CHAMPIONSGATE CPA

EXHIBIT A

FISCAL IMPACT ANALYSIS

CHAMPIONSGATE | POLK COUNTY, FL

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JUNE 2022

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GAI's Community Solutions Group (CSG) is a cross-functional team of professionals that helps create sustainable, livable places. We plan and design public spaces, sculpt landscapes and parks, reimagine streets and roads, and provide the regulatory and economic insight necessary to bring projects to life.

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SUMMARY OF **MAJOR FINDINGS**

GAI Consultants, Inc. ("GAI") was retained by Ralp Polk, LLC ("Client") to conduct a detailed analysis associated with a certain planned development ("Project") that could occur on approximately 60 usable acres within ChampionsGate ("ChampionsGate"). ChampionsGate lies within both Polk County and Osceola County with the largest part its acreage and existing improvements in the latter.

ChampionsGate was established several years ago and encompasses a total of approximately 2,300 acres ("AC") southwest of the Walt Disney World Resort in Central Florida. While the entirety of these holdings are generally considered the ChampionsGate "marketing footprint", approximately 1,500 AC are subject to an existing Developments of Regional Impact ("DRI"). The larger ChampionsGate development consists of multiple single-family and multi-family residential communities, numerous dining and retail shops, office space, a 36-hole golf resort, and is anchored by the Omni Orlando Resort at ChampionsGate.

Under the terms of an existing DRI, the developer of ChampionsGate is able to make periodic adjustments to the uses and activities across the 1500 acres. The accompanying report describes the fiscal implications of service needs in Polk County, should that portion of ChampionsGate lying only within Polk County adjust its entitlements while still conforming to the regulatory confines of the approved Development Order.

At this time, the Client is requesting that approximately 2,136 multi-family units as well as about 150,000 square feet of commercial space be approved on nearly 62 usable acres (80 total acres) in Polk County. The estimated 2,136 multi-family units represent approximately 35 units per net acre, a density relatively consistent with that already achieved in much of ChampionsGate.

The analysis explores the most important and fundamental fiscal relationships involved in developing the program as it is being requested. GAI was not retained to test the concept nor its feasibility. While this analysis cannot assure the uses or development described will be achieved, the activities are entirely consistent with the balance of the Project.

Based upon our analysis, the requested changes and proposed program, could generate significant positive fiscal impacts for Polk County, just as the remainder of ChampionsGate has done in Osceola County. Those impacts are likely to be well above the average contributed by other existing properties and projects. Since the Project would contribute at above average rates, its development and continued operations could support a significant concentration of employees while also offsetting capital and operating requirements of government activities budgeted at existing levels.

Since several highly sensitive assumptions result largely from the actions of many individuals other than the Client alone, this analysis utilizes a thoughtful and conservative approach to estimating the assumptions used within the fiscal impact model. These other actors may include additional builders or developers and their clients as well as officials who implement actual property tax administration processes. The latter in particular follow tightly controlled guidelines for determining taxable values. The assumptions used within this fiscal analysis offer a broad perspective on the Project as well as a conservative outcome which yields significant receipts for Polk County's use and benefit if the program is achieved as described.

We believe the fiscal impacts estimated within our model are reliable based upon observed or underlying market conditions and valuation practices that we can objectively document at this time. Having made that observation, the remainder of ChampionsGate in Osceola County has proven its value and position as a major contributor to that county's fiscal position.

MAJOR FISCAL IMPACTS OF THE PROJECT

Fiscal impacts within our analysis reflect primarily the ad valorem property taxes, and other receipts which accrue to the benefit and the use of Polk County offsetting the costs of general governmental services provided by Polk County itself.

The summary comments of our fiscal analysis are illustrated below:

- Ad valorem receipts from all sources will be among the major revenues generated by the Project. In terms of total (gross) ad valorem receipts generated by the current 7.7718 millage rate applicable to operations, general fund, and Countywide Municipal Service Taxing Units (“MSTU”), the Project could contribute approximately **$2,613,790** in ad valorem taxes each year to Polk County when fully developed.
- In addition to these receipts, property millage rates totaling 6.0825 could generate total (gross) ad valorem receipts of approximately **$2,045,650** annually for other taxing authorities including the School Board, the Water Management District, and other units of governmental agencies to Polk County.
- These figures result largely from the Project’s higher valuations compared to existing developed properties within Polk County and could contribute a minimum taxable value per FTE of **$127,630** at full build-out. These sums are a significantly higher ratio of property valuer per FTE compared to the existing Polk County average.
- After adjusting for all normal costs and obligations of all general Polk County services, it is estimated that these changes to the Project, by themselves, would yield at its build-out an annual *fiscal surplus* to Polk County of approximately **$1,084,025**.
- These figures equate to a total improved position for Polk County of approximately **$32,835,000** over 30 years.
- These positive fiscal benefits derived by the Project are largely a result of the material increase in taxable value of residential properties generated compared with existing Polk County conditions.
- The presentation of tables holds all revenues and costs in constant 2021 dollars.

PROJECT INTRODUCTION & **MARKET OVERVIEW**

As previously referenced, the larger ChampionsGate development encompasses about 2,300 AC in Central Florida, and features numerous dining and retail shops, multiple single-family and multi-family residential communities, office space, a 36-hole golf resort, and is anchored by the Omni Orlando Resort at ChampionsGate.

A brief profile of ChampionsGate's planning, development, transactional, and valuation history provides perspective on what may be developed over the next several years, as well as how those patterns of activity could affect the governmental receipts and service obligations of Polk County. Understanding that development history and tax procedures in Osceola County may differ from those of Polk County, it is presumed that the recent transactions, market valuations, and tax valuations levied in the adjacent Osceola County would, at an absolutely minimum, inform assessment and tax decisions of the Project falling within Polk County.

Of the larger ChampionsGate holdings, only a limited number of remaining developable acres are in Polk County. The holdings in Polk, despite any legal or administrative separation, are inextricably linked to the identity and competitive position of the larger project in Osceola County. To the value of the identity and market position of ChampionsGate, several nearby projects are contractually obligated to pay the developers of ChampionsGate for any reference to the community's name. For example, a new multi-family property slated to open in Fall 2022 is known as Cortland at ChampionsGate although it is not physically within ChampionsGate itself.

Whatever the obvious flow of governmental receipts and the general responsibilities allocated to each respective County, the functional and operational nature of ChampionsGate itself does not distinguish between County lines, even if the tax assessor does.

Within the larger ChampionsGate development, there are approximately 1,291 multi-family units, 244,549 square feet ("SF") of commercial land, and 1,094 hotel units as of year-end 2021. The following table illustrates how these properties have developed over the last two decades. Today, there are approximately 2,586,515 total SF of various multi-family and commercial properties (see Table 1).

Table 1. ChampionsGate Development Summary by Property Year Built

Year Built	Multi-Family		Commercial SF	Hotel		Total SF
	Units	SF		Units	SF	
2000	–	–	64,902	–	–	64,902
2005	252	297,018	133,698	813	668,576	1,099,292
2010	556	642,018	185,603	1,014	712,907	1,540,528
2015	556	642,018	197,061	1,014	712,907	1,551,986
2020	1,291	1,429,059	244,549	1,094	912,907	2,586,515
2021	1,291	1,429,059	244,549	1,094	912,907	2,586,515

Source: CoStar; GAI Consultants. Note: Development program does not account for single-family, industrial, government, or specialty-type property uses.

During the last few years in particular, transactional activity at ChampionsGate has been robust. In the last three years alone, there have been four major sales of multi-family properties totaling 984 units. Three of these properties were in Osceola County and one was in Polk County. On average these properties achieved a sales value of approximately $210,035 per unit. For those properties, the recorded taxable value per unit has been approximately 72% of the reported sales price. In the case of Polk County, the taxable value per unit was only 63% of the reported sales price.

Since we believe the properties within the Project will be valued similarly to the existing ChampionsGate properties by the Polk County Property Appraiser, comparable values were used within our financial model. Generally speaking, the values in ChampionsGate are among the highest in Osceola County. With an adjusted program, it is reasonable to believe the holdings in the Polk County portions of ChampionsGate would be well above the average there as well.

Within the confines of what is generally referred to as ChampionsGate there are still approximately 171 acres of vacant developable land within Osceola County, with an average taxable value of $90,720 per acre. In addition, the current 80 total acres (62 usable acres) of land allocated to the Project within Polk County have an average taxable value of only $30,100 per acre, which when developed will add to the taxable value shown in the tables below.

The following tables show by property year built how the market valuations and tax assessments have grown over time with a pattern of the more intensely developed property showing the most obvious increases. The tables also illustrate the values per unit or square feet, as well as by developed acre for each property type within the larger ChampionsGate development (see Tables 2 and 3). In addition, Table 4 illustrates the total values for these properties as they compare to what these properties would be valued in 2000 dollars.

Table 2. ChampionsGate Market Valuations by Property Year Built

Year Built	Multi-Family			Commercial			Hotel		
	Total	Per Unit	Per AC[1]	Total	Per SF	Per AC[1]	Total	Per Unit	Per AC[1]
2000	$–	$–	$–	$7,230,000	$111.40	$4,853,000	$–	$–	$–
2005	39,546,000	156,900	5,800,000	19,063,000	142.58	6,211,000	77,455,000	95,300	5,046,000
2010	87,417,300	157,200	5,931,100	30,244,000	162.95	7,098,000	98,729,400	97,400	6,032,600
2015	87,417,300	157,200	5,931,100	33,896,000	172.01	7,493,000	98,729,400	97,400	6,032,600
2020	204,553,600	158,500	6,235,100	48,097,000	196.68	8,567,000	112,829,700	103,100	5,383,700
2021	204,553,600	158,500	6,235,100	48,097,000	196.68	8,567,000	112,829,700	103,100	5,383,700

Source: CoStar; GAI Consultants. Note: Shown in 2021 dollars, unless otherwise notes. Development program does not account for single-family, industrial, government, or specialty-type property uses. (1) Represents per developed acre.

Table 3. ChampionsGate Taxable Values by Property Year Built

Year Built	Multi-Family			Commercial			Hotel		
	Total	Per Unit	Per AC[1]	Total	Per SF	Per AC[1]	Total	Per Unit	Per AC[1]
2000	$–	$–	$–	$7,230,000	$111.40	$4,853,000	$–	$–	$–
2005	33,520,000	133,000	4,916,000	18,035,000	134.89	5,876,000	77,455,000	95,300	5,046,000
2010	81,392,000	146,400	5,522,300	26,563,000	143.12	6,234,000	95,746,200	94,400	5,850,300
2015	81,392,000	146,400	5,522,300	29,521,000	149.81	6,526,000	95,746,200	94,400	5,850,300
2020	196,043,700	151,900	5,975,700	42,975,000	175.73	7,655,000	109,775,400	100,300	5,238,000
2021	196,043,700	151,900	5,975,700	42,975,000	175.73	7,655,000	109,775,400	100,300	5,238,000

Source: CoStar; GAI Consultants. Note: Shown in 2021 dollars, unless otherwise notes. Development program does not account for single-family, industrial, government, or specialty-type property uses. (1) Represents per developed acre.

Table 4. ChampionsGate Total Market and Taxable Values in Current 2021 and 2000 Dollars

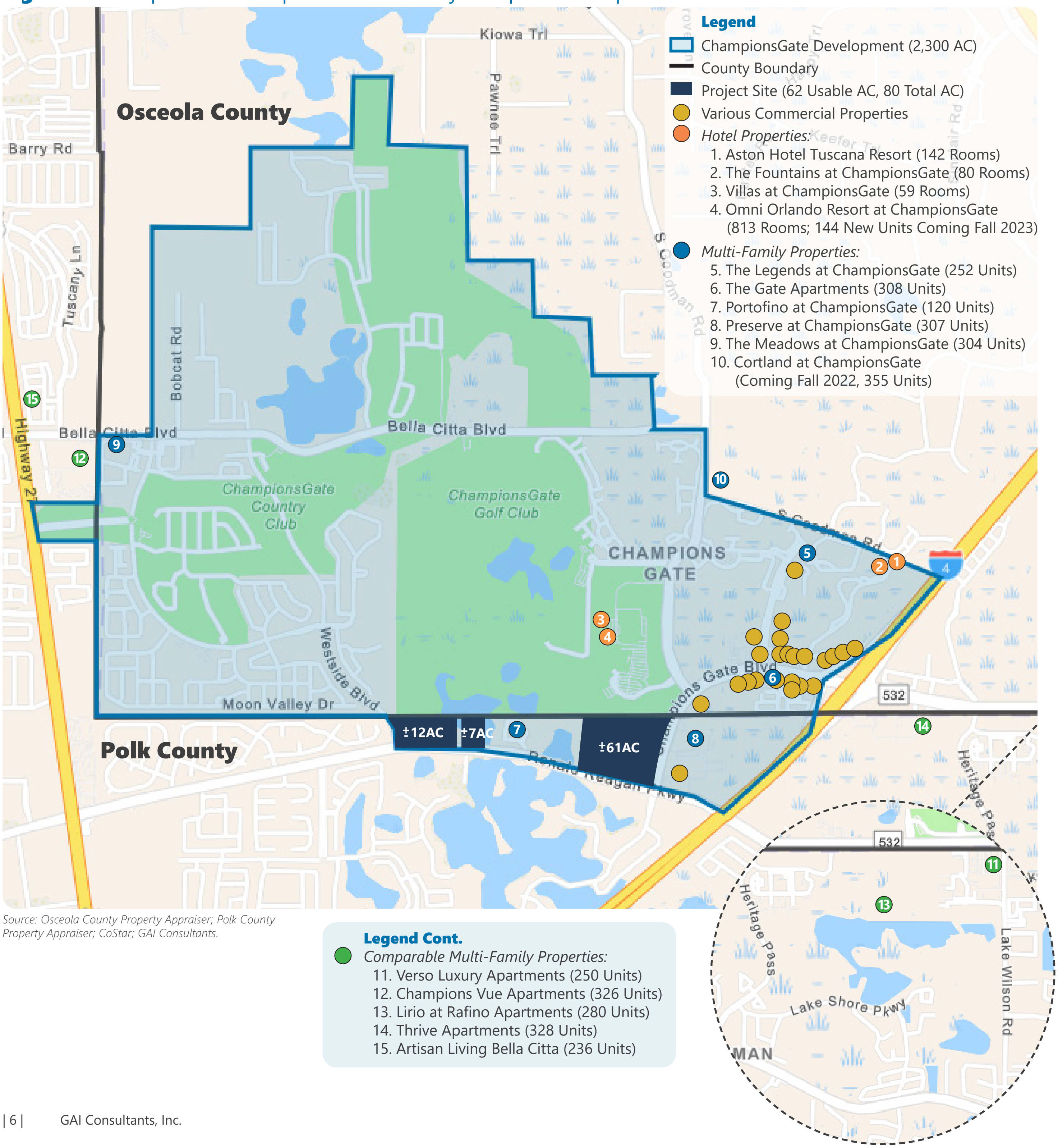
Year Built	Market or Just Value				Taxable Value			
	Total		Cumulative		Total		Cumulative	
	2021	2000	2021	2000	2021	2000	2021	2000
2000	$7,230,200	$4,595,800	$7,230,200	$4,594,800	$7,230,200	$4,594,800	$7,230,200	$4,594,800
2005	136,063,200	86,468,200	143,293,400	91,063,000	129,009,800	81,985,700	136,240,000	86,580,500
2010	216,390,200	137,516,000	359,683,600	228,578,900	203,701,200	129,452,100	339,941,200	216,032,600
2015	220,042,600	139,837,100	579,726,200	368,416,000	206,659,600	131,332,200	546,600,800	347,364,800
2020	365,480,100	232,262,600	945,206,30	600,678,600	348,793,900	221,658,500	895,394,700	569,023,300
2021	365,480,100	232,262,600	1,310,686,400	832,941,200	348,793,900	221,658,500	1,244,118,600	790,681,900

Source: CoStar; GAI Consultants. Note: Shown in 2021 and 2000 dollars. Development program does not account for single-family, industrial, government, or specialty-type property uses.

The market valuations and tax assessments of the existing multi-family, commercial, and hotel properties within the larger ChampionsGate development illustrate how these values have grown over the last two decades, more significantly in the most recent years. Viewed in terms of 2000 dollars, there is a significant gain in valuations both in real and current terms.

The map below illustrates the key properties which have been developed in ChampionsGate and evaluated for this analysis, as well as showing the nearby multi-family activity within the broader Polk County area which helps establish context and provides immediate points of comparison or contrast which is later detailed on the following page (see Figure 1).

Figure 1. ChampionsGate Properties and Nearby Comparable Properties



Source: Osceola County Property Appraiser; Polk County Property Appraiser; CoStar; GAI Consultants.

The values at ChampionsGate compare with selected properties nearby generally indicate two things: (1) the taxable values are generally higher within ChampionsGate itself, and (2) property tax valuation have yet to catch up with transaction prices or market values. These observations would suggest that our complete analysis with its favorable outcomes should be considered highly conservative. The table below illustrates the multi-family properties within the larger ChampionsGate development as they relate in terms of sales price, market or just value, and taxable value per unit compared with nearby multi-family properties with similar unit count, year built, density, and location within Polk County (see Table 5).

Table 5. Comparable Property Summary

Property Address	Year Built	Units	Units per AC	Recent Sales			Market or Just Value per Unit[1]	Taxable Value per Unit[1]
				Year	Total Price	Per Unit		
ChampionsGate:								
The Legends at ChampionsGate	2002	252	37.0	2021	$53,874,500	$213,790	$156,930	$133,020
The Meadows at ChampionsGate	2008	304	38.4	2019	$59,000,000	$194,080	$157,473	$157,473
The Gate Apartments	2017	308	42.5	2019	$65,000,000	$211,040	$183,220	$176,030
Portofino at ChampionsGate	2017	120	29.1	2021	$28,800,000	$240,000	$179,600	$177,340
The Preserve at ChampionsGate	2019	307	45.9	N/A	N/A	N/A	$127,530	$127,530
Comparable Properties:								
Verso Luxury Apartments	2020	250	13.0	2022	$85,500,000	$342,000	$175,240	$175,240
Champions Vue Apartments	2018	326	17.2	2022	$108,700,000	$333,440	$162,540	$114,780
Lirio at Rafina Apartments[2]	2021	280	23.2	2022	$90,000,000	$321,430	$7,150	$7,160
Thrive Apartments[2]	2020	328	23.0	2022	$109,500,000	$333,840	$12,300	$12,300
Artisan Living Bella Citta[2]	2020	236	11.3	2021	$65,083,000	$275,780	$19,290	$19,290

Source: Polk County Property Appraiser; Osceola County Property Appraiser; CoStar; GAI Consultants. Note: (1) Represents certified 2021 values.(2) As far as we can ascertain, the market and taxable values per unit for these specific properties do not reflect the fully developed or occupied property.

FRAMEWORK & ANALYSIS
FISCAL IMPACT ANALYSIS

The fiscal impact analysis within this report is based on a series of major assumptions tied to the nature of the planned Project and its likely property uses. As to the nature of the Project, that is generally characterized by the uses and values experienced within the larger ChampionsGate development itself ("ChampionsGate") and for similarly positioned residential and non-residential properties located nearby. At this point, the Project is expected to achieve above Polk County average pricing and valuations. However, much of the outcome realized as a fiscal impact is not directly controlled by the developers of the Project and is subsequently a result of the *final tax treatment* of key properties.

The manner of that tax treatment drives the receipts in large measure and are often not proportionate to the perceived value of the underlying property. This issue is more common in the initial years of a newer and higher priced project where the Polk County appraiser is limited by the pool of transactions needed to establish a defensible benchmark for taxable values. Typically, it takes multiple transactions to establish that pool and identify a "trend". In this situation, the Project may set its own foundation for tax valuation purposes but that will not occur for at least several appraisal cycles. These figures, whatever they may ultimately be, are further affected by homesteads, other exemptions, portability rules, and maximum annual valuation increases for all properties. Here, these issues are exacerbated by the potential difference in final tax treatment between Osceola and Polk counties. To deal with these various material considerations associated with achieving a longer-term fiscal outcome, a fiscal model has been prepared with assumptions that underlie anticipated revenues likely to accrue to Polk County though the Project's build-out period, as detailed below.

Our fiscal model is consistent with, and relies upon, properties within the larger ChampionsGate development, as well as newer commercial developments within Polk County. Although this is a rather small number of properties, these transactions and valuations are significantly higher than those currently being achieved within the entire Polk County.

The following details the summary comments on this fiscal impact analysis:

- While there are many considerations in this analysis, most costs shown here are exclusively obligations of Polk County itself. Similarly, the bulk of the revenues shown accrue solely for the use of Polk County. Other taxing authorities, apart from Polk County, may have other costs or receipts which are worthy of additional consideration and discussion.
- Using a fiscal impact methodology covering both potential of Polk County's general-government operating and capital costs needed to support the build-out of the Project, it is estimated that the Project could contribute an annual fiscal surplus to Polk County of approximately $1,084,024, as illustrated in the table below (see Table 6). This equates to about $32,835,000 over 30 years.
- These figures reflect an estimated Full-Time Equivalent ("FTE") population of 2,635 persons based on the proposed development program.
- At full build-out, the Project is expected to contribute a taxable value per FTE of $127,630, a significantly higher ratio of property value per FTE compared with the existing Polk County average.
- Sources for prior revenue and expenditure relationships were obtained from Polk County's 2021 Comprehensive Annual Financial Report ("CAFR").
- Using audited financial statements, operating needs have been based on FY 2021 actual spending.
- Our approach to fiscal impact recognizes the importance of excluding existing deficiencies in calculating capital costs since this would impose an unfair burden on new households. As a result, our approach excludes any existing capacity in capital infrastructure by assuming new FTE population generated by the Project would require the same level of capital spending to replace "everything" Polk County has constructed.

Table 6. Annual Fiscal Impact in 2021 Dollars

	Polk County	Project (at full build-out)	Projected Polk County w/ Project
Ad Valorem Revenue	$ 274,652,000	$ 2,480,000	$ 277,132,000
Other Revenue (revenue sharing, transfers)	243,390,000	937,000	244,327,000
Total Revenues	$ 518,042,000	$ 3,417,000	$ 521,459,000
Gross Operating Costs (excluding capital)	$ (695,988,000)	$ (2,680,000)	$ (698,668,000)
Direct Revenues (program charges, fees)[1]	279,744,000	1,077,000	280,821,000
Net Operating Revenue/(Expense)	(416,244,000)	(1,603,000)	(417,847,000)
Annual Capital Expense	(100,010,000)	(730,000)	(100,740,000)
Net Operating with Capital	$ (516,255,000)	$ (2,333,000)	$ (518,588,000)
Net Fiscal – Surplus/(Deficit)	**$ 1,788,000**	**$ 1,084,000**	**$ 2,871,000**

Sources: Polk County FY 2020 CAFR; GAI Consultants. Notes: (1) Excludes impact fees. Totals may not add due to rounding.

In comparison, our analysis indicates that the balance of Polk County currently operates at a fiscal surplus of approximately $1,788,000 annually without considering the current Project or its cost and benefits. As proposed, the new project will positively contribute to the existing fiscal surplus in Polk County going forward, as illustrated in the table above.

FISCAL ANALYSIS METHODOLOGY

Potential fiscal benefits center on the public revenues and public costs expected to be realized (or lost) as the result of activities, generally originating from new residential or non-residential development or from other economic development initiatives. Calculations of potential fiscal benefits could rationally include both direct and indirect impacts for multiple levels of public goods and services. Our analysis of the Project, however, is more conservative. It is purposefully confined to the direct effects only in Polk County to avoid misrepresentations about net impacts to municipalities, agencies, or special districts.

Methods for calculating fiscal benefits can vary widely. While there is no industry standard, a common approach reflects activities, receipts, and expenditures “per capita”. The premise in this approach is that new development attracts new population growth and will generally have a consistent cost impact on the basis of public service needs per person.

Following that premise, new development, at a basic level, is expected to generate costs (and most revenues) at the same rate, creating the same levels of service needs being provided to existing residents. Reasonable rates of revenues and costs can be derived for any governmental agency using a per capita measure as the common denominator and existing costs and revenues.

In contrast, to assume that new development creates more or less requirements than those imposed by current residents constitutes an obvious positional bias in the information used to make important policy decisions.

In this case, we use a *modified per capita* approach to determine potential operating and capital costs using planned population, expected employment, and the expected relationships between households and individuals working in their place of residence versus working in another area.

This method can still be referred to as a per capita approach, but it uses a Full-time Equivalent ("FTE") population since that population imposes demands upon all systems relative to its needs. Using this *modified per capita* method, expected population (household population, establishment employment, and visitors) are converted to an FTE using a 24-hour 7-day period representing a "full-time" person impacting the potential demands for operating and capital needs. Thus, a person residing in a home located in Polk County and working at a business located in Polk County would represent a full-time person or 1.0 FTE. Whereas someone residing in a home located in Polk County and working outside would represent less than a full-time person or 0.74 FTE (see Table 7).

Table 7. Full-Time Equivalents

	Hours	% FTE	FTE	1 FTE =
Live & Work	8,763	100%	1.00	1
Live Only	6,486	74%	0.74	1.3
Work Only	2,250	26%	0.26	3.9
Hotel Visitor	120	1%	0.01	72.8
Day Visitor	4	<1%	0.0005	2,184

Sources: U.S. Census; GAI Consultants.

FTE population is intended to reflect the annual, permanent demands on services and infrastructure as opposed to peak demands. As a result, the estimated FTE factor for non-resident workers or visitors declines based on the assumed time spent within Polk County relative to a resident that both works and lives in Polk County – theoretically creating a full unit of demand for annual, permanent services and infrastructure.

For example, a day-visitor, someone living in another part of the State, spending 4 hours within Polk County has an FTE factor equal to 0.0005 or 4 hours divided by 8,763 hours. This can also be expressed as 2,184 day-visitors equal the equivalent of 1 full-time resident that also works in Polk County. On the other hand, a hotel visitor with a 5-day stay has an FTE factor of 0.01 or approximately 73 hotel visitors equal to 1 full-time resident. The effects of both hotel and day visitors on the calculation of FTE populations is based on the mix of these populations, resulting in an average number of hours as opposed to the exact values in the previous table. In this model, however, there are no impacts or benefits resulting from a visiting population. The table below provides the calculated FTE population for Polk County and the Project based on expected uses at build-out (see Table 8).

Table 8. Full-Time Equivalent Estimates

	Polk County	Project
Household Population[1]	721,312	3,204
Establishment Employment	249,260	347
FTE Population		
Resident	639,977	2,587
Establishment	30,246	48
Visitor[2]	14,227	–
Total FTE	**684,450**	**2,635**

Sources: U.S. Census; ESRI Estimates; GAI Consultants. Notes: (1) Represents a person per household ("PPH") population of 1.5 for the Proposed Project, this value is in-line with the PPH of the existing multi-family developments within the larger Champions Gate development. (2) Based on approximately 5.2 million visitors to Polk County annually according to Visit Central Florida.

The FTE population model only indirectly accounts for seasonal populations that are different from hotel and day-visitors, which also occur on a seasonal basis. Seasonal residency or "snowbirds" is a common factor in the difference between population per total housing unit and population per occupied housing units. There will always be a natural rate of vacancy in housing because of market timing in home sales and household formation. While a vacancy rate in some jurisdictions can be higher because of a larger snowbird affect, it is more conservative when calculating fiscal impacts to exclude an assumption regarding a proportion of seasonal housing units. For the purpose of this analysis, the residential development uses population that is more reflective of persons per occupied units. Thus, it does not understate the impact of service and capital costs by assuming some portion of the new development could accommodate a seasonal resident.

One of the more important benefits of a modified per capita approach is that revenues and costs do not need to be allocated between residential and non-residential uses. The sum of FTE population reflects a common factor with which revenues and costs can be divided and applied back to specific uses based on the underlying population (household population, establishment employment, and visitors). For example, a multi-family dwelling unit would generate the equivalent cost per FTE based on the observed population per household adjusted for how many are employed and their place of work (i.e., within Polk County or outside Polk County and within the planned Project or outside the planned Project). In addition, an office use would generate the equivalent cost per FTE based on the number of establishment employment adjusted to their FTE equivalency.

EXISTING ACTIVITIES AND THEIR RELATED FISCAL REVENUES AND COSTS

Providing public sector services and infrastructure is accomplished on the basis of not-for-profit management of economic and financial resources. Each year, governmental agencies or organizations prepare for meeting service and capital needs with a budget that balances revenues and spending. In other words, allowable annual spending equals expected revenues. In the context of legal constraints to spending, most local governments operate well below what is allowed. The annual budgets adopted do not reflect expected income (profit or losses) in the same way as for-profit enterprises.

The annual budgetary process can make understanding the marginal impacts of new population or new development a challenge. The main challenges are the use of transfers between funds to accommodate "fund accounting" reporting, the use of cash balances in funds as revenues and cash forward as expenses to balance the budget, the recognition of capital as an expense in the year funds are expended, and the recognition of debt proceeds as revenue to also balance capital expenditures. The budgetary process is "cash-basis" accounting.

In addition to the annual budgetary process, every governmental organization in the U.S. prepares a Comprehensive Annual Financial Report ("CAFR"). While the formats and contents can vary slightly, these reports present the financial statements of the governmental entity, as well as important analysis tools like the management's discussion and analysis ("MD&A") and the notes to the financial statements similar to private industry. CAFRs present financial information of accounts for the financial position of the government as a whole. Governments use modified accrual accounting for their statements in the CAFR and include reconciliations explaining how they made the switch from cash-basis accounting to the modified accrual basis they report.

Most importantly, governments are required to present their consolidated financial statements in the CAFR that essentially mirror for-profit financial statements. In particular, the Statement of Activities for a not-for-profit organization is equivalent to an Income Statement for a for-profit enterprise. The main difference is the treatment of capital infrastructure and equipment. On a cash-basis, capital costs are recognized within the year funds are expended. For example, if Polk County spends funds to build a new County government office in 2021, that expense is a capital item in the same year and it is generally funded through some combination of current revenues, existing cash balances, and debt proceeds or exclusively with debt proceeds. As a result, the cash-basis is faulty because it places the burden of past and future capital needs, funded using past and future revenues, in a single current fiscal period. Conversely, the Statement of Activities only recognizes current revenues and accounts for capital on a depreciation and amortization basis. Thus, it matches capital spending with the life cycle of the asset.

Our analysis utilizes these Governmental Statements of Activities to correct for the challenges associated with governmental budgeting and fund accounting, especially capital spending which can otherwise materially ebb and flow on an annual basis. Our position is that the reported revenues and expenses, divided by FTE population, provide the best measure of the marginal impacts from new development and new population given the existing financial structure of Polk County.

Based on Fiscal Year ("FY") 2020 audited financial statements from Polk County's CAFR, Table 9 provides the current fiscal costs and revenues on a per FTE basis for all general government activities for Polk County.

Table 9. Polk County's Current FY 2020 Net Fiscal Position

Revenue/(Expense)	Per FTE	Total
Direct Revenues (Charges, Fees)	$ 409	$ 279,744,000
Ad Valorem	401	274,652,000
Other[1]	355	243,390,000
Enterprise Transfer	–	–
Subtotal	**$ 1,165**	**$ 797,786,000**
General Government	(199)	(136,193,000)
Public Safety	(612)	(419,163,000)
Physical Environment & Transportation	(63)	(43,152,000)
Culture & Recreation	(21)	(14,301,000)
Economic Environment	(25)	(17,330,000)
Human Services	(90)	(61,769,000)
Interest on Long-Term Debt	(6)	(4,080,000)
Annual Capital Requirements	(146)	(100,010,000)
Subtotal	**$ (1,162)**	**$ (795,998,000)**
Net Fiscal – Surplus/(Deficit)	**$ 3**	**$ 1,788,000**

Sources: U.S. Census; GAI Consultants. Notes: (1) Other revenues include earnings on taxes (tourist development, communication, fuel, local government), franchise fees, and earnings on investments.

In FY 2020, all general government activity within Polk County reflected an average cost per FTE of $1,162, including annual capital requirements of $146 per FTE. Capital requirements are reflected in terms of depreciation and amortization versus capital expenditures, consistent with the Statement of Activities in the CAFR. This approach more appropriately aligns cost with the life cycle of assets. For example, a building built by Polk County 30-years ago that is still serving the community today would still be accounted for in our analysis because its average service life is generally 50 years or more. However, the capital expenditure for that building would not be recognized, especially if its debt is paid off.

Attempting to off-set total operating and capital costs, the current revenue sources contributed an average of $1,165 per FTE. As a result, Polk County currently has a slight fiscal surplus of $3 per FTE or approximately $1,788,000 annually. It is important to note that this calculated surplus is based on modified accrual accounting versus cash-basis accounting, therefore Polk County is not gaining $1,788,000 each year on a cash-basis. Given the current levels of spending including interest costs and annual capital requirements, current revenues through taxes, charges, and fees meet current spending in FY 2020. This is the current basis from which types of new development will be measured using assumptions for FTE population and various ad valorem revenues models.

This fiscal analysis is not a reconciliation of funds and fund balances, but an estimate of annual net fiscal surplus/(deficit) for governmental activities. So, at any level, jurisdictions can function with a deficit by drawing from existing balances or using debt, and at the same time adopting balanced budgets where expenditures equal revenues. This analysis is also not a budget exercise, but an estimate of the net fiscal impact from current activities, which can generate positive or negative cash flow.

INTERFUND TRANSFERS AND BUSINESS ACTIVITIES

GAI's approach to fiscal analysis also treats business-type activities (e.g., water and sewer) as a net transfer. Because these activities are generally profit centers and, in theory, run like a business where prices (water rates) are set to meet or exceed operating and capital, a majority of these types of activities provide a net income transfer into the general fund to subsidize governmental activities. The fact is that when a utility system issues debt to fund capital, it is generally required to set utility rates to generate 1.25 to 2.00 times more operating income than annual debt service. Since average service lines are the costliest components of a system and extend well beyond debt payments, the structure of rates and charges relative to expenses typically creates significant positive cash flow annually. Also, any capital requirements to meet new water and sewer demand is generally funded 100% with connection fees and/or water and sewer impact fees because those fees are calculated at full cost of service requirements, unlike many other impact fees or capital charges.

It is prudent and appropriate for local governments to then transfer some excess cash into general government activities as a payment-in-lieu-of-taxes. If utility services were provided by a private company, Polk County would be allowed to generate revenues through franchise fees on those services, so a transfer accomplishes the same thing. Thus, this analysis includes this net transfer as a revenue off-set after calculating incremental governmental expenses required to serve a new development. In the rare case where general-government activities subsidize a business-type activity, it is still included with revenues, but it would reflect a deduction in general revenues. The rationale is that it is reasonable to assume that new development will generate the same excess (or deficit) water and sewer revenues on a per capita basis as existing development.

PROSPECTIVE FISCAL IMPACTS OF NEW DEVELOPMENT

Using FY 2020 audited financial statements and expected property valuation for the Project at full build-out, Table 10 details the Project's expected net fiscal impact.

While the Project is expected to create an expense of $1,293 (operating and capital) per FTE per year, significant property tax contributions of $941 per FTE, along with direct and other revenues, more than off-set those costs and create a significant net fiscal surplus of $411 per FTE per year.

Table 10. Planned Project 's Net Fiscal Impact

Revenue/(Expense)	Per FTE	Total
Direct Revenues (Charges, Fees)	$ 409	$ 1,077,000
Ad Valorem	941	2,480,000
Other[1]	354	936,500
Enterprise Transfer	–	–
Subtotal	**$ 1,704**	**$ 4,493,507**
General Government	(199)	(524,334)
Public Safety	(612)	(1,613,749)
Physical Environment & Transportation	(63)	(166,131)
Culture & Recreation	(21)	(55,059)
Economic Environment	(25)	(66,720)
Human Services	(90)	(237,806)
Interest on Long-Term Debt	(6)	(15,708)
Annual Capital Requirements	(277)	(730,000)
Subtotal	**$ (1,293)**	**$ 3,409,507)**
Net Fiscal – Surplus/(Deficit)	**$ 411**	**$ 1,084,000**

Sources: U.S. Census; GAI Consultants. Notes: (1) Other revenues include earnings on taxes (tourist development, communication, fuel, local government), franchise fees, and earnings on investments.

The strong positive contribution from property taxes compared with existing values results both from market conditions and current property tax law. New development of multi-family residential product in the ChampionsGate larger development yields both market and taxable values significantly greater than comparable values of multi-family residential product within Polk County, which may be a result of larger multi-family developments (in terms of square feet) and increases in land costs.

As well, newer non-residential development also tends to have higher value on an FTE bases. In this analysis, properties with a retail, office, and related commercial uses, as well as hotel/motel DOR use codes were examined as the non-residential properties within Polk County. While we examined the market conditions of the non-residential properties within the larger ChampionsGate development, we believe the non-residential that will be built within the planned Project will more accurately reflect the markedly higher values for properties more recently added to the tax rolls within Polk County (see Tables 11 & 12).

Table 11. 2021 Average Market Value

	Polk County	Project[1]
Market Value Multi-Family Residential (per unit)	$ 103,400	$ 160,000
Market Value Non-Residential (per sq. ft.)	$ 74.00	$ 93.00

Sources: Florida DOR; GAI Consultants. Notes: (1) Proposed Project are estimated.

Table 12. 2021 Average Taxable Value

	Polk County	Project[1]
Taxable Value Multi-Family Residential (per unit)	$ 79,855	$ 150,810
Taxable Value Non-Residential (per sq. ft.)	$ 75.00	$ 86.00

Sources: Florida DOR; GAI Consultants. Notes: (1) Proposed Project are estimated.

Both market forces and Florida Tax Law suggests that the significant gap created in taxable values per capita from new development compared with existing averages is a strong factor in positive fiscal impact from new development. In addition, this gap can be even more pronounced within areas of redevelopment where the existing conditions are driven by both age and a relatively depressed market.

The Project, as planned, is expected to contribute a significantly higher ratio of property value per FTE compared with the existing Polk County average (see Table 13). Under the premise that existing households would require no more or no less operating and capital needs than those households proposed for the Project, this observed relationship between property value and year-built implies a significant positive fiscal impact from the newly developed property.

Table 13. Population and Taxable Value Impact

	Polk County	Project[1]
FTE Population	684,450	674
Taxable Value (000s)		
Residential	$ 1,420,220	$ 322,130
Non-residential	3,814,750	14,190
Total	$ 5,237,975	$ 336,320
Value per FTE	**$ 7,653**	**$ 127,630**

Sources: U.S. Census; GAI Consultants; Polk County FY 2020 Taxable Values. Notes: (1) Proposed Project are estimated. Totals may not add due to rounding.

GAI's approach to fiscal impact also includes a relatively conservative approach to estimating capital requirements for new development.

It is important to exclude existing deficiencies in calculating capital costs since this would impose an unfair burden on new households. In part, to the degree there are differences, these would be addressed by impact fees which can only apply to new development and capital.

Our approach also excludes any existing capacity in capital infrastructure by assuming new FTE population would require the same level of capital spending to replace everything Polk County has constructed. This method takes all capital assets at original costs and escalates them to 2021 dollars (see Table 14).

Table 14. General Government Capital Assets at Cost in 2021 Dollars (in thousands)

Capital Assets	Net	Depreciation	Gross	2021 Dollars
Land and Right-Of-Way	$ 937,133	$ –	$ 937,133	$ 1,874,266
Infrastructure	3,791,760	–	3,791,760	3,791,760
Construction	42,841	–	42,841	42,841
Buildings and Capital	2,226,249	(2,253,740)	4,479,989	8,121,000
Total Net Capital Assets	$ 6,997,984	$ (2,253,740)	$ 9,251,724	$ 13,829,868
Capital Per FTE	**$ 3,253**	**$ (3,293)**	**$ 6,545**	**$ 11,865**

Sources: FY 2020 CAFR. Note: GAI Consultants converted the values to 2021 dollars.

Based on replacing all capital assets in current dollars, new FTEs would be expected to generate capital needs of $11,865 per FTE (see Table 15). Total impact fees were estimated by applying the Project's total square feet of residential and non-residential uses to an average rate as provided in Polk County's schedule of fees and services.

Table 15. Calculation of the Project's Annual Capital Expense

	Per FTE	Total
Capital Needs	$ 11,865	$ 31,270,000
(less) Total Impact Fees[1]	(6,619)	(17,442,666)
Net Required Capital	5,247	13,827,334
Annual P&I (30 years, 3.3%)	**$ 277**	**$ 730,000**

Sources: FY 2020 CAFR; GAI Consultants. Notes: (1) Total impact fees for the Project were estimated.

Net capital requirements after deduction of impact fees paid to Polk County results in a net capital requirement of $5,247 per FTE. Assuming debt service over 30 years, a 3.3% interest results in an annual impact of $277 per FTE. This $277 per FTE is included in the operating and capital costs previously detailed in Table 10.

OTHER FISCAL CONSIDERATIONS

Regardless of the fiscal scenario embraced for policy purposes, the Project generates extraordinary levels of receipts, well above those produced by other properties on average in Polk County. Certain resources are exclusively available for Polk County's use to offset its costs of operations and debt as these were documented in this analysis.

However, noting that the bulk of the analysis centers on Polk County's own direct and controllable costs and receipts, the Project will also generate significant levels of property tax revenues for other related units of government, largely separate from Polk County.

These are additional resources not otherwise addressed in this analysis but are relevant to a broader policy deliberation addressing this and other new development.

While the detailed analysis does not extend the cost of services for these related bodies, these costs will likely be modest and at the margin, certainly relative to the gain in receipts. For example, it is notable that an estimated $1,960,400 will be available for use by the Polk County School Board itself on an annual basis going forward. Such sums would be generated by the Project's high value properties that may have limited need for school services.

The following table illustrates what annual total (gross) ad valorem receipts are for all currently recognized millages for each respective taxing authority, without regard to other potential receipts or any corresponding cost of services. Viewed in the aggregate, this information is a limited characterization of the resources created by the Project's full build-out (see Table 16).

As a reminder, the analysis is based on 2021 dollars allowing the output to be manipulated or adjusted for a period(s) different than that described. While the economic benefits for this Project are certainly substantial, it is apparent that Polk County's fiscal benefits are especially significant.

Table 16. Calculation of the Project's Annual Total (Gross) Ad Valorem Receipts

	Millage Rate[1]		Proposed Project
County General	6.8990	$	2,320,250
County MSTUs[2]	0.8728		293,540
Subtotal	***7.7718***		***2,613,790***
School Board[3]	5.8290	$	1,960,400
Water Mgmt. Dist.	0.2535		85,260
Subtotal	***6.0825***		***2,045,650***
Total	**13.8543**	**$**	**4,659,440**

Sources: FY 2020 CAFR; Polk County Property Appraiser; GAI Consultants. Notes: (1) Rate per $1,000 of Taxable Value by Municipality. (2) Includes Parks, Library, and Stormwater MSTUs. (3) Includes Local Board and State.

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