

International Contractors Corp. and Jam Two, LLC

Application to County of Sullivan
Industrial Development Agency for
Financial Assistance for

Adaptive Reuse of Building at Airport Industrial Park



Benefit/Cost Analysis

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International Contractors Corp. Project Benefit/Cost Analysis

Background:

International Contractors Corp. (together with its affiliate Jam Two, LLC), has applied for assistance for the adaptive reuse of an existing building at the Airport Industrial Park that will be used for relocating an existing roofing business that has outgrown its residential district location (see photo in Appendix) and must relocate for both business operation and zoning reasons. It will reuse, without major exterior alterations, an existing structure located at 46 Industrial Park Road, White Lake, New York (Town of Bethel Section 18, Block 1, Lot 16.3).

Some \$520,000 will be invested in acquiring and equipping the existing building an estimated \$200,000 of which will represent sales taxable equipment and materials. International Contractors Corp. has applied to the County of Sullivan Industrial Development Agency (IDA) for sales tax abatements to assist with this project. The real property value will be set at \$275,000 for purposes of calculating initial payments in lieu of taxes (PILOT) payments. Any new construction will require IDA approval and if the building is expanded in the future, appropriate adjustments to the PILOT will be made.

New York State law governing IDA's requires "an analysis of the costs and benefits of the proposed project." Shepstone Management Company, Inc. has been requested by the IDA to provide such an analysis on an independent basis. This study is designed to compare the economic benefits of the project, including both direct and indirect revenues generated for local and state government, against the costs to these governments for additional services required. Both direct and indirect costs are considered on this side of the equation as well.

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The following is a summary of the findings from this analysis, including supporting materials forming the basis for the conclusion reached.

Methods and Assumptions:

The following methods and assumptions were employed for this analysis of this project:

- 1) The project involves the purchase of the existing building, which will require an estimated \$200,000 in sales taxable material and equipment purchases.
- 2) It is assumed, for purposes of this analysis, that all activities will occur in 2014. It is further assumed the IDA will amend and reinstate the existing PILOT Agreement with the value for PILOT calculation purposes set at \$275,000.
- 3) Data is extrapolated over the period of 2015 through 2025. Sales tax abatements are recorded in 2014 as actual costs. This is a reasonable period to assess the net present value of long-term benefits (new economic activity and governmental revenues) and costs (new governmental expenses) produced.
- 4) Certain special district taxes are not included in the calculations of benefits and costs since IDA tax abatement applies only to ad valorem levies.
- 5) The additional annual costs to local government for providing highway maintenance and other non-educational services in the Town of Bethel are estimated at \$2,115 for each new resident attracted. This is based on an estimated Town of Bethel tax levy of \$4 million with Bethel's share of an

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estimated County tax levy at \$5 million divided by a Town population of 4,255 persons.

The economic benefit in this case consists of the four existing jobs that will be preserved plus two more that are expected to be created. It is assumed one-third of retained and new employees (an estimated two FTE's) will be new to Sullivan County. The applicant should be able to hire mostly local employees given its convenient location within the County and the type of labor required as compared to the available unemployed workforce. Assuming an average household size of 2.45 persons for all households (individuals as well as families), the project will produce one new household, with a cost of approximately \$5,182 annually in non-educational local government services.

It is assumed, based on the *Sullivan County Cost of Community Services Study*, that 82.6% or \$4,283 per household would be covered from taxes paid by the new residents, leaving \$899 per household as the net cost for Town and County services. This is the ratio of costs of services to tax revenues for residential development in the Town of Bethel.

This is to say every new household, viewed independently of the businesses employing its members, theoretically generates a net tax loss for the community. This strict interpretation provides for a conservative analysis of benefits versus costs, but it is also important to remember the commercial ratables would not exist without the employees required to run the business or residential customers for its products. The value of costs of services data is limited to analyzing the likely tax impacts of projects, as it is being used in this instance.

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- 6) It is estimated one-third of the estimated new employees (six retained and new employees are anticipated) will involve new households. Moreover, family households represented some 65% of all Sullivan County households in 2010. This suggests one (actually 1.09) new family household will be generated by the project. There were 14,957 children aged 5-19 years for an average of 0.78 school-age children for each family household according to the Census Bureau. This yields a maximum potential of one new student for the Liberty Central School District, the school system within which the project is located.

The Liberty Central School District, given recent reductions in State Aid, can be expected to incur an estimated average cost per pupil of roughly \$15,000 net of New York State School Aid (based upon School District and New York State Department of Education statistics). This includes special education costs.

A 1.5% per year escalation in these and other costs (as well as benefits) is assumed. It is further assumed property taxes paid by new residents will, once again, cover a minimum of 76.9% of the local share (see No. 5 above).

- 7) Sales taxes attributable to the increased buying power generated by the payroll the facility will produce (at \$40,000 per job average) are calculated on the assumptions 50% of the project payroll will consist of Sullivan County residents, and 25% of such payroll will be spent on taxable items in Sullivan County.

It is further assumed total personal income, including indirect or "spin-off" gains in personal income, will be 1.48 times direct personal income (incorporating the "multiplier effect"). While this is a relatively low economic multiplier for a rural area where single projects can have great impacts, it is based on Cornell

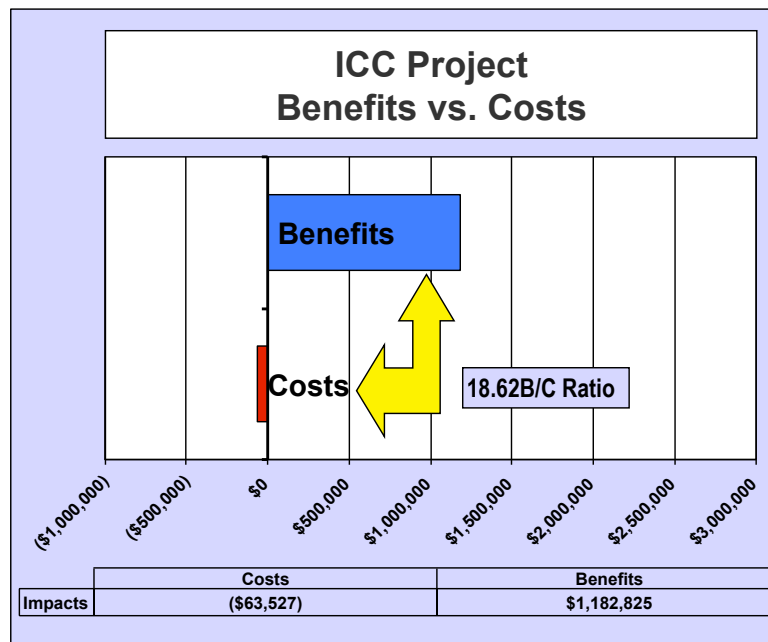
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Cooperative Extension and U.S. Department of Commerce data regarding the input and output of New York State service industries. It was determined to use this conservative approach, rather than speculate as to higher multipliers.

- 8) Cash flow streams from benefits and costs are net present valued using a discount rate of 5%. Net present value figures include actual costs of abatements and other costs for 2014 plus discounted values for 2015-2025.

Conclusion:

This project will generate a positive benefit/cost ratio of 18.62 on a net present value basis. The chart and table following provide a summary of the benefit/cost analysis and illustrate the results. The more important fact, however, is that this business needs to relocate to stay competitive, expand and stay within zoning requirements.



International Contractors Corp. Project Benefit/Cost Analysis

International Contractors Corp. Project Cost/Benefit Analysis	
Costs (2014-2035)	
Sales Tax Abatements (County)	\$8,000
Sales Tax Abatements (State)	\$8,000
Mortgage Tax Abatements	\$0
Real Property Tax Reductions Net of 485-b Benefits	\$0
Sub-Total (Value of All Abatements) =	\$16,000
Net Present Value of Abatements*	\$16,000
Additional School Costs	\$23,558
Variable Highway & Other Municipal Costs	\$23,969
Total Costs (Net Present Value)=	\$63,527
Benefits (Net Present Value, 2012-2035)	
Property Taxes/PILOT	\$71,381
Sales Taxes (General - From Gains in Buying Power)	
County	\$21,374
State	\$21,374
Sub-Total (Taxes/Charges) =	\$114,129
Personal Income Gains Related to New/Retained Jobs	\$722,092
Personal Income Gains Related to Multiplier Effects	\$346,604
Sub-Total (Income Gains) =	\$1,068,696
Total Benefits =	\$1,182,825
Gross Excess Benefits Over Costs =	\$1,119,299
Benefits to Costs Ratio =	18.62

APPENDIX

Economic Analysis of International Contractors Corp. Project and Requested Tax Abatement Program									
DESCRIPTION	FISCAL YEAR	2014	2015	2016	2017	2018	2019	2020	2021
		1	2	3	4	5	6	7	8
Sales Tax Abatement		\$16,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mortgage Tax Abatement		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Real Property Tax Abatement		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Highway/Other Costs		\$3,385	\$3,033	\$3,033	\$3,033	\$3,033	\$3,033	\$1,802	\$1,802
School Costs		\$0	\$2,649	\$2,689	\$2,729	\$2,770	\$2,811	\$2,854	\$2,896
Real Property Taxes		\$0	\$8,511	\$9,070	\$9,645	\$10,234	\$10,839	\$6,251	\$6,599
Personal Income - New/Retained Jobs		\$0	\$81,192	\$82,410	\$83,646	\$84,901	\$86,174	\$87,467	\$88,779
Indirect Income Benefits		\$0	\$38,972	\$39,557	\$40,150	\$40,752	\$41,364	\$41,984	\$42,614
Added Sales Tax (General)		\$0	\$4,807	\$4,879	\$4,952	\$5,026	\$5,102	\$5,178	\$5,256
Economic Analysis of International Contractors Corp. Project and Requested Tax Abatement Program									
DESCRIPTION	FISCAL YEAR	2022	2023	2024	2025	TOTALS			
		9	10	11	12	Actual		NPV	
Sales Tax Abatement		\$0	\$0	\$0	\$0	\$16,000		\$16,000	
Mortgage Tax Abatement		\$0	\$0	\$0	\$0	\$0		\$0	
Real Property Tax Abatement		\$0	\$0	\$0	\$0	\$0		\$0	
Highway/Other Costs		\$1,802	\$1,802	\$1,802	\$2,294	\$29,852		\$23,969	
School Costs		\$2,940	\$2,984	\$3,029	\$3,074	\$31,424		\$23,558	
Real Property Taxes		\$6,955	\$7,321	\$7,696	\$10,775	\$93,895		\$71,381	
Personal Income - New/Retained Jobs		\$90,110	\$91,462	\$92,834	\$94,226	\$963,201		\$722,092	
Indirect Income Benefits		\$43,253	\$43,902	\$44,560	\$45,229	\$462,336		\$346,604	
Added Sales Tax (General)		\$5,335	\$5,415	\$5,496	\$5,578	\$57,021		\$42,748	

Existing Location in Residential District

