

**COST BENEFIT ANALYSIS  
SUBSTANTIATION OF NEED FOR TOWN OF SUFFOLK IDA FINANCIAL ASSISTANCE**



*Rendering of front of 104 Lake Avenue South*

**PROJECT APPLICANT AND NAME**

104 LAKE AVENUE SOUTH, LLC – 104 LAKE AVENUE

**LOCATION**

104 Lake Avenue South, Nesconset, NY 11767

**PROJECT DESCRIPTION**

Construction of (3) multi-tenant industrial buildings consisting of 27 units

**REQUESTED FINANCIAL ASSISTANCE**

Payment in Lieu of Taxes (PILOT)  
Exemption on Sales Tax of Building Materials  
Exemption on Mortgage Recording Sales Tax

**September 9, 2021**

## I. PROJECT SUMMARY

The 104 LAKE AVENUE SOUTH, LLC (the “Developer”) submitted a Uniform Joint Application for tax assistance in July 2021. The application requests a sales tax and a mortgage recording tax exemption in addition to a payment in-lieu of taxes (“PILOT”).

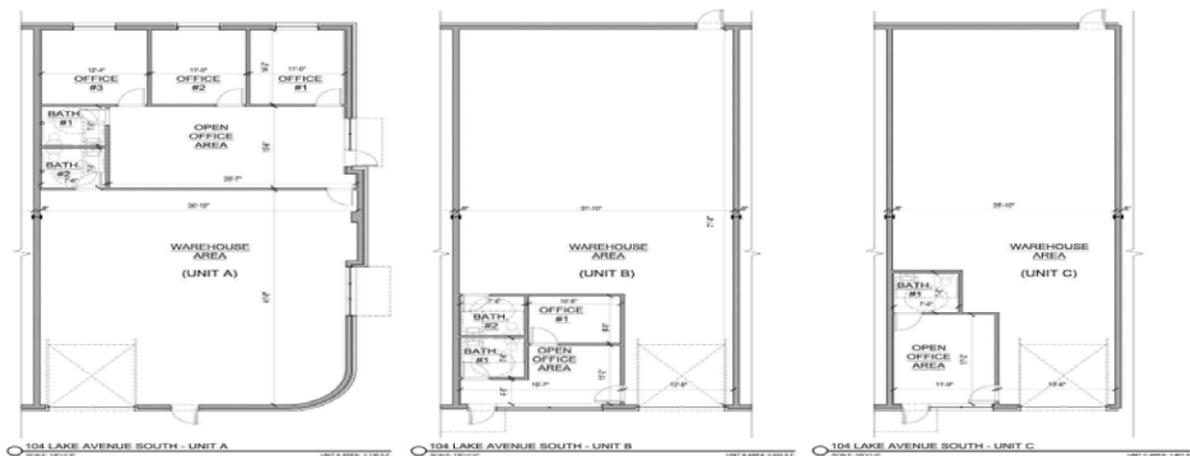
The National Development Council (“NDC”) is engaged in an on-going engagement with Suffolk County Office of Economic Development. As part of the contract, Suffolk County Industrial Development Agency (“SCIDA”) occasionally requests NDC to review applications for tax assistance. The purpose of this report is to describe NDC’s project understanding and findings.

The Developer proposes the construction of 3 multi-tenant industrial buildings totaling approximately 60,000 square feet located at 104 South Avenue South, Nesconset. The \$8.7 million project will comprise twenty-seven industrial units on a 4+ acre vacant lot that will be leased to small businesses. All units will be finished and tenant-ready upon completion of construction. 60% of the area will be designated as warehouse space and the remaining 40% will be finished office space.

The Developer requested a payment in lieu of taxes (PILOT), as well as exemptions on sales tax and mortgage recording tax.



*Rendering of 104 South Lake Road*





The program is summarized as follows:

104 LAKE AVENUE SOUTH LLC DEVELOPMENT PROGRAM					
	Spaces	SF	Total SF	Rent/SF	Annual Rent (Y1)
Office Space A	15	1,961	29,415	\$12.75	\$375,041
Office Space B	9	2,405	21,645	\$12.75	\$275,974
Office Space C	3	2,738	8,214	\$13.50	\$110,889
Total	27		59,274	\$12.85	\$761,904

O'Shea Properties, the parent organization of the Applicant, is a commercial real estate, family-run owner, manager, and developer of industrial, commercial and office buildings. The organization currently maintains 45 multi-tenant commercial buildings.

## II. SOURCES & USES

The development will be financed with a conventional debt and equity capital structure. The budget is \$8,679,413, equivalent to \$146 per square foot. The sources and uses are summarized below. NDC applied a standard 65%/35% debt to equity mix for the capital structure. The development budget appears reasonable given the light industrial program and location of the proposed development.

USES OF FUNDS	Amount	Per SF	%
Acquisition	\$1,300,000	\$22	15.0%
Construction	\$7,112,680	\$120	81.9%
Soft Costs	\$266,733	\$5	3.1%
<b>TOTAL</b>	<b>\$8,679,413</b>	<b>\$146</b>	<b>100.0%</b>
<b>SOURCES OF FUNDS</b>			
Commercial Loan*	\$5,641,618	\$95	65%
Developer Equity	\$3,037,795	\$51	35%
<b>TOTAL</b>	<b>\$8,679,413</b>	<b>\$146</b>	<b>100%</b>

*\* 65%/35% debt-equity split is a typical capital structure for comparable developments. Although the applicant reports a slightly different capital structure, it is reportedly still working to finalize capital structure.*

## III. SUMMARIZED TAX BENEFITS PACKAGE

The following tax benefits are proposed for the subject property.

TAX BENEFIT SUMMARY			
SALES TAX EXEMPTION		IDA RELATED PROPERTY TAXES	
*Construction	\$7,112,680	Current Taxes	\$3,099
% Attributed to Material	60.00%	As Complete Taxes	\$160,040
Building Materials	\$4,267,728	Multiplier	\$52 /\$1 multiplier
Sales Tax	8.625%	Average Annual PILOT	\$111,428
Total Sales Tax Savings	\$368,092	Average Annual PILOT Multiplier	\$36 /\$1 multiplier
		<b>15 year phase-in as per schedule in Appendix 1</b>	
MORTGAGE RECORDING TAX			
Mortgage *	\$5,641,618		
Mortgage Recording Tax rate - MTA Tax	0.75%		
Mortgage Recording Tax Savings	\$42,312		

*\* subject to the final loan that is secured. Above mortgage is based upon a 65% loan to cost estimate.*

The Town of Smithtown Tax Assessor estimated an “as-complete” annual real estate tax of \$160,040 for the proposed development. This is a \$52x multiplier of the current taxes of \$3,099. The PILOT will commence at a 50% abatement and phase-in to full taxes over a fifteen-year period of time. The average annual PILOT during the term is \$111,428, representing a \$36x multiplier of current taxes.

The fifteen-year schedule is consistent with the SCIDA’s Uniform tax Exemption Policy (UTEP), as the UTEP provides the option for providing “enhanced real property tax relief to project considered significantly or strategically important to the economic well-being of Suffolk County.” This project, one that is expected to attract up to 135 full-time equivalent jobs spread over 27 businesses in the light manufacturing industry is considered strategically important for Suffolk County. The financial assistance is considered necessary in order for the project to be completed, as further detailed in the next section.

#### **IV. SUMMARY OF NDC ANALYSIS**

NDC based its analysis on the revenue assumptions provided by the Developer in the IDA application. For consistency with other IDA reviews, NDC adjusted the pro forma provided by the developer with the following assumptions:

- Debt and equity capital structure reflective of similar projects
  - Conventional debt financing 65% of the project
  - Developer equity financing 35% of the project
- Permanent loan assumptions that are in line with the current market for similar projects
  - Commercial Vacancy Rate
    - Year 1 – 33%
    - Year 2 – 12.5% (Stabilized Vacancy Rate)
  - Adjusting permanent interest rate to 4.50%
  - Adjusting loan amortization period to 20 years
- Adjusting revenue growth to 2.5% annually
- Adjusting expense growth to 3% annually
- Projecting terminal value of project using a 6.50% cap rate

Commercial rents range between \$12.75-13.50 per square foot and the unit sizes will range between 1,961 - 2,738 square feet. The leases will reportedly be triple net, meaning that the developer passes on real estate taxes, utilities and insurance to the tenants as well as common area maintenance. Based upon this lease arrangement, the prospective tenants are the beneficiaries of the partial tax abatement, as the PILOT schedule lowers its overall occupancy costs. A local MAI appraiser opined that the applicant’s targeted rents based upon the lease structure is generally consistent with the market for comparable light industrial space. The Developer reports that it will carry operating expenses of \$0.25/square foot operating expenses, for expenses not passed on to the tenants.

Meeting the financial metrics required by debt and equity sources presents a substantial challenge with the forecasted operating profile and unabated tax projections, especially with a project with lease-up risk associated with 27 new commercial spaces. As can be seen in the table in the next page that profiles the stabilized operating year and financial metrics WITH PILOT and WITHOUT PILOT, the financial metrics required of debt and equity providers are not achieved with full taxes (WITHOUT PILOT). The debt coverage ratio (DCR) is too low for the lender and the return metrics are less than what is considered reasonable for equity investors. With the proposed projected PILOT schedule, financial returns from the

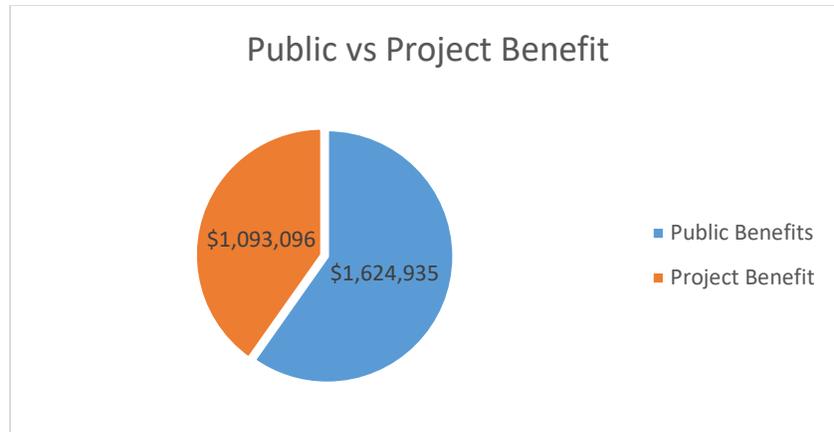
project are modest yet sufficient to establish financial feasibility. There is no undue enrichment as a result of this financial incentive package.

STABILIZED OP PROFORMA (YEAR 2)			
WITHOUT PILOT VS. WITH PILOT			
	WITHOUT PILOT	With PILOT	
Gross Commercial Income	\$777,142	\$777,142	
Less Commercial Vacancy	(\$116,571)	(\$116,571)	
Effective Gross Income	\$660,571	\$660,571	
Op. Expenses (excluding RE Taxes and other CAM)	(\$14,819)	(\$14,819)	
<b>RE Taxes/PILOT</b>	<b>(\$160,040)</b>	<b>(\$83,179)</b>	
Total Operating expenses	(\$174,858)	(\$97,997)	
Net Operating Income	\$485,712	\$562,574	
Debt Service	<u>(\$446,786)</u>	<u>(\$446,786)</u>	
Cash Flow	\$38,926	\$115,787	
METRICS			
	WITHOUT PILOT	With PILOT	Market Expects
Debt Coverage Ratio (Y2)	1.09	1.26	> 1.25
Yield to Cost (Y2)	5.60%	6.57%	>6.5%
Cash on Cash (Y2)	1.28%	3.81%	>6.0%
Internal Rate of Return (IRR) over 15 years	6.50%	10%	>10%

#### V. COST / BENEFIT ANALYSIS

The below analysis shows a positive net public value when considering the total PILOT paid compared to the project benefits provided in the IDA financial package. The total projected increment over the current taxes paid to the town during the 15-year PILOT is \$1,634,925, exceeding the aggregate project benefit by \$531,838.

PUBLIC BENEFIT ANALYSIS	
Public Benefit (Tax Increment from PILOT over 15 Years)	\$1,624,935
Sales Tax Exemption	\$368,092
Mortgage Recording Tax Exemption	\$42,312
Real Estate Property Tax Savings through 15 year PILOT	\$682,692
Total Financial Benefit from IDA Package	\$1,093,096
Net Public Benefit	\$531,838



In addition to the benefits described above, the developer estimates that the project will create 25 temporary construction jobs and estimated 135 permanent jobs. The development will create much needed commercial space targeting light industrial, service, and research & development users/tenants.

**APPENDIX 1: PILOT SCHEDULE**

104 Lake Avenue South LLC							
Assumptions							
Commercial Spaces			27				
Gross SF			59,274				
Improvement Taxes			\$156,941				
Existing Taxes			\$3,099				
As Complete Taxes			\$160,040				
As Complete Taxes GSF			\$2.70	Assessor Estimate			
PILOT Schedule							
Year	Current Taxes (a)	Improvement Taxes (b)	Full Taxes (a+b)	Abatement	Savings	PILOT	RE Tax Increment
1	\$3,099	\$156,941	\$160,040	50.00%	(\$78,470)	\$78,470	\$75,371
2	\$3,099	\$156,941	\$160,040	47.00%	(\$73,762)	\$83,179	\$80,080
3	\$3,099	\$156,941	\$160,040	44.00%	(\$69,054)	\$87,887	\$84,788
4	\$3,099	\$156,941	\$160,040	41.00%	(\$64,346)	\$92,595	\$89,496
5	\$3,099	\$156,941	\$160,040	38.00%	(\$59,638)	\$97,303	\$94,204
6	\$3,099	\$156,941	\$160,040	35.00%	(\$54,929)	\$102,012	\$98,913
7	\$3,099	\$156,941	\$160,040	32.00%	(\$50,221)	\$106,720	\$103,621
8	\$3,099	\$156,941	\$160,040	29.00%	(\$45,513)	\$111,428	\$108,329
9	\$3,099	\$156,941	\$160,040	26.00%	(\$40,805)	\$116,136	\$113,037
10	\$3,099	\$156,941	\$160,040	23.00%	(\$36,096)	\$120,844	\$117,745
11	\$3,099	\$156,941	\$160,040	20.00%	(\$31,388)	\$125,553	\$122,454
12	\$3,099	\$156,941	\$160,040	17.00%	(\$26,680)	\$130,261	\$127,162
13	\$3,099	\$156,941	\$160,040	14.00%	(\$21,972)	\$134,969	\$131,870
14	\$3,099	\$156,941	\$160,040	11.00%	(\$17,263)	\$139,677	\$136,578
15	\$3,099	\$156,941	\$160,040	8.00%	(\$12,555)	\$144,386	\$141,287
		\$2,354,112	\$2,400,597		(\$682,692)	\$1,671,420	\$1,624,935
			100%		29%	71%	
						\$111,428 avg	
* tax rate subject to change during term of PILOT							

**APPENDIX 2**  
**NDC DISCLAIMER**

Standard disclaimer regarding NDC's compliance with Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and amended Section 15B of the Securities and Exchange Act of 1934 ("Exchange Act"):

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