COST BENEFIT ANALYSIS
SUBSTANTIATION OF NEED FOR SUFFOLK COUNTY IDA FINANCIAL ASSISTANCE

PROJECT APPLICANT AND NAME

Hartz Mountain Industries, Inc. – Spagnoli Road (Former National Grid Site)

LOCATION

Spagnoli Road, Melville, New York 11747

PROJECT DESCRIPTION

New Construction of a 411,000 SF Industrial Building

REQUESTED FINANCIAL ASSISTANCE

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

June 21, 2022

The National Development Council ("NDC") has an on-going engagement with the Suffolk County Department of Economic Development and Planning (the "County"). NDC is a national not-for-profit economic development entity that provides development finance advisory services to municipalities throughout the country. NDC is routinely requested to analyze financial structures of proposed developments and determine the appropriateness of direct financial assistance or incentives. As part of the contract with the County, Suffolk County Industrial Development Agency (the "IDA") occasionally requests NDC to review applications for tax assistance. The purpose of this memo is to describe NDC's project understanding and findings regarding the proposed Hartz Mountain Industries, Inc. project.

I. PROJECT SUMMARY

Hartz Mountain Industries, Inc. (the "Applicant" and "Developer") submitted a Uniform Joint Application for tax assistance in April of 2021. The application requests a sales tax exemption, a mortgage recording tax exemption, and a payment in lieu of taxes ("PILOT").

The Developer proposes to construct a new 411,000 square foot warehouse building on the vacant 31.32-acre former National Grid site on Spagnoli Road in Melville, NY. The new building will be leased to third party tenants and used for manufacturing, warehousing, and distribution operations. The applicant has not secured signed tenants and the development is considered speculative. There is a vast shortage of modern industrial and warehouse commercial space in Suffolk County. If fully occupied, the development is expected to generate 225 full-time equivalent ("FTE") construction jobs and 250 full-time jobs during annual operations.

Founded in 1966, Hartz Mountain Industries focuses on industrial and multifamily assets in major East Coast markets, specifically New York, New Jersey, Pennsylvania, and Maryland. The Developer has received IDA assistance previously for a commercial industrial building located at 235 Pinelawn Road in Melville, NY.

II. SOURCES & USES

The development will be financed with a conventional debt (65%) and equity (35%). The sources and uses are summarized below.

USES OF FUNDS	$	%	Costs/SF
Acquisition	$37,001,000	38%	$90
Construction	$57,375,000	58%	$140
Soft Costs	$4,000,000	4%	$10
TOTAL	$98,376,000	100%	$239
SOURCES OF FUNDS	**$**	**%**	
Debt	$63,900,000	65%	
Equity	$34,476,000	35%	
TOTAL	$98,376,000	100%	

The budget of $98,376,600 is equivalent to $239 per square foot. This is considered high for a commercial industrial building. The developer attributes the excessive costs to high land costs and soaring increases in construction material due to supply chain shortages.

III. SUMMARIZED BENEFITS PACKAGE

The Tax Benefit Summary below includes the PILOT as recommended as part of this analysis, as well as the estimated materials sales tax and mortgage recording tax exemptions.

TAX BENEFIT SUMMARY				
IDA RELATED PROPERTY TAXES			**SALES TAX EXEMPTION**	
Current Taxes	$163,905		Construction Cost	$57,375,000
As Complete Taxes @ 2022 rate	$1,101,766		% Attributed to Material	60%
Multiplier	6.72 x		Value of Building Materials	$34,425,000
PILOT Over 15 Year Term	$11,321,361		Sales Tax Rate	8.625%
PILOT Savings Over Term	($5,205,129)		Value of Exemption on Building Materials	$2,969,156
MORTGAGE RECORDING TAX				
Mortgage	$63,900,000			
Mortgage Recording Tax	0.75%			
Value of Exemption	$479,250			

The PILOT schedule, as detailed in Appendix 1 on page 6, commences at a 65% abatement in the the first operating year, after which it phases in at 4.0% annually over the balance of the 15-year period. The PILOT paid during the term is equivalent to 69% of full taxes. The PILOT schedule is consistent with the IDA's Uniform Ta Exemption Policy (UTEP) for a project having substantial economic impact, creating jobs, and repurposing an underutilized and/or vacant site.

IV. SUMMARY OF NDC ANALYSIS

NDC assembled the following stabilized operating pro forma (year 2) mostly based upon the following developer assumptions.

- Base rent of $20/SF. The applicant reports that is establishes the base rent at $20/SF in order to cover its high development costs of the proposed facility.
  - The $20/SF is a premium rent (as much as 33%) for industrial/warehouse space, as both the applicant's Fiscal and Economic Impact Report and industry professionals peg the market rate base rent in the $15/SF range.
- Real estate taxes/PILOT being passed on to tenants.
- Other operating expenses (insurance, utilities, maintenance) being passed on to tenants.
- Building covering repair replacement reserve and management, estimated to be $3/SF, being passed on to tenants.
- Permanent debt terms at 5% interest and 20-year amortization

STABILIZED OPERATING PRO FORMA (YEAR 2)	WITHOUT PILOT		WITH PILOT (2nd year)		
Gross Income	$8,220,000	$20 /SF	$8,220,000	$20 /SF	
RE Taxes/PILOT	$1,101,766	$3 /SF	$529,671	$1 /SF	
Other Expenses Passed on to Tenants	$1,233,000	$3 /SF	$1,233,000	$3 /SF	
Gross Income	$10,554,766	$26 /SF	$9,982,671	$24 /SF	**5.42% savings**
Less Vacancy	($411,000)		($499,134)		
Effective Gross Rent	$10,143,766		$9,483,537		
RE Taxes/PILOT	($1,101,766)		($529,671)		
Other Expenses Passed on to Tenants	($1,233,000)		($1,233,000)		
Developer Operating Expenses (Mgt Fee & Reserves)	($411,000)		($411,000)		
Net Operating Income	7,398,000		7,309,866		
Debt Service	($5,131,064)		($5,131,064)		
Cash Flow	$2,266,936		$2,178,802		
DCR	1.44		1.42		
Yield to Cost	7.52%		7.43%		
Cash on Cash	6.58%		6.33%		

As seen in the above, the financial return metrics for" Yield to Cost" and "Cash on Cash Rate of Return" to the developer/applicant are not impacted based on the proposed PILOT, as the real estate tax expense will be passed on to tenants.

The real estate tax savings through the PILOT is the tool by which the applicant can reduce occupancy expenses for its targeted tenants during the lease term. Without PILOT savings, the full occupancy costs for the tenants could be $26/SF. As can be seen on the above proforma, the real estate tax savings through the PILOT creates a 5.4% discount, or close to $2/SF less in total occupancy costs. The $2/SF savings is a key factor when the baseline rents are already at a premium due to high development costs, inflationary forces, and rising interest rates. The PILOT mitigates the risk for the developer getting the building financed, constructed, and occupied with tenants that will produce the 250+/- permanent jobs.

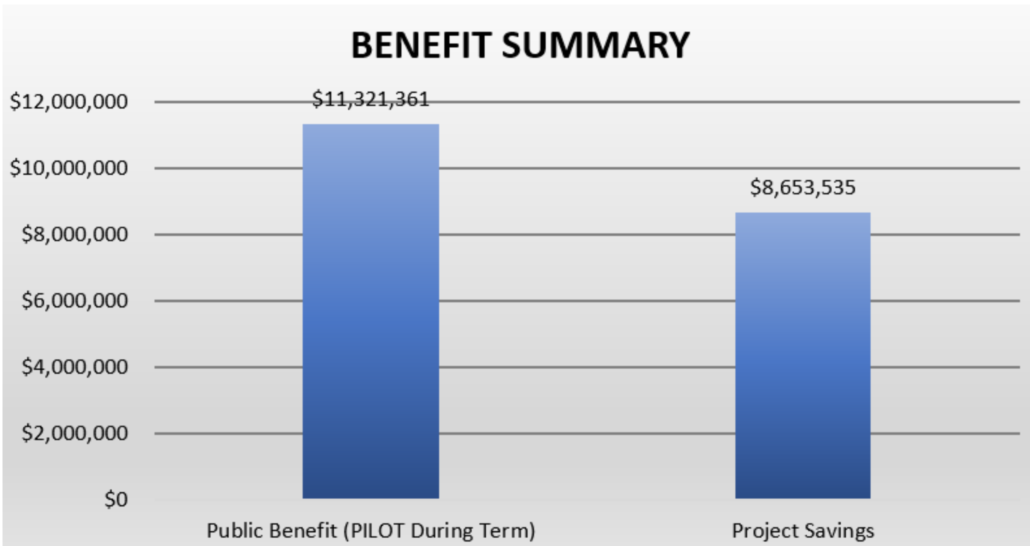
V. COST / BENEFIT ANALYSIS

The analysis on the following page shows a positive net public value of $2,667,827. The public benefits included are the aggregate PILOT payments paid during the term, while the project benefits from the IDA assistance package include tax savings through the PILOT and exemptions on sales tax and mortgage recording tax.

Per the schedule included as part of Appendix 1 on page 6, the real estate tax revenue increases substantially during the term. The average annual PILOT paid during the term is approximately $754,757, equivalent to approximately $2 per square foot. <u>The average annual PILOT ($754,757) is a **4.6X** multiplier above the $163,905 currently paid on the underutilized property</u>. The total projected increment over the current taxes paid to the taxing jurisdictions during the 15-year PILOT exceeds $8 million.

This project will replace underutilized land and create an estimated 225 FTE construction jobs, as well as 250 full-time jobs and $10 million in total wages and benefits during annual operations. The 15-year PILOT schedule is completely in line and consistent with the IDA's Uniform Tax Exemption Policy (UTEP), the IDA's governing document to determine the types of projects and assistance it provides for incentivizing private investment for job creation and economic impact.

BENEFIT SUMMARY		
PILOT Over 15 Year Term		**$11,321,361**
	-	
Sales Tax Exemption	$2,969,156	
Mortgage Recording Tax Exemption	$479,250	
RE Property Tax Savings through 15 year PILOT	$5,205,129	
Total Project Financial Benefit from IDA Package		**$8,653,535**
NET PUBLIC BENEFIT		**$2,667,827**



APPENDIX 1: PILOT SCHEDULE

SPAGNOLI ROAD (FORMER NATIONAL GRID SITE)							
TAX ASSUMPTIONS							
Square Feet of Building		411,000					
Base Taxes		$163,905					
Improvement Taxes		$937,861					
As Complete Taxes		$1,101,766					
Taxes Per Unit		$2.68					
	0.00% escalator						
15 YEAR PILOT SCHEDULE							
Year	**Base Taxes**	**Improvement Taxes**	**Full Taxes**	**Abatement**	**Savings**	**PILOT**	**Increment**
Construction	$163,905					$163,905	
Construction	$163,905					$163,905	
1	$163,905	$937,861	$1,101,766	65%	($609,610)	$492,156	$328,251
2	$163,905	$937,861	$1,101,766	61%	($572,095)	$529,671	$365,766
3	$163,905	$937,861	$1,101,766	57%	($534,581)	$567,185	$403,280
4	$163,905	$937,861	$1,101,766	53%	($497,066)	$604,700	$440,795
5	$163,905	$937,861	$1,101,766	49%	($459,552)	$642,214	$478,309
6	$163,905	$937,861	$1,101,766	45%	($422,037)	$679,729	$515,824
7	$163,905	$937,861	$1,101,766	41%	($384,523)	$717,243	$553,338
8	$163,905	$937,861	$1,101,766	37%	($347,009)	$754,757	$590,852
9	$163,905	$937,861	$1,101,766	33%	($309,494)	$792,272	$628,367
10	$163,905	$937,861	$1,101,766	29%	($271,980)	$829,786	$665,881
11	$163,905	$937,861	$1,101,766	25%	($234,465)	$867,301	$703,396
12	$163,905	$937,861	$1,101,766	21%	($196,951)	$904,815	$740,910
13	$163,905	$937,861	$1,101,766	17%	($159,436)	$942,330	$778,425
14	$163,905	$937,861	$1,101,766	13%	($121,922)	$979,844	$815,939
15	$163,905	$937,861	$1,101,766	9%	($84,407)	$1,017,359	$853,454
	$2,458,575	$14,067,915	$16,526,490		($5,205,129)	$11,321,361	$8,862,786
					31% of full taxes	69% of full taxes	
						$754,757 annual avg.	

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"):

The National Development Council is not a Registered Municipal Advisor as defined in Dodd-Frank and the Exchange Act and therefore cannot provide advice to a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including structure, timing, terms, or other similar matters concerning such financial products or issues.

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To improve economic conditions in their respective areas, IDAs generally attempt to attract, retain, and expand businesses within their jurisdictions through the provision of financial incentives to private entities.