annexation area.

In February 2006, by Ordinance No. 9-2005, the Town established a Planned Neighborhood Zoning District for the annexed property. The Town also approved and executed a Development Rights and Responsibilities Agreement ("DRRA") on March 1, 2006, which is recorded in the land records for Talbot County, Maryland at Liber 1428, folio 086. The PN District and the DRRA permit the development of 2,501 residential dwelling units on the property.

As noted in the DRRA, the development of the Project "requires initial construction...of public facilities, substantial front-end investment in on-site and off-site improvements, dedications of land, and participation in other programs for the public benefit and purposes." DRRA, p. 2. Those public facilities include, but are not limited to the construction of a new water tower, wastewater treatment facility, acquisition of a spray field, park areas, roads, sidewalks, public works equipment, a public works building, and an administrative building, all of which will serve the properties in the Lakeside District.

On June 7, 2006, after notice and a public hearing, the Trappe Town Council adopted Resolution 2-2006, which created the "Lakeside Special Taxing District" comprised of the Property described in the Resolution (the "Lakeside District"). As part of the Resolution, the Town expressed its intention to consider an ordinance to levy a special tax on the Property within the Lakeside District, create a special fund, and apply revenues of the special tax and proceeds of any bonds issued for the Lakeside District to provide for improvements for the benefit of the Property within the Lakeside District and situated outside the Lakeside District which are reasonably related to infrastructure improvements within the Lakeside District.

Special taxes will be levied in the Lakeside District to provide public improvements for the benefit of the property in the district. The public improvements to be provided are described below. Bonds in one or more series (including refunding bonds) are expected to be issued to

fund these improvements. The bonds will include the cost of the improvements, issuance costs, interest on the bonds and administrative expenses for a period after the bonds are issued, and a reserve fund.

The Town will levy a special tax to pay the debt service due on the bonds, the cost of administration of the district, and other costs related to the bonds. The special tax is levied and bonds issued pursuant to Article 23A, Section 44A of the Annotated Code of Maryland, as amended. The special taxes are to be levied in a reasonable manner that results in fairly allocating the costs of the public improvements. Reasonable, in the context of the levy of the special taxes, means:

1. The total of the special taxes levied is equal to or less than the special benefit received by the property from the improvements;
2. The maximum annual special taxes are set to pay the annual debt service on the bonds to be issued to pay for the public improvements;
3. The special taxes are allocated to the parcels in the district in a manner that fairly reflects the relative benefit each parcel will receive from the improvements.

This report explains how the special taxes are levied to meet these requirements.

Description of the District

The Lakeside District is located on the east side of Route 50 and the Town of Trappe. Currently, there are no town improvements or public facilities located on the east side of Town in the Lakeside District. The Lakeside development is expected to include 2,501 residential units as shown in Table A. The Class 2 attached units are proposed to be used for age-restricted living. The other units provide housing for a broader base of population ranging from families looking for single-family homes (Class 4) to younger business professionals looking for apartments (Class 1) or townhomes (Class 3).

Table A
Proposed Land Uses

Residential Type	Units
Class 1 (rental apartments)	336 units
Class 2 (attached units)	342 units
Class 3 (townhomes)	326 units
Class 4 (detached units)	1497 units
Total	2,501 units

Description of the Public Improvements

The Town's existing population is approximately 1,146 residents. The Town provides water services to 493 properties. The Lakeside development will add approximately 2,501 residential dwelling units to the Town. Prior to the development of the Lakeside District, the

Town has undertaken substantial evaluation and studies of the public facilities which will be necessary to serve the expanded population. The development of the Lakeside District will require the construction of substantial public facilities to serve the property.

The Town's existing water and wastewater treatment facilities are not capable of servicing the Lakeside District. The Town's Comprehensive Plan requires the construction of a new wastewater treatment facility with application treatment of effluent. The developer has obtained the necessary approvals from the Maryland Department of the Environment for the construction of a new wastewater treatment plant, which has been designed and sized to accommodate the residents of the Lakeside District. Similarly, the Town has required that the developer construct a new water tower to serve the residents of the Lakeside District.

The Town currently employs two administrative clerks, two wastewater treatment employees, and one town planner. The Town employs no police officers. The Town also has no public works department or public works equipment, aside from the public works staff and equipment related to the Town's existing water and wastewater treatment facilities.

As set forth in the DRRA, the development of the Lakeside District will require expanded public facilities, including, but not limited the following: (1) construction of water treatment, storage and distribution facilities; (2) construction of a wastewater treatment collection system, including administrative offices and laboratory space; (3) construction of fire hydrants and valves; (4) construction of roads, curbs and gutters; (5) acquisition of land for a Town administrative building; (6) construction of a town administrative building and public works building; (7) public works equipment; (8) improvements to the firehouse; (9) contributions toward a town police force and public safety equipment; (10) funding toward the Town's administrative staff necessary to assist with the town's review and approval of development plans and building permits for the Lakeside Development; (11) open spaces, parks and the lake as described in the planned unit development plans approved by the Town; (12) related grading, engineering, lighting, sidewalks, stormwater management areas, and other improvements necessary for the development of the Lakeside District.

The purpose of the Lakeside District is to finance all or part or the costs of the following public improvements:

Table B
Public Improvements

Public Improvement	Total Cost
Government improvements:	
Construct public works facility	\$396,000
Provide equipment for public works facility	\$140,000
Town police department - two police vehicles	\$96,000
Firehouse improvements	\$200,000
Emergency sensors for fire vehicles	\$40,000
Town administrative building	\$1,360,000
Town reimbursement	\$200,000
Dedicate 4 acres for LaTrappe Heights Park	\$20,000
Roads:	
Route 50 at northern entrance to project	\$1,099,744
Route 50 at Barber Road SHA and town improvements	\$1,200,000
Southern entrance to project at Barber Road	\$420,662
Spine road construction	\$5,054,836
Water and Wastewater:	
Water treatment facilities	\$2,084,295
Wastewater	\$19,603,660
Two test wells	\$288,325
Spray field land	\$1,142,541
Construction of lake	\$912,739
Additional roads, water and sewer improvements	\$1,040,000
Hard costs subtotal	\$35,298,802
Overhead	\$420,811
Contingency	\$3,443,498
Total bond funded public improvements	\$39,163,111

Projected Issuance of Bonds

Bonds are projected to be issued to finance the costs of the public improvements. Bond proceeds will also finance a reserve fund, issuance costs, administrative expenses, and capitalized interest. Supplementing the bond proceeds will be interest income on the bond proceeds before they are fully expended. Table C shows the estimated sources and uses of funds for the issuance of bonds.

Bond issuance costs include the costs to place the bonds (underwriter fees), legal fees, financial consulting fees, document printing costs, and other costs related to the issuance of the bonds.

Capitalized interest will fund the interest on the bonds for approximately two and a half years, to allow time for the improvements to be constructed. Principal payments on the bonds will not be due during this period.

The purpose of the reserve fund is to ensure there are sufficient funds to pay debt service while delinquent special taxes are being collected. The reserve fund is invested and the income is applied to the annual debt service on the bonds. The reserve fund itself will eventually be applied to the repayment of the bonds.

*2 1/2 years
cost
risk
financing*

Table C
Projected Issuance of Bonds

Sources of funds:	
Total bond proceeds	\$49,716,000
Interest income	\$1,262,339
Total sources of funds	\$50,978,339
Total uses of funds:	
Public improvements	\$39,163,111
Issuance costs	\$650,000
Underwriter's discount	\$745,740
Capitalized interest	\$5,446,606
Reserve fund	\$4,971,600
Rounding	\$1,282
Total uses of funds	\$50,978,339

cost ←

Special Taxes

Special taxes are levied in a manner such that: (i) the total of the special taxes is equal to or less than the special benefit received by the property from the improvements, (ii) the maximum annual special taxes are set to pay the annual debt service on the bonds to be issued to pay for the public improvements; and (iii) the special taxes are allocated to the parcels within the district to fairly reflect the relative benefit each parcel will receive from the improvements. This section of the report explains how the special taxes are levied to meet each of these criteria.

Special Benefit

The property in the Lakeside District will receive a special benefit from the improvements and this special benefit will be equal to or greater than the cost of the special taxes levied on the property. The improvements to be provided by the District provide services specifically to the property in the district, such as roads, water, sewer, and storm drainage. Other improvements, including all of the government improvements shown in Table B (public works facility and equipment, police vehicles, firehouse improvements and vehicles, and town administration building) and the dedication for La Trappe Park provide services required for the highest and best use of the property and represent the Lakeside District's share of the costs of providing these services. The Lakeside District's share is calculated based on 493 existing properties in the town compared to the 2,501 new residential units to be added, resulting in approximately 80% of the costs of these facilities being allocated to the Lakeside District.) WRM

The special benefit of the improvements provided to the property in the Lakeside District is confirmed by the following. First, all of the owners of property in the Lakeside District have petitioned the town and requested the special taxes to be imposed on the property for the purpose of providing the improvements. It is reasonable to believe the owners are acting in their interest and making this request because the benefit they receive from the improvements exceeds the cost of the special taxes.) V

Second, the special taxes are being levied to provide improvements that are required for the highest and best use of the property (i.e., the use of the property that is most valuable) or otherwise add value to the property. Highest and best use can be defined as "the reasonably probable and legal use of property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value." (*Dictionary of Real Estate Appraisal, Third Edition.*) The four criteria for highest and best use are (i) legally permissible, (ii) physically possible, (iii) financially feasible, and (iv) maximally productive.

The developer has analyzed various options for the use of the property, taking into consideration the legally permitted uses, the physical constraints of the site, financial parameters, and market demand. The developer is understandably interested in maximizing its return on its investment in the property. Based on this analysis, the highest and best use of the property is the proposed uses for the property. The use of the property will require that the infrastructure improvements to be constructed. Without these improvements, the property could not be put to its highest and best use.)

The financing provided is better than market financing that would otherwise be available. The bonds are long term financing that is non-recourse to the property owner (although the property is security for the bonds through the special taxes) and pays interest to the bondholders that is exempt from income taxes, resulting in a lower rate than other available financing. Because the improvements are required for the highest and best use of the property, and the bonds provide financing that is advantageous compared to conventional market financing, the value added by the improvements will exceed the cost of the special taxes.

In summary, the special taxes result in a special benefit to the property owner for the following reasons:

1. The improvements are required for the highest and best use of the property or otherwise add value to the property;
2. The highest and best use of the property is the use of the property that is most valuable (including any costs associated with the use of the property);
3. The financing is advantageous compared to other conventional means of financing the improvements;
4. As a result, the special benefits to the property from the improvements will be equal to or greater than the cost of the special taxes that will finance the improvements necessary to achieve the highest and best use of the property.

Maximum Annual Special Taxes

The maximum annual special taxes are set to pay the maximum estimated annual debt service on the bonds to be issued to pay for the public improvements. Table D shows the calculation of the maximum annual debt service estimated for the bonds.

Table D
Projected Maximum Special Tax Requirement

Estimated issuance of bonds	\$49,716,000
Estimated constant for P&I	6.34%
Annual payment of debt service	\$3,150,213
Required debt service coverage	110%
Projected maximum annual special tax requirement	\$3,465,235

The estimated constant for the payment of principal and interest is 6.34%, which is based on an interest rate of 6.50%. (The constant is less than the interest rate as the special taxes increase by two percent per year and the first year debt service is paid is after the first year special tax rates are set.) Debt service is scheduled to increase by two percent per year. Accordingly, the annual special taxes necessary to repay the bonds must also increase by two percent per year. Administrative costs of the district will be paid from the taxes available as coverage revenues. - 3

The maximum annual special tax that may be levied on all of the property in the Lakeside District, \$3,465,235 for the 2007-2008 tax year, is the same as the amount shown in Table D. Accordingly, the total special tax is based on the requirements to pay the estimated debt service on the bonds, administration, and debt service coverage costs. As explained in the next section, the special tax rate for each parcel is set to provide special taxes from all of the parcels equal to the total required as calculated pursuant to this section.

Allocation of Special Tax to Parcels

This section explains how special taxes are allocated to the property in the Lakeside District in a manner that fairly reflects the relative benefit each parcel will receive from the improvements. This allocation is made based on the estimated benefit each parcel will receive from the public improvements to be provided by the district. Benefit is based on expected value

of the future development in the district.

The reasonableness of special taxes set on the basis of value can be confirmed from a consideration of the benefit to the property by the improvements to be provided by the special taxing district. There is no single method of determining the benefit property receives from additional improvements. There is, however, a relationship between the value added to property and the benefit derived from improvements. For example, there is a longstanding precedent in law of justifying benefit assessments by value being added to the property at least equal to the amount of the benefit assessment. In other words, there is a relationship between benefit and value.

It is reasonable to assume that the improvements to be provided by the special taxing district will increase property values by a similar percent of property value. Although there would be variations in the increase, most property could reasonably be expected to increase by a similar percent. This is supported by studies that have demonstrated that larger and more expensive homes generate more use of roads and other improvements. In summary, setting the special tax rates on the basis of the value of the property tax will be using the improvements fairly reflects the relative benefit each parcel will receive from the improvements.

Property that is not yet developed is classified as undeveloped property. Undeveloped property is not fully utilizing the public improvements and does not receive the same benefit from the improvements as property that is utilizing the improvements. Undeveloped property, however, benefits from having the public improvements available, as it makes it possible to develop the undeveloped property. Special taxes on undeveloped property are set to equal to the special tax requirement not paid by the special taxes on developed property. Since developed property is paying its share of the costs of the improvements through the special taxes levied on developed property, the residual benefit of the improvements are assumed to be received by the undeveloped property and special taxes are levied on undeveloped property in this manner.

Summary

As explained in this report, there is a reasonable basis for the special taxes as levied on the property within the Lakeside District. This reasonable basis is based on the following:

1. The property in the Lakeside District will receive a special benefit from the improvements to be provided by the Lakeside District and the total of the special taxes levied on the property in the Lakeside District is equal to or less than the special benefit to be received by the property from these improvements;
2. The maximum annual special taxes are based on the amount required to pay the annual debt service on the bonds to be issued to pay for the public improvements and to provide necessary coverage;
3. The bonds are issued to finance the costs of the infrastructure improvements, which will be utilized by the property, and other costs related to the issuance of the bonds; and
4. The special taxes levied each year are allocated to each property within the Lakeside District on the basis of the relative benefit property receives from the improvements so

that the special taxes to be paid by each property fairly reflects the relative benefit each property will receive from the improvements.

For these reasons, the special taxes are levied on the taxable property in the Lakeside District in a reasonable manner that result in fairly allocating the costs of the public improvements.