

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



Renderings of Proposed Mixed-Income Development

PROJECT APPLICANT AND NAME

Fieldstone at Commack II, LLC

LOCATION

1110, 1098, & 1120 Jericho Turnpike, Commack, Town of Smithtown, NY 11725

PROJECT DESCRIPTION

New Construction of a 98-unit Mixed-Income Building for Individuals 55 Y/O and Over

REQUESTED FINANCIAL ASSISTANCE

Property Tax Abatement
Sales Tax Exemption on Building Materials and Equipment
Mortgage Recording Tax Exemption

October 20, 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, the 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 Fieldstone at Commack II, LLC project.

PROJECT SUMMARY

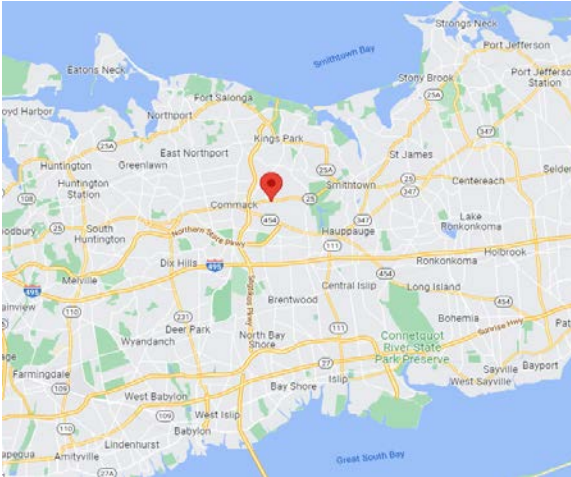
Fieldstone at Commack II, LLC (the “Applicant” and “Developer”), an affiliate of Questus Capital LLC, is applying for financial assistance for a proposed mixed-income development in the Hamlet of Commack, Town of Smithtown, Suffolk County, NY. The application requests a sales tax exemption on building materials and equipment, a mortgage recording tax exemption, and a property tax abatement in the form of a payment in-lieu of taxes (“PILOT”).

The three subject parcels total 4.96-acres and contain trailer homes and a storage facility. The Developer proposes to demolish the existing buildings and transform the property into a 98-unit rental apartment community for individuals 55 years old and over. The approximate 111,000 square foot building will include eighty-eight (88) market-rate units and ten (10) workforce units, with the units priced for individuals and families earning less than 80% of area median income (AMI). The unit types consist of one and two-bedroom apartments with amenities included. Additionally, the development will incorporate a community center, outdoor common space, and parking spots for 148 vehicles. The residential program is summarized as follows:

RENT ROLL							
<i>Unit Description</i>	<i>%</i>	<i>Units</i>	<i>NSF</i>	<i>Total NSF</i>	<i>Mo Rent</i>	<i>Rent/SF</i>	<i>Annual Rent</i>
Market							
One Bedroom	39%	38	687	26,106	\$2,400	\$3.49	\$1,094,400
Two Bedroom	51%	50	1,063	53,150	\$3,272	\$3.08	\$1,963,200
Workforce (80% AMI)							
One Bedroom	4%	4	687	2,748	\$1,700	\$2.47	\$81,600
Two Bedroom	6%	6	990	5,940	\$2,200	\$2.22	\$158,400
TOTAL / AVERAGE	100%	98	857	87,944	\$2,393	\$2.82	\$3,297,600

The Applicant is managed by Robert DiNoto and Paul Posillico, two experienced developers of multi-family communities and other commercial projects on Long Island. The two individuals have been development partners as Questus Capital LLC since 2013 and have built a portfolio exceeding 2.5 million square feet.

The Applicant requested a property tax abatement in the form of a 20-year PILOT. After a review of the application, a 15-year PILOT is proposed starting at 75% abatement the first year and declining 5.0% per year thereafter. The Applicant completed a similar 98-unit senior development adjacent to the subject site and was received a financial package by the IDA in 2018 that included a similar 15-year PILOT.



Project Location



Satellite Image of Site

Construction is expected to commence in April of 2023. The Developer expects to complete the project within 18-24 months from closing.

I. SOURCES & USES

The Developer intends to finance the 98-unit mixed-income development with a conventional debt (65%) and equity (35%) capital structure. The summarized sources and uses are presented below:

USES OF FUNDS	\$	Per Unit	Per SF	%
Acquisition	\$6,100,000	\$62,245	\$55	15%
Construction Hard Costs	\$27,705,649	\$282,711	\$249	67%
Furniture, Equipment & Machinery	\$500,000	\$5,102	\$4	1%
Soft Costs and Professional Fees	\$6,867,015	\$70,072	\$62	17%
TOTAL	\$41,172,664	\$420,129	\$370	100%

SOURCES OF FUNDS	\$	Per Unit	Per SF	%
Loan	\$26,762,232	\$273,084	\$241	65%
Equity	\$14,410,432	\$147,045	\$130	35%
TOTAL	\$41,172,664	\$420,129	\$370	100%

* Permanent Loan may be as high as... \$32,938,131.20

The development budget measured in absolute dollars (\$41.2 million), costs per gross square foot (\$370/SF), and cost per unit (\$420K) are high, but the costs are attributed to the soaring costs of construction materials world-wide. The development cost reported in the 2018 application for a similar 98-unit development was \$25.5 million or \$270K per unit. The 2022 budget reflects a 55% increase in projects costs from 2018.

II. SUMMARIZED BENEFITS PACKAGE

The Town of Smithtown’s Consolidated Real Property Tax Bill itemizes “as-is” taxes at \$35,692 total between the three properties. An assessment provided by the Town of Smithtown’s Assessor’s Office estimates that based upon the proposed improvements, the “as complete” taxes would be \$715,000, equivalent to \$7,296 per unit. NDC used the Town assessor estimate in its analysis. 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.

IDA TAX BENEFITS					
IDA RELATED PROPERTY TAXES			SALES TAX EXEMPTION ON BUILDING MATERIALS & EQUIPMENT		
Current Taxes	\$35,962	\$367 per unit	Construction Cost		\$27,705,649
As Complete Full Taxes	\$715,000	\$7,296 per unit	Value of Building Materials	60%	\$16,623,389
Multiplier	19.88 x		Sales Tax		8.625%
PILOT schedule	15 year phase-in		Value of Exemption		\$1,433,767
PILOT over 15 Years	\$6,650,772				
Savings over 15 Years	(\$4,074,228)		Furniture, Equipment, & Machinery		\$500,000
Increment over Savings	\$2,576,544		Sales Tax		8.625%
			Value of Exemption on M&E		\$43,125
MORTGAGE RECORDING TAX EXEMPTION					
Mortgage	\$32,938,131		Total Value of Sales Tax Exemption		\$1,476,892
Mortgage Recording Tax	1.05%				
Transit District Exclusion	-0.30%				
Mortgage Recording Tax Savings	0.75%				
Value of Exemption	\$247,036				

The proposed PILOT schedule, as detailed in Appendix 1, is consistent with a 15-year options for a residential development in the IDA’s Uniform Tax Exemption (UTE). The PILOT schedule commences with a 75% abatement in the first operating year before phasing in evenly at 5.0% annually over the balance of the 15-year period.

With the PILOT and the abatement schedule, the tax increment is significant. The PILOT increases revenue to the taxing jurisdictions by more than 450% in the first year (the base tax is \$35.9K and the first year PILOT payment is \$205.7K). Over \$6.6 million in real estate tax revenue is realized over the 15-year term. The average annual PILOT (\$443.4K) paid over the term is a 12.3X multiplier above the \$35.9K current real estate taxes. The PILOT paid over the term is 62% of estimated full taxes, meaning that the project realizes a 38% savings during the term.

III. SUMMARY OF NDC ANALYSIS

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

- Permanent loan assumptions that are in line with the current market for similar projects
 - 30-year amortization
 - Rate of 5.50%
- Adjusting revenue growth to 2.50% annually for market rate units
- Adjusting revenue growth to 2.00% annually for workforce units
- Adjusting expense growth to 3.00% annually
- Projecting terminal value of project using a 6.00% cap rate

Rents are consistent with other developments in the area, but projected expenses (exclusive of real estate taxes), estimated at \$7,500 per unit, are on the high side. Efficiencies with operating expenses could potentially help increase marginal returns, as discussed below. The table below illustrates financial performance with the PILOT in the first stabilized year of operations (assumed to be Year 2).

When full taxes are plugged into the operating proforma in the stabilized year, projected cash flow is negative, and the project fails to demonstrate acceptable ratios required by investors and lenders. Simply put, the development is not financially feasible with full taxes commencing immediately.

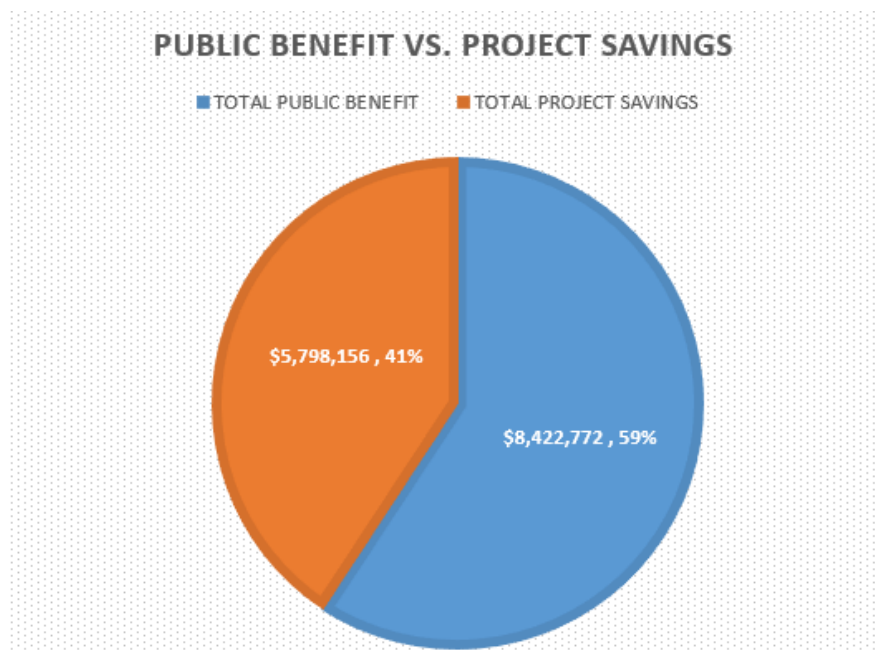
There is not a case of undue enrichment as a result of this financial incentive package. As with the proposed 15-year PILOT, all developer/investor return metrics (cash on cash, yield to cost, and internal rate of return) and quite marginal and barely reaching market expectations. The financial challenge lies in the high development costs and the high as complete taxes. While the IDA cannot impact the former, the PILOT partially mitigates the latter.

STABILIZED OPERATING PRO FORMA (Assumed to be 2nd year of operations after new construction)							
		(1) WITHOUT PILOT		(2) WITH 2nd Year 15-YR PILOT		(3) With PILOT Avg over 15-Yr Term	
		\$	Per Unit	\$	Per Unit	\$	Per Unit
Market Gross Income	98	\$3,134,040	\$2,665 per month	\$3,134,040	\$2,665 per month		
Workforce Income		\$244,800	\$26 per SF	\$244,800	\$26 per SF		
Other Income		\$86,194		\$86,194			
Gross Income		\$3,465,034		\$3,465,034			
Vacancy		(\$173,252)	5.00% vacancy	(\$173,252)	5.00% vacancy		
Effective Gross Income		\$3,291,783		\$3,291,783		\$3,291,783	
Operating Expenses Excl Taxes		(\$736,862)	\$7,519	(\$736,862)	\$7,519	(\$736,862)	\$7,519
RE Taxes / PILOT		(\$715,000)	\$7,296 2nd year	(\$239,673)	\$2,446 2nd year	(\$443,385)	\$4,524 avg. during term
Reserves		(\$44,120)		(\$44,120)		(\$44,120)	
Total Expenses		(\$1,495,982)	\$14,815	(\$1,020,655)	\$9,965	(\$1,224,367)	\$12,494
Net Operating Income		\$1,795,801		\$2,271,127		\$2,067,416	
Debt Service		(\$1,823,436)		(\$1,823,436)		(\$1,823,436)	
Cash Flow		(\$27,636)		\$447,691		\$243,980	
METRICS							
Debt Coverage Ratio		0.98		1.25		1.13	Typical in Market >1.20
Cash on Cash Return		-0.19%		3.11%		1.69%	>6.5%
Yield to Cost Return		4.36%		5.52%		5.02%	>6.5%
Leveraged Pre-Tax IRR Over Term		2.16%		6.91%		6.91%	>12%

IV. BENEFIT SUMMARY

The below analysis shows a net positive public value. The public benefit factors the PILOT increment and value of the ten (10) workforce housing. The project benefit factor savings realized from the PILOT, exemption on the mortgage recording tax, and exemption on the sales tax on building materials.

PILOT VS SAVINGS	
Full IDA Taxes (PILOT) over 15 Years	\$6,650,772
Value of Workforce Housing	\$1,772,000
TOTAL PUBLIC BENEFIT	\$8,422,772
Real Estate Tax Savings Over 15-Year Term	\$4,074,228
Sales Tax Exemption on Building Materials & Equipment	\$1,476,892
Mortgage Recording Tax Exemption	\$247,036
TOTAL PROJECT SAVINGS	\$5,798,156
NET PUBLIC BENEFIT	\$2,624,616



Not captured in the above graph are the new jobs to be created and intangible benefits of the proposed project. The Applicant commissioned an Economic Impact Analysis by Nelson Pope Voorhis (NPV) dated September 30, 2022. The report states that the construction period is anticipated to generate 125 full-time equivalent (FTE) jobs that will last the duration of the 18–24-month construction period. Additionally, the Applicant expects to add two (2) FTE positions in its first year of operations, with salaries averaging \$62,500. The proposed project responds to the need for additional quality housing in the Town of Smithtown, including ten workforce units, and will allow residents aged fifty-five and older to downsize their housing while remaining in the community.

APPENDIX 1: PILOT SCHEDULE

PILOT SCHEDULE							
Fieldstone II at Commack							
Current Taxes	\$35,962					Starting Abatement	75%
Improvement Taxes	\$679,038					PILOT Term	15
"As Improved" (Full) Taxes	\$715,000					Decrease	0.05
Proposed Units	98						
Estimated Taxes/Unit	\$7,296						
Annual Escalator	0.00%						
Operating/PILOT Year	Base Taxes	Improvement Taxes	"As Improved" Full Taxes	Abatement	Savings	PILOT	Increment
1	\$35,962	\$679,038	\$715,000	75.00%	(\$509,279)	\$205,721	\$169,760
2	\$35,962	\$679,038	\$715,000	70.00%	(\$475,327)	\$239,673	\$203,711
3	\$35,962	\$679,038	\$715,000	65.00%	(\$441,375)	\$273,625	\$237,663
4	\$35,962	\$679,038	\$715,000	60.00%	(\$407,423)	\$307,577	\$271,615
5	\$35,962	\$679,038	\$715,000	55.00%	(\$373,471)	\$341,529	\$305,567
6	\$35,962	\$679,038	\$715,000	50.00%	(\$339,519)	\$375,481	\$339,519
7	\$35,962	\$679,038	\$715,000	45.00%	(\$305,567)	\$409,433	\$373,471
8	\$35,962	\$679,038	\$715,000	40.00%	(\$271,615)	\$443,385	\$407,423
9	\$35,962	\$679,038	\$715,000	35.00%	(\$237,663)	\$477,337	\$441,375
10	\$35,962	\$679,038	\$715,000	30.00%	(\$203,711)	\$511,289	\$475,327
11	\$35,962	\$679,038	\$715,000	25.00%	(\$169,760)	\$545,240	\$509,279
12	\$35,962	\$679,038	\$715,000	20.00%	(\$135,808)	\$579,192	\$543,230
13	\$35,962	\$679,038	\$715,000	15.00%	(\$101,856)	\$613,144	\$577,182
14	\$35,962	\$679,038	\$715,000	10.00%	(\$67,904)	\$647,096	\$611,134
15	\$35,962	\$679,038	\$715,000	5.00%	(\$33,952)	\$681,048	\$645,086
TOTAL (Operating Years)	\$539,430	\$10,185,570	\$10,725,000		(\$4,074,228)	\$6,650,772	\$6,111,342
					38% of full taxes	62% of full taxes	
						\$443,385	
						\$4,524 per unit annually	

APPENDIX 2: 15-Year Pro Forma

FIELDSTONE II AT COMMACK																
15-YEAR PRO FORMA																
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Vacancy		20%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Market Gross Income	2.50%	3,057,600	3,134,040	3,212,391	3,292,701	3,375,018	3,459,394	3,545,879	3,634,526	3,725,389	3,818,523	3,913,987	4,011,836	4,112,132	4,214,935	4,320,309
Workforce Gross Income	2.00%	240,000	244,800	249,696	254,690	259,784	264,979	270,279	275,685	281,198	286,822	292,559	298,410	304,378	310,466	316,675
Other Income	2.50%	84,092	86,194	88,349	90,558	92,822	95,142	97,521	99,959	102,458	105,019	107,645	110,336	113,094	115,922	118,820
Gross Income		3,381,692	3,465,034	3,550,436	3,637,949	3,727,624	3,819,516	3,913,679	4,010,169	4,109,045	4,210,365	4,314,190	4,420,582	4,529,604	4,641,323	4,755,803
Vacancy		(676,338)	(173,252)	(177,522)	(181,897)	(186,381)	(190,976)	(195,684)	(200,508)	(205,452)	(210,518)	(215,710)	(221,029)	(226,480)	(232,066)	(237,790)
Effective Gross Income		2,705,354	3,291,783	3,372,914	3,456,051	3,541,243	3,628,540	3,717,995	3,809,661	3,903,593	3,999,847	4,098,481	4,199,553	4,303,124	4,409,257	4,518,013
Operating Expenses Excl Taxes	3.00%	(715,400)	(736,862)	(758,968)	(781,737)	(805,189)	(829,345)	(854,225)	(879,852)	(906,247)	(933,435)	(961,438)	(990,281)	(1,019,989)	(1,050,589)	(1,082,107)
PILOT		(205,721)	(239,673)	(273,625)	(307,577)	(341,529)	(375,481)	(409,433)	(443,385)	(477,337)	(511,289)	(545,240)	(579,192)	(613,144)	(647,096)	(681,048)
Reserves	3.00%	(42,835)	(44,120)	(45,444)	(46,807)	(48,211)	(49,658)	(51,147)	(52,682)	(54,262)	(55,890)	(57,567)	(59,294)	(61,072)	(62,905)	(64,792)
Net Operating Income		1,741,397	2,271,127	2,294,878	2,319,930	2,346,313	2,374,057	2,403,189	2,433,742	2,465,747	2,499,233	2,534,236	2,570,786	2,608,918	2,648,667	2,690,067
Debt Service		(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)	(1,823,436)
Cash Flow		(82,039)	447,691	471,441	496,494	522,877	550,620	579,753	610,306	642,310	675,797	710,800	747,350	785,482	825,231	866,631
Debt Coverage Ratio		0.96	1.25	1.26	1.27	1.29	1.30	1.32	1.33	1.35	1.37	1.39	1.41	1.43	1.45	1.48
Cash on Cash Rate of Return		-0.57%	3.11%	3.27%	3.45%	3.63%	3.82%	4.02%	4.24%	4.46%	4.69%	4.93%	5.19%	5.45%	5.73%	6.01%
Yield to Cost		4.23%	5.52%	5.57%	5.63%	5.70%	5.77%	5.84%	5.91%	5.99%	6.07%	6.16%	6.24%	6.34%	6.43%	6.53%
Valuation Cap Rate	6.00% cap rate															44,834,445
Outstanding Loan Balance																(18,885,287)
Net Sale Proceeds																25,949,158
	Equity															
Benefit Stream	(\$14,410,432)	(82,039)	447,691	471,441	496,494	522,877	550,620	579,753	610,306	642,310	675,797	710,800	747,350	785,482	825,231	26,815,789
Pre-Tax Levered IRR	7%															

STANDARD DISCLOSURE

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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