

Capkov Ventures

Developing Homes And Communities Since 1954, In Chapel Hill Since 1972.



11/1/2022

Dear Mayor Weaver and Hillsborough Board of Commissioners,

We brought our proposed Waterstone South mixed-use community before you last May to show you our proposed concept plan. At that time, we solicited your feedback, got some good direction, and identified some issues and opportunities to follow up on. We have incorporated your initial feedback into our plan and have outlined below how these changes address your questions. We also list several areas that we would like to work on with the Hillsborough Town Staff and the Board of Commissioners to help us incorporate elements that best meet the needs of the larger Hillsborough community.

As a refresher, Waterstone South is a proposed mixed-use community with commercial proposed on the property fronting Waterstone Drive, retail and childcare uses internally and along Highway 86 South, and residential specifically designed for middle income families throughout. The residential component includes a mix of townhomes and apartment homes, no single-family homes. The concept plan is attached for your review.

The roughly 110-acre site is located along Waterstone Drive running south along Highway 86. From a transportation standpoint the site is perfect. It is just south of I-85, I-40 makes up the western boundary of the site, and Highway 86 South provides the eastern boundary. Being located on the south side of Hillsborough gives future residents easy access to all major roadways without adding traffic to the downtown Churton Street corridor. Waterstone South is located directly adjacent to UNC Hospital on Waterstone Drive.

The proposed community is shown on Hillsborough's future Land Use Map as "Mixed Use Residential" which is consistent with our proposal. The proposed

community is contiguous with the Town of Hillsborough boundary, and is in the Primary Water and Sewer Area (see attached exhibits).

We listened carefully to your feedback and questions in May and the revised summary of project features incorporates those changes.

1. **Housing Types.** This community has been designed specifically to provide middle income housing to families. There are no single-family homes in the proposed community. As proposed, the homes are comprised of roughly 1/3 town homes and 2/3 apartments. We believe the missing middle is what is needed most in Hillsborough.
2. **Commercial and Retail.** When we met with the Board last May there seemed to be a clear preference for commercial/retail. Roughly 20 acres adjacent to Waterstone Drive is designed as exclusively commercial. We hope to attract uses that will benefit from being immediately adjacent to UNC Hospital. In addition, we have expanded the retail and childcare elements within the community to 4 acres with a potential of 40,000 square feet of commercial. This will help diversify Hillsborough's tax base and provide meaningful shops and services in this part of Town.
3. **Parks and Recreation.** We are proposing the dedication of a 10-acre site for Hillsborough parks and recreation. The initial concept plan shows that this will accommodate two little league baseball and softball fields and a soccer field. That being said, we would like to talk with the Town Staff and the Board of Commissioners about what they see as the best use of the 10-acre site for parks and recreation. We are open to suggestions and guidance.
4. **Public Sidewalks, Greenways, and Transit Connectivity.** We believe sidewalks, greenway trails, and transit opportunities are important. We have included a sidewalk connection to Stanback Middle School, extensive greenway trails internally and connecting to

Waterstone, and provided two bus stops to be served by the Hillsborough Circulator Routes.

5. **Fiscal Benefits and Economic Impacts.** Lucy Gallo of DPFG prepared an extensive “Fiscal Benefits and Economic Impacts Analysis” for the proposed community. The results show significant fiscal and economic benefit to both Hillsborough and Orange County. Of the total projected tax base, 46% is commercial tax base. While the analysis only looks at income, the income numbers are impressive. We have attached the full report for your review.
6. **Sewer Capacity.** We understand that Hillsborough has capacity issues with the existing sewer facilities. The proposed community is located in the Elizabeth Brady sewer basin, where the sewer system has significantly newer facilities than the northern River Basin and is therefore under less maintenance pressure. That said, we understand that capacity is still an issue. We have worked with Kimley-Horn, a water and sewer engineering firm to conduct a thorough review of the current system supporting this proposed community and there are opportunities for us to help upgrade Hillsborough’s sewer system in several ways;
 1. We can completely do away with the Alice Loop pump station and convert it to a gravity flow system. The current pump station is substandard.
 2. We can remove and rebuild the Nazarene pump station, using the newest technology, which currently takes flow from both New Hope Elementary and Stanback Middle School.
 3. We can look at accelerating water and sewer fees to give the Town of Hillsborough more immediate resources.
 4. We can install larger sewer lines along Highway 86 South, upgrading the older lines serving the schools.
 5. We can look at contributing to the cost of upgrades currently planned for 2023, and 2025. This would be spelled out in a “Developers Agreement”.

7. **Phasing Plan.** At the Boards request we have looked very closely at reducing the number of homes through phasing to stay within Hillsborough's current sewer capacity limitations and provide for thoughtful growth for the community. We believe this can be done. We can reduce the initial number of homes by 70% - 75% and phase in the remaining homes as sewer capacity allows. The initial 25%-30% of homes would not be occupied before 2025-2026 which is after some of the planned upgrades have already been made to the Elizabeth Brady Pump Station. We would ask to work with the Hillsborough Utility Department and the Board of Commissioners to fine tune a phasing plan that works with the timing of planned upgrades and still allows for other residential and commercial growth the Town of Hillsborough desires. The phasing plan, like the improvements to help upgrade the sewer system listed above, could all be memorialized in a Developers Agreement as part of the new Planned Development Conditional Zoning District. We would wait for the Unified Development Ordinance to include the Conditional Zoning District to be approved before we submitted a formal plan.

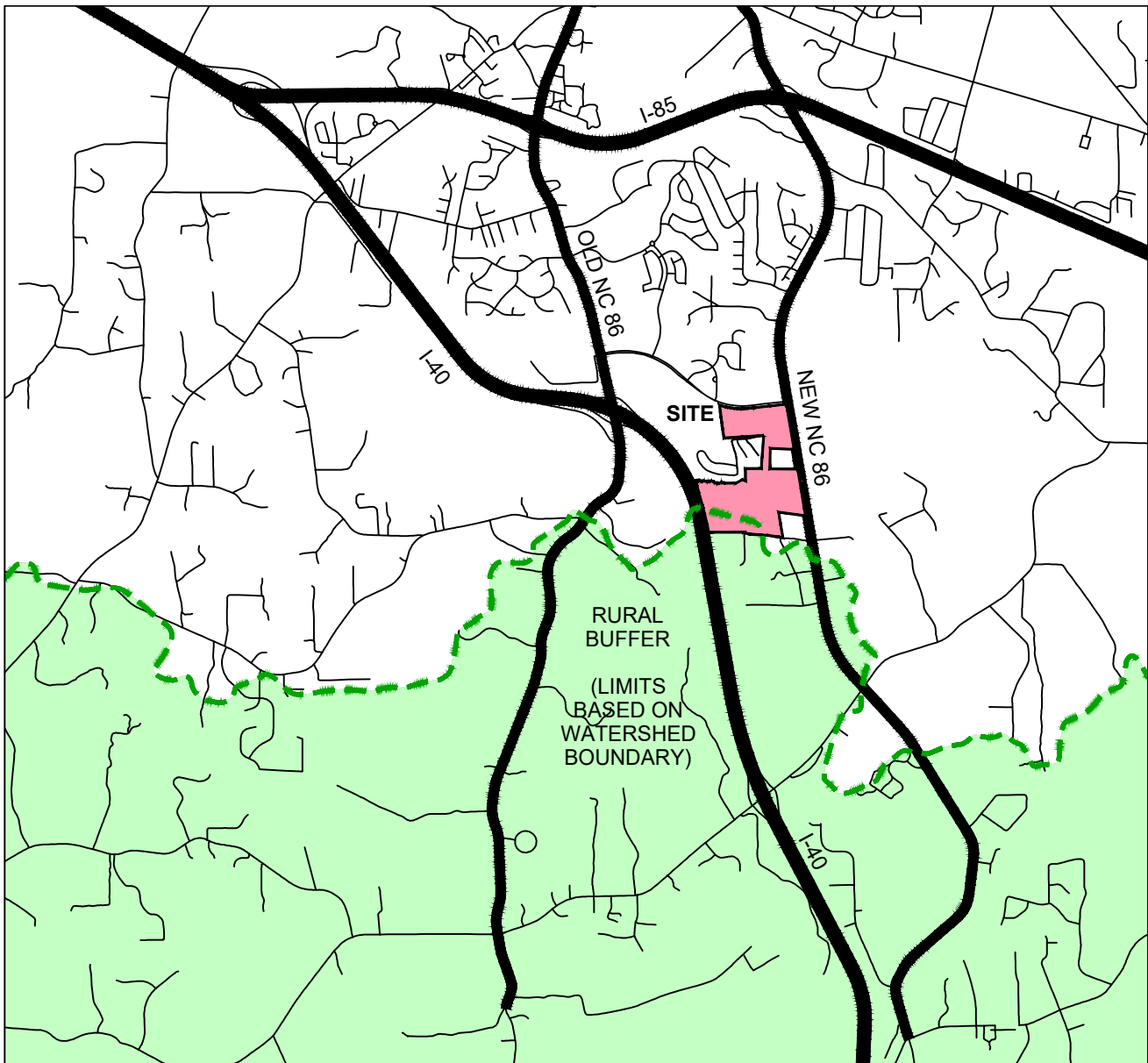
8. **Affordable Housing.** While other developers have expressed concern over fully integrating affordable homes within their communities, we have been doing it in Chapel Hill and Carrboro for over a decade. Townhomes provide the perfect opportunity to make affordable homes indistinguishable from market rate homes. As part of our proposal, we will fully integrate 15% of the townhomes as affordable homes throughout the community. We believe the same can be done with the multi-family homes, however after talking with organizations like CASA there are benefits from tax credit financing which can't be achieved with fully integrated apartment homes. We would like to discuss the options with the Board of Commissioners and the Town staff to come up with the best mix of affordable homes

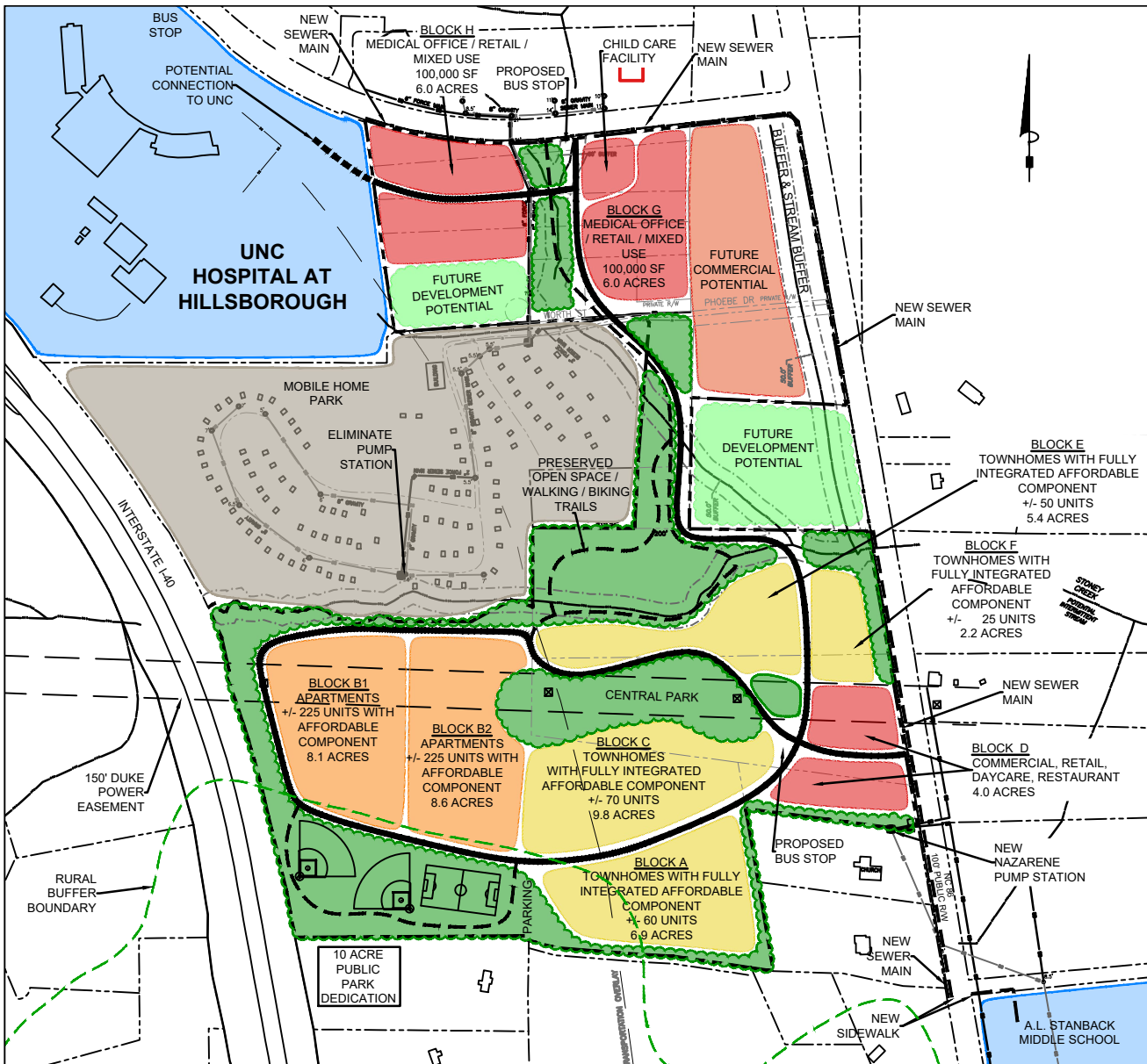
for the community. Our proposal unlike others before it focuses entirely on the middle-income home buyer. There are no large lots, big single-family homes, or gates. We are proposing townhomes and apartments to serve the needs of the community.

We think that the combination of the proposed community being surrounded by major transportation links, the dedication of significant land for parks and recreation, a commitment to middle income and affordable housing, and a willingness to be patient and phase the community to align comfortably with Hillsborough's infrastructure limitations make this project worthy of further discussion and consideration. We ask for the Board of Commissioners to approve a "Letter of Interest" so that we can continue the discussion on some of the important aspects of the community and bring back a refined plan for the Board to consider in the spring of 2023.

Sincerely, Eric Chupp

Director of Development
Capkov Ventures Inc.
(919) 260-7262





FISCAL BENEFITS AND ECONOMIC IMPACTS

WATERSTONE SOUTH

TOWN OF HILLSBOROUGH, NC ORANGE COUNTY, NC

SEPTEMBER 30, 2022

**PREPARED FOR:
CAPKOV VENTURES, INC.**

PREPARED BY:



Orange County, CA
Sarasota, FL

Sacramento, CA
Research Triangle, NC

Austin, TX

Amelia Island, FL
Dallas, TX

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SUMMARY OF FISCAL AND ECONOMIC BENEFITS

Capkov Ventures, Inc. is seeking approval from the Town of Hillsborough, North Carolina ("Town") for a mixed-use, master-planned community referred to as Waterstone South ("Project"). At full buildout, the Project will include 655 apartment and townhome units, 200,000 square feet of medical office space, and 40,000 square feet of retail, restaurant, and day care space.

Key fiscal and economic benefits of the Project at buildout are highlighted below.

FISCAL BENEFITS – TOWN OF HILLSBOROUGH

	Phase 1	Phase 2	Total
Generate real property tax base	\$ 117,100,000	\$ 124,425,000	\$ 241,525,000
Commercial as % of Total Tax Base	46%	36%	41%
Generate annual real property tax revenue	\$ 666,000	\$ 708,000	\$ 1,375,000
Generate total annual general fund revenues	\$ 912,000	\$ 1,000,000	\$ 1,912,000

FISCAL BENEFITS – ORANGE COUNTY

	Phase 1	Phase 2	Total
Generate real property tax base	\$ 117,100,000	\$ 124,425,000	\$ 241,525,000
Generate annual real property tax revenue	\$ 965,000	\$ 1,026,000	\$ 1,992,000
Generate total annual general fund revenues	\$ 1,172,000	\$ 1,265,000	\$ 2,437,000

ECONOMIC IMPACT

At buildout, the operating activities of the new businesses in Waterstone South and the occupancy of the new residential units are expected to:

- Create total annual economic impact, in terms of output, of \$220.4 million
- Create 1,014 direct onsite permanent jobs in the Town of Hillsborough
- Create 1,647 total permanent jobs in the local area
- Create total annual labor income of \$104.3 million in the local area

The local spending by the new businesses and residents of Waterstone South will be a boon to existing Hillsborough businesses.

INTRODUCTION

The proposed development program for the Project is presented in Table 1.

Table 1: Waterstone South Development Program

	Phase 1	Phase 2	Total
Residential Product Type	Units	Units	Units
Apartments	225	225	450
Townhomes	70	135	205
Total	295	360	655
Non-Residential Product Type	Square Feet	Square Feet	Square Feet
Medical Office	100,000	100,000	200,000
Retail	15,000	-	15,000
Restaurant	15,000	-	15,000
Day Care	10,000	-	10,000
Total	140,000	100,000	240,000

Source: Capkov Ventures, Inc., DPGF, 2022

The 655 residential units are projected to generate 1,131 new residents as shown in Table 2.

Table 2: Waterstone South Population Projection

Residential Product	Units	Persons per Housing Unit	Projected Population
Apartments	225	1.70	382
Townhomes	70	1.79	125
Phase 1 Total	295		507
Apartments	225	1.70	382
Townhomes	135	1.79	242
Phase 2 Total	360		624
Grand Total	655		1,131

Source: Capkov Ventures, Inc., 2020 ACS 5-Year Estimates, DPGF, 2022

As shown in Table 3, the non-residential land uses are projected to generate 1,014 new onsite employees. Most of the new jobs are high-paying medical jobs, but new job demand also includes jobs across all wage ranges.

Table 3: Waterstone South New Employment Projection

Non-Residential Land Uses	Square Feet	Occupancy %	Occupied Sq. Ft.	Sq Ft per Employee	New FTE Employees	FTE Conversion Factor	Total New Employees
Medical Office	100,000	100%	100,000	250	400	0.9124	438
Retail	15,000	100%	15,000	420	36	0.8571	42
Restaurant	15,000	100%	15,000	266	56	0.7925	71
Day Care	10,000	100%	10,000	450	22	0.8849	25
Phase 1 Total	140,000		140,000		514		576
Medical Office	100,000	100%	100,000	250	400	0.9124	438
Phase 2 Total	100,000		100,000		400		438
Grand Total	240,000		240,000		914		1,014

Source: Capkov Ventures, Inc., IMPLAN, ITE Trip Generation Manual 10th Edition, DPGF, 2022

This report analyzes the fiscal benefits and economic impacts generated by the Project on the Town of Hillsborough (“Town”) and Orange County (“County”). The key assumptions and methodologies used in the analysis are described in the Methodology section of this report. Supporting tables are provided in the Appendix.

FISCAL BENEFITS – TOWN OF HILLSBOROUGH

GENERAL FUND REVENUES

Property Taxes

The real property tax base of the Project at buildout of Phase 1 is projected to be \$117.1 million as shown in Table 4.

Table 4: Waterstone South Real Property Tax Base – Phase 1

Table 11: Waterstone South Main Property Tax Base - Phase 1								
Residential Land Use	Units	Market Value per Unit (2022\$)	Construction Price Index	Adjusted	Cost of Sales Factor	Tax Value (Jan 1, 2021) Per Unit	Tax Base	%
Apartments	225	\$ 230,000	0.918	\$ 211,000	5%	\$ 200,000	\$ 45,000,000	54%
Townhomes	70	\$ 350,000	0.774	\$ 271,000	6%	\$ 255,000	17,850,000	
Phase 1 Total	295						\$ 62,850,000	
Non-Residential Land Use	Sq. Ft.					Tax Value (Jan 1, 2021) Per Sq. Ft.	Tax Base	
Medical Office	100,000					\$ 450	\$ 45,000,000	46%
Retail	15,000					\$ 250	3,750,000	
Restaurant	15,000					\$ 250	3,750,000	
Day Care	10,000					\$ 175	1,750,000	
Phase 1 Total	140,000						\$ 54,250,000	
						Phase 1 Total	\$ 117,100,000	100%

Note: January 1, 2021 is the most recent Orange County reappraisal.

Source: Capkov Ventures, Inc., Orange County, DPGF, 2022

The real property tax base of the Project at buildout of Phase 2 is projected to be \$124.4 million as shown in Table 5.

Table 5: Waterstone South Real Property Tax Base – Phase 2

Residential Land Use	Units	Market Value	Construction Price Index	Adjusted	Cost of Sales Factor	Tax Value	Tax Base	%
		per Unit (2022\$)				(Jan 1, 2021) Per Unit		
Apartments	225	\$ 230,000	0.918	\$ 211,000	5%	\$ 200,000	\$ 45,000,000	64%
Townhomes	135	\$ 350,000	0.774	\$ 271,000	6%	\$ 255,000	34,425,000	
Phase 2 Total	360						\$ 79,425,000	
				Non-Residential				
Land Use	Sq. Ft.	Tax Value (Jan 1, 2021) Per Sq. Ft.		Tax Base				
Medical Office	100,000	\$ 450	\$ 45,000,000					
Phase 2 Total	100,000		\$ 45,000,000			36%		
		Phase 2 Total	\$ 124,425,000			100%		

Note: January 1, 2021 is the most recent Orange County reappraisal.

Source: Capkov Ventures, Inc., Orange County, DPGF, 2022

At buildout of Phases 1 and 2, the real property tax base is projected to exceed \$241.5 million with the commercial real property tax base comprising 41 percent of the total.

At buildout of Phase 1, the Project is expected to generate annual real property tax revenue of \$666,000 for the Town. Phase 2 is projected to generate annual real property tax revenue of \$708,000. In total, the Project is projected to generate annual real property tax revenue of nearly \$1.4 million. Annual real property tax revenue is shown in Table 6.

Table 6: Waterstone South Annual Real Property Tax Revenue - Town

Real Property Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Real Property Tax Base	\$ 117,100,000	\$ 124,425,000	\$ 241,525,000
Property Tax Rate per \$100 Valuation	0.5870	0.5870	0.5870
Annual Real Property Tax	\$ 687,000	\$ 730,000	\$ 1,418,000
Collection %	97.00%	97.00%	97.00%
Annual Real Property Tax Net of Collection %	\$ 666,000	\$ 708,000	\$ 1,375,000

Source: Capkov Ventures, Inc., Orange County, NC Department of Revenue, DPGF, 2022

At buildout of Phase 1, the Project is expected to generate annual business property tax revenue of \$28,000 for the Town. Phase 2 is projected to generate annual business property tax revenue of \$23,000. In total, the Project is projected to generate annual business property tax revenue of \$50,000. Annual business property tax revenue is shown in Table 7.

Table 7: Waterstone South Annual Business Property Tax Revenue - Town

Business Personal Property	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Commercial Assessed Value	\$ 54,250,000	\$ 45,000,000	\$ 99,250,000
% Furniture and Equipment	9%	9%	9%
Business Personal Property Assessed Value	\$ 4,883,000	\$ 4,050,000	\$ 8,933,000
Property Tax Rate per \$100 Valuation	0.5870	0.5870	0.5870
Annual Business Personal Property Tax	\$ 29,000	\$ 24,000	\$ 52,000
Collection %	97.00%	97.00%	97.00%
Annual Business Property Tax Net of Collection %	\$ 28,000	\$ 23,000	\$ 50,000

Source: Capkov Ventures, Inc., Orange County, NC Department of Revenue, DPGF, 2022

At buildout of Phase 1, the Project is expected to generate annual motor vehicle property tax revenue of \$26,000 for the Town. Phase 2 is projected to generate annual motor vehicle property tax revenue of \$32,000. In total, the Project is projected to generate annual motor vehicle property tax revenue of \$58,000. Annual motor vehicle tax revenue is shown in Table 8.

Table 8: Waterstone South Annual Motor Vehicle Tax Revenue - Town

Motor Vehicle Property Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Motor Vehicle Tax Base			
Countywide Motor Vehicle Valuation	\$ 1,352,075,629	\$ 1,352,075,629	\$ 1,352,075,629
County Population	149,013	149,013	149,013
Motor Vehicle Tax Base per Capita	\$ 9,074	\$ 9,074	\$ 9,074
Watertone South Population	507	624	1,131
Watertone South Motor Vehicle Tax Base	\$ 4,600,518	\$ 5,662,176	\$ 10,262,694
Property Tax Rate per \$100 Valuation	0.5870	0.5870	0.5870
Annual Real Property Tax	\$ 27,000	\$ 33,000	\$ 60,000
Collection %	97.00%	97.00%	97.00%
Annual Motor Vehicle Tax Net of Collection %	\$ 26,000	\$ 32,000	\$ 58,000

Source: Orange County, NC Department of Revenue, DPGF, 2022

Local Option Sales Tax

The local sales and use taxes are levied by the Orange County Board of Commissioners and are collected by the State of North Carolina on behalf of Orange County. The local option sales tax rate of 2 cents consists of three separate taxes that are authorized by North Carolina General Statutes: Article 39 One-Cent tax, Article 40 One-Half Cent tax, and Article 42 One-Half Cent tax. Article 39 taxes are distributed back to counties based on a point-of-sale basis. Article 40 taxes are distributed back to counties on a statewide county per capita basis (with a factor adjustment applied). Article 42 taxes are distributed back to counties in the same manner as Article 39 taxes. Distributions of these funds are made to the Town monthly on a per capita basis.

For purposes of this analysis, it assumed the per capita taxable retail spending of Waterstone South residents will be consistent with that of the existing Town population.

Projected annual local option sales tax revenue is calculated in Table 9.

Table 9: Waterstone South Annual Local Option Sales Tax - Town

Local Option Sales Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Local Option Sales Tax	\$ 2,474,060	\$ 2,474,060	\$ 2,474,060
Town Population	9,681	9,681	9,681
Per Capita	\$ 256	\$ 256	\$ 256
Watertone South Resident Population	507	624	1,131
Total Sales Tax Revenue	\$ 130,000	\$ 160,000	\$ 290,000

Source: NC Department of Revenue, Town of Hillsborough, DPFG, 2022

Auto Decal Fees

The Town charges Auto Decal Fees of \$30 per vehicle. For purposes of this analysis, one vehicle per residential unit is assumed which is a conservative assumption.

Table 10: Waterstone South Annual Auto Decal Fees - Town

Auto Decal Fee	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Vehicles in Waterstone South	295	360	655
Auto Decal Fees per Vehicle	\$ 30	\$ 30	\$ 30
Auto Decal Fee Revenue	\$ 9,000	\$ 11,000	\$ 20,000

Source: Town of Hillsborough, DPFG, 2022

Other General Fund Revenues

Projected other General Fund revenues are presented in Table 11.

Table 11: Waterstone South Annual Other General Fund Revenues - Town

Other Revenues	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Intergovernmental - Est. Unrestricted	\$ 1,019,000	\$ 1,019,000	\$ 1,019,000
Total Other Revenue	\$ 1,019,000	\$ 1,019,000	\$ 1,019,000
Town Population	9,681	9,681	9,681
Per Capita	\$ 105	\$ 105	\$ 105
Watertone South Resident Population	507	624	1,131
Total Other Revenues	\$ 53,000	\$ 66,000	\$ 119,000

Source: NC Department of Revenue, Town of Hillsborough, DPFG, 2022

Stormwater Fees

The Town charges an annual stormwater fee of \$75 per residential property. Annual non-residential stormwater fees are subject to a fee schedule. Annual stormwater fees are estimated in Table 12.

Table 12: Waterstone South Annual Stormwater Fees - Town

Stormwater Fee	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Residential			
Fee per Townhome	\$ 75	\$ 75	\$ 75
Watertone South Townhomes	70	135	205
Stormwater Fee Annual Revenue	\$ 5,000	\$ 10,000	\$ 15,000
Non-Residential (Apartments)			
	225	225	225
Tier 5, 200,000 sq. ft. and above	12,900	12,900	12,900
Parcels	1	1	2
Stormwater Fee Annual Revenue	\$ 13,000	\$ 13,000	\$ 26,000
Non-Residential (Medical Office and Retail)			
Tier 3, 30,001 to 100,000	1,800	1,800	1,800
Parcels	2	1	3
Stormwater Fee Annual Revenue	\$ 4,000	\$ 2,000	\$ 6,000
Total Stormwater Fee Annual Revenue	\$ 22,000	\$ 25,000	\$ 47,000

Source: Town of Hillsborough, DPFG, 2022

TOTAL ANNUAL GENERAL FUND REVENUES

At buildout, the Project is projected to generate annual general fund revenue of \$1.9 million for the Town.

Table 13: Waterstone South Annual General Fund Revenues - Town

General Fund Revenues	Phase 1 Annual Revenue	Phase 2 Annual Revenue	Total Annual Revenue
Property Tax - Real Property	\$ 694,000	\$ 731,000	\$ 1,425,000
Property Tax - Motor Vehicle	26,000	32,000	58,000
Local Option Sales Tax	130,000	160,000	290,000
Auto Decal Fees	9,000	11,000	20,000
Other Town Revenues	53,000	66,000	119,000
Annual General Fund Revenues	\$ 912,000	\$ 1,000,000	\$ 1,912,000

Stormwater Revenues	Phase 1 Annual Revenue	Phase 2 Annual Revenue	Total Annual Revenue
Stormwater Fees	22,000	25,000	47,000

Source: DPGF, 2022

FISCAL BENEFITS – ORANGE COUNTY

GENERAL FUND REVENUES

Property Taxes

As shown in Table 14, at buildout the Project is expected to generate annual real property tax revenue of almost \$2.0 million for the County.

Table 14: Waterstone South Annual Real Property Tax Revenue – Orange County

Real Property Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Real Property Tax Base	\$ 117,100,000	\$ 124,425,000	\$ 241,525,000
Property Tax Rate per \$100 Valuation	0.8312	0.8312	0.8312
Annual Real Property Tax	\$ 973,000	\$ 1,034,000	\$ 2,008,000
Collection %	99.20%	99.20%	99.20%
Annual Real Property Tax Net of Collection %	\$ 965,000	\$ 1,026,000	\$ 1,992,000

Source: Capkov Ventures, Inc., Orange County, NC Department of Revenue, DPGF, 2022

Projected annual business property tax revenue is shown in Table 15.

Table 15: Waterstone South Annual Business Property Tax Revenue – Orange County

Business Personal Property	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Commercial Assessed Value	\$ 54,250,000	\$ 45,000,000	\$ 99,250,000
% Furniture and Equipment	9%	9%	9%
Business Personal Property Assessed Value	\$ 4,883,000	\$ 4,050,000	\$ 8,933,000
Property Tax Rate per \$100 Valuation	0.8312	0.8312	0.8312
Annual Business Personal Property Tax	\$ 41,000	\$ 34,000	\$ 74,000
Collection %	99.20%	99.20%	99.20%
Annual Business Property Tax Net of Collection %	\$ 41,000	\$ 34,000	\$ 73,000

Source: Capkov Ventures, Inc., Orange County, NC Department of Revenue, DPGF, 2022

As shown in Table 16, at buildout the Project is projected to generate annual motor vehicle tax revenue of \$85,000 for the County by vehicles owned by the new residents.

Table 16: Waterstone South Annual Motor Vehicle Tax Revenue – Orange County

Motor Vehicle Property Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Motor Vehicle Tax Base			
Countywide Motor Vehicle Valuation	\$ 1,352,075,629	\$ 1,352,075,629	\$ 1,352,075,629
County Population	149,013	149,013	149,013
Motor Vehicle Tax Base per Capita	\$ 9,074	\$ 9,074	\$ 9,074
Watertone South Population	507	624	1,131
Watertone South Motor Vehicle Tax Base	\$ 4,600,518	\$ 5,662,176	\$ 10,262,694
Property Tax Rate per \$100 Valuation	0.8312	0.8312	0.8312
Annual Real Property Tax	\$ 38,000	\$ 47,000	\$ 85,000
Collection %	99.40%	99.40%	99.40%
Annual Motor Vehicle Tax Net of Collection %	\$ 38,000	\$ 47,000	\$ 85,000

Source: Orange County, NC Department of Revenue, DPGF, 2022

Local Option Sales Tax

For purposes of this analysis, it assumed the per capita taxable retail spending of Waterstone South residents will be consistent with that of the existing Orange County population. The North Carolina General Statutes require that 30 percent of the Article 40 and 60 percent of the Article 42 sales tax revenue be earmarked for public school capital outlay or debt.

In addition to Articles 39, 40, and 42 sales tax, the County also levies the Article 46 One-Quarter cent sales and use tax. The proceeds of the Article 46 tax are allocated 50 percent to the County's two school systems and 50 percent to Economic Development initiatives.

A summary of the projected annual local option sales tax revenues is shown in Table 17. Detailed calculations are provided in the Appendix.

Table 17: Waterstone South Annual Local Option Sales Tax – Orange County

Local Option Sales Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Unrestricted	\$ 87,000	\$ 107,000	\$ 194,000
Restricted - School Capital or Debt	27,000	33,000	60,000
Restricted - Education	7,000	9,000	16,000
Restricted - Economic Development	7,000	9,000	16,000
Total	\$ 128,000	\$ 158,000	\$ 286,000

Source: Orange County, NC Department of Revenue, DPFG, 2022

In 2009, the North Carolina General Assembly ratified the Congestion Relief and Intermodal Transport Fund Act, allowing Orange, Durham, and Wake Counties to generate new revenue for transportation. These revenues include a one-half cent sales tax (Article 43 sales tax) which Orange County voters approved in 2012. A regional transportation public authority, known as GoTriangle, was created to help administer these revenues and work on public transit projects involving all three counties. Article 43 revenues are allocated by the North Carolina Department of Revenue to GoTriangle, which then allocates a portion of that money to Orange County through reimbursements for projects that either offer new public transit services or expand existing ones. Due to these restrictions, projected Article 43 sales tax revenues are excluded from this analysis.

TOTAL ANNUAL GENERAL FUND REVENUES

As shown in Table 18, at buildout the Project is projected to generate annual general fund revenue of \$2.4 million for the County.

Table 18: Waterstone South Annual General Fund Revenues - County

General Fund Revenues	Phase 1 Annual Revenue	Phase 2 Annual Revenue	Total Annual Revenue
Property Tax - Real Property	\$ 1,006,000	\$ 1,060,000	\$ 2,066,000
Property Tax - Motor Vehicle	38,000	47,000	85,000
Local Option Sales Tax			
Unrestricted	87,000	107,000	194,000
Restricted - School Capital or Debt	27,000	33,000	60,000
Restricted - Education	7,000	9,000	16,000
Restricted - Economic Development	7,000	9,000	16,000
Annual General Fund Revenues	\$ 1,172,000	\$ 1,265,000	\$ 2,437,000

Source: DPFG, 2022

ECONOMIC IMPACT

The development of Waterstone South impacts the Town's economy in two phases. The initial impact occurs during the construction of the new residential units and the commercial buildings. When construction is complete, the activities of the new businesses and the local spending by the new residents will impact the local economy on an ongoing basis.

PERMANENT ONGOING IMPACT – PHASE 1

As shown in Table 19, at buildout of Phase 1, the businesses in Waterstone South are projected to generate 576 direct onsite jobs. The new business activities combined with the new annual spending by the Project's Phase 1 residents are expected to support 885 total jobs and generate \$53.8 million in annual labor income in the local area.

Table 19: Waterstone South Permanent Ongoing Annual Economic Impact - Phase 1

Impact Type	Jobs	Labor Income	Value Added	Output
Direct Effect	576	\$40.1 Million	\$43.7 Million	\$68.0 Million
Indirect Effect	105	\$4.9 Million	\$7.5 Million	\$15.0 Million
Induced Effect	204	\$8.9 Million	\$18.6 Million	\$30.7 Million
Total Effect	885	\$53.8 Million	\$69.9 Million	\$113.7 Million

Source: IMPLAN, DPGF, 2022

PERMANENT ONGOING IMPACT – PHASE 2

As shown in Table 20, at buildout of Phase 2 the businesses in Waterstone South are projected to generate 438 direct onsite jobs. The new business activities combined with the new annual spending by the Project's Phase 2 residents are expected to support 762 total jobs and generate \$50.5 million in annual labor income in the local area.

Table 20: Waterstone South Permanent Ongoing Annual Economic Impact - Phase 2

Impact Type	Jobs	Labor Income	Value Added	Output
Direct Effect	438	\$36.2 Million	\$38.3 Million	\$59.0 Million
Indirect Effect	92	\$4.3 Million	\$6.5 Million	\$12.8 Million
Induced Effect	232	\$10.1 Million	\$21.3 Million	\$35.0 Million
Total Effect	762	\$50.5 Million	\$66.1 Million	\$106.7 Million

Source: IMPLAN, DPGF, 2022

PERMANENT ONGOING IMPACT – AT BUILDOUT

As shown in Table 21, at buildout the businesses in Waterstone South are projected to generate 1,014 direct onsite jobs. The new business activities combined with the new annual spending by the Project's residents are expected to support 1,647 total jobs and generate \$104.3 million in annual labor income in the local area.

Table 21: Waterstone South Permanent Ongoing Annual Economic Impact – At Buildout

Impact Type	Jobs	Labor Income	Value Added	Output
Direct Effect	1,014	\$76.2 Million	\$82.1 Million	\$127.0 Million
Indirect Effect	197	\$9.2 Million	\$14.1 Million	\$27.8 Million
Induced Effect	436	\$19.0 Million	\$39.9 Million	\$65.6 Million
Total Effect	1,647	\$104.3 Million	\$136.0 Million	\$220.4 Million

Source: IMPLAN, DPGF, 2022

Table 22 shows the top job demand by industry generated by the new annual spending. High-paying medical jobs are in demand as well as jobs across all wage ranges.

Table 22: Waterstone South Top Job Demand by Industry

Rank	Industry	Jobs
1	Medical office (offices of physicians)	907
2	Full-service restaurants	120
3	Other real estate	44
4	Retail - Food and beverage stores	39
5	All other food and drinking places	34
6	Child day care services	33
7	Limited-service restaurants	31
8	Personal care services	21

Source: IMPLAN, DPGF, 2022

KEY ASSUMPTIONS AND METHODOLOGY

KEY ASSUMPTIONS

Because substantial growth is projected for the Research Triangle area over the next decade, the residential and commercial impacts in this analysis are considered “new.” For example, even if new residents do not directly purchase or rent homes in the Project, vacancies left by existing residents will make existing units available for new residents. Likewise, population and job growth are expected to fuel the demand for the new commercial facilities in Waterstone South.

Market values for the residential properties in Waterstone South were estimated by Capkov Ventures, Inc. Residential market values were converted to taxable values by applying a (1) cost index to adjust values to the most recent County reappraisal (January 1, 2021) and (2) cost of sales factor. Non-residential tax values per product type were based on assessed values (January 1, 2021) of comparable Orange County properties.

All amounts in this report are presented in constant dollars (2022). Results are rounded to the nearest one thousand dollars (\$1,000). Tax rates in effect for the Fiscal Year 2022-2023 are also held constant in this analysis.

Supporting tables are provided in the Appendix.

ECONOMIC IMPACT METHODOLOGY

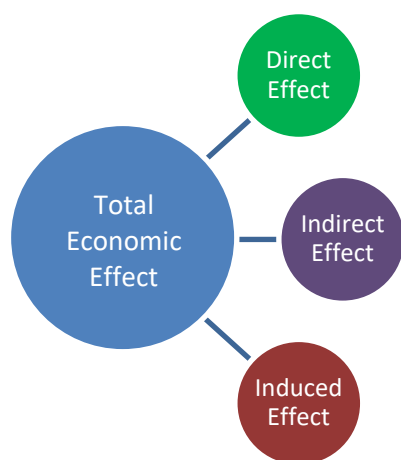
A key concept in economic impact analysis is that one form of economic activity almost always stimulates other economic activities. The total economic impact of a specific project or event on a study area is the sum of the direct, indirect and induced impacts.

Direct Impacts are the initial, immediate economic impacts (jobs and income) generated by a project or development. Direct impacts coincide with the first round of spending in the economy. For example, a new high-tech manufacturing facility that has a payroll of \$5 million and purchases \$5 million of goods and services from local suppliers would directly contribute \$10 million to the local economy. To determine direct economic impacts, it is ideal to use economic data supplied by the project's development team or financial information, if available, about similar projects implemented in similar communities. A common method of establishing direct impact parameters is to use available industry averages for the study area.

Indirect Impacts are the production, employment and income changes occurring in other businesses/industries in the community that supply inputs to the project's industry(s).

Induced Impacts are the effects of spending by the households in the local economy as a result of the direct and indirect effects from an economic activity. The induced effects arise when employees who are working for the project (i.e., new manufacturing facility) spend their new payroll dollars in the study area.

Figure 1: Components of Economic Impact Analysis



The primary economic benefits of Waterstone South will be experienced in the local area; however, benefits will also extend to the region and the state. In our experience with similar projects nationally, the smaller the study area, the more leakages (purchases and sales) occur outside the area. Fewer ripple effects occur inside the area thus multipliers and related impacts generally become larger as the geographic area increases in size. The study area for this report was limited to Orange County.

This analysis utilizes models generated by the IMPLAN modeling system. IMPLAN is a nationally recognized system of local economic models that are specifically designed to represent a local economy such as Orange County.

The economic impacts from the annual operations of the businesses proposed for Firefly Park were modeled using Industry Change, which is the increase or decrease in economic activity due to the expansion or change in production of new businesses. Instead of value of production or value added for the office and retail sectors, new employment by industry sector was used as a proxy for production changes.

In conjunction with this new employment as proxy for production change approach, direct full-time equivalent jobs were converted to total average annual jobs using the appropriate IMPLAN conversion factors. The resulting direct jobs were assigned to the various IMPLAN industry sectors based on a direct correlation (e.g., dental office) or were allocated proportionately based on existing industry sector employment.

GENERAL LIMITING CONDITIONS

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of DPFG and that may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by DPFG from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.

This report is based on information that was current as of September 2022 and DPFG has not undertaken any update of its research effort since such date.

Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by DPFG that any of the projected values or results contained in this study will actually be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of DPFG in any manner without first obtaining the prior written consent of DPFG. No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of DPFG. This report is not to be used in conjunction with any public or private offering of securities, debt, equity, or other similar purpose where it may be relied upon to any degree by any person other than the client, nor is any third party entitled to rely upon this report, without first obtaining the prior written consent of DPFG. This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from DPFG. Any changes made to the study, or any use of the study not specifically prescribed under agreement between the parties or otherwise expressly approved by DPFG, shall be at the sole risk of the party making such changes or adopting such use.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

APPENDIX

Appendix Table 1: Fiscal Assumptions - Town

	Town of Hillsborough
0.587	FY 2023 Property Tax Rate per \$100
97.00%	Collection %
\$ 1,352,075,629	2021-22 Countywide Motor Vehicle Valuation
149,013	Countywide Population NCDOR (July 2022)
9,681	Town Population - NCDOR (July 2022)
\$ 30	Vehicle Fee
	Census.Gov Single Family Construction Price Index
185.1	August 2022
143.2	January 1, 2021 (December 2020)
0.7736	Ratio
6%	Single Family Residential Cost of Sales Factor
	Census.Gov Multi-Family Construction Price Index
195.9	Second Quarter 2022
179.9	January 1, 2021 (December 2020)
0.9183	Ratio
5%	MF Residential Cost of Sales Factor
	Stormwater Fee
\$ 75	Residential per Year
\$ 1,800	Non-Residential 30,001 to 100,000 sq. ft.

Source: Town of Hillsborough, Census. Gov, NCDOR, DPFG, 2022

Appendix Table 2: Fiscal Assumptions - County

	Orange County
0.8312	FY 2023 Property Tax Rate per \$100
99.20%	Collection % Real Property
99.40%	Collection % Motor Vehicles
\$ 1,352,075,629	2021-22 Countywide Motor Vehicle Valuation
149,013	Countywide Population NCDOR (July 2022)
\$ 14,681,551	Article 39 - FY 2023
\$ 11,348,156	Article 40 - FY 2023
\$ 3,404,447	Article 40 - FY 2023 Restricted
\$ 7,943,709	Article 40 - FY 2023 Unrestricted
\$ 7,386,782	Article 42 - FY 2023
\$ 4,432,069	Article 42 - FY 2023 Restricted
\$ 2,954,713	Article 42 - FY 2023 Unrestricted
9%	Taxable Personal Property as % of Real
	Article 46 Sales Tax - FY 2023
\$ 2,101,100	Education
\$ 2,101,100	Community Services
50%	Education
50%	Community Services

Source: Orange County, NC Department of Revenue, DPFG, 2022

Appendix Table 3: Orange County Persons per Housing Unit

Housing Type	Units B25024	Units	Population B25033	Persons per Housing Unit
1, detached	35,772			
1, attached	3,668	39,440	98,144	2.49
2	1,146			
3 to 4	1,526	2,672	4,785	1.79
5 to 9	3,710			
10 to 19	4,739			
20 to 49	2,089			
50 or more	1,955	12,493	21,222	1.70
Mobile Home	4,361	4,361	10,059	2.31
Boat, RV, Van	27	27	51	1.89
Total	58,993	58,993	134,261	2.28
Townhome				1.79

Source: 2020 ACS 5-Year Estimates for Orange County, NC, DPGF, 2022

Appendix Table 4: Waterstone South Annual Local Option Sales Tax Articles 39, 40 and 42 - County

Local Option Sales Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Article 39 Local Option Sales Tax - Unrestricted	\$ 14,681,551	\$ 14,681,551	\$ 14,681,551
County Population	149,013	149,013	149,013
Per Capita	\$ 99	\$ 99	\$ 99
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 50,000	\$ 62,000	\$ 112,000
Article 40 Local Option Sales Tax - Unrestricted	\$ 7,943,709	\$ 7,943,709	\$ 7,943,709
County Population	149,013	149,013	149,013
Per Capita	\$ 53	\$ 53	\$ 53
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 27,000	\$ 33,000	\$ 60,000
Article 40 Local Option Sales Tax - Restricted (School Capital or Debt)	\$ 3,404,447	\$ 3,404,447	\$ 3,404,447
County Population	149,013	149,013	149,013
Per Capita	\$ 23	\$ 23	\$ 23
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 12,000	\$ 14,000	\$ 26,000
Article 42 Local Option Sales Tax - Unrestricted	\$ 2,954,713	\$ 2,954,713	\$ 2,954,713
County Population	149,013	149,013	149,013
Per Capita	\$ 20	\$ 20	\$ 20
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 10,000	\$ 12,000	\$ 22,000
Article 42 Local Option Sales Tax - Restricted (School Capital or Debt)	\$ 4,432,069	\$ 4,432,069	\$ 4,432,069
County Population	149,013	149,013	149,013
Per Capita	\$ 30	\$ 30	\$ 30
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 15,000	\$ 19,000	\$ 34,000

Source: Orange County, NC Department of Revenue, DPGF, 2022

Appendix Table 5: Waterstone South Annual Local Option Sales Tax Article 46 - County

Local Option Sales Tax	Phase 1 Annual	Phase 2 Annual	Total Project Annual
Article 46 Local Option Sales Tax - Education	\$ 2,101,100	\$ 2,101,100	\$ 2,101,100
County Population	149,013	149,013	149,013
Per Capita	\$ 14	\$ 14	\$ 14
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 7,000	\$ 9,000	\$ 16,000
Article 46 Local Option Sales Tax - Economic Development	\$ 2,101,100	\$ 2,101,100	\$ 2,101,100
County Population	149,013	149,013	149,013
Per Capita	\$ 14	\$ 14	\$ 14
Watertone South Resident Population	507	624	1,131
Annual Sales Tax Revenue	\$ 7,000	\$ 9,000	\$ 16,000
Total Articles 39, 40, 42, and 46	\$ 128,000	\$ 158,000	\$ 286,000

Source: Orange County, NC Department of Revenue, DPGF, 2022