Lifestyle Management Center

Benefit/Cost Analysis

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1.0 Background

Veria Lifestyle, Inc. proposes to develop a destination wellness center at the site of the former Kutsher's Hotel and Golf Resort in the Town of Thompson, Sullivan County, New York. The facility will be branded as a "Veria Lifestyle Management Center," described as a unique luxury center focused on natural health and wellness.

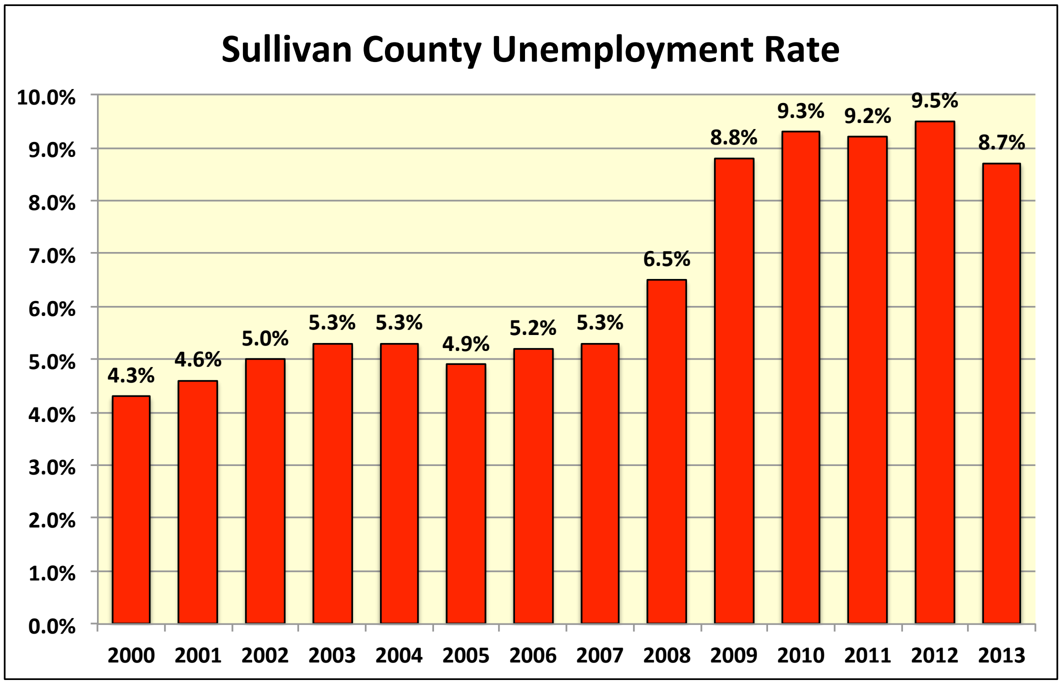
Development of the existing 1,310 acre property (some 22 parcels) into a new wellness center will include:

- A 130+room facility with the future possibility of expanding later.
- Multiple organic and biodynamic food and beverage venues
- Various exercise facilities
- An 18-hole championship golf course
- Indoor and outdoor swimming pools (see cover for typical indoor version)
- A museum celebrating natural wellness, nature cure, and Ayurveda practices
- A Nature Cure Wellness Center featuring diagnostic, holistic treatment and educational components

The center's services will also include "a customized wellness program for guests, developed by in-house, trained wellness experts, who will focus on the individual needs of each guest, which will enable every guest to have unique personalized attention, treatment, and rejuvenation."

Approximately $70 million will be invested in building renovations and new construction related to creating the proposed wellness center.

The Sullivan County economy has experienced considerable economic difficulties over the last several years, following a long decline of the traditional Catskill lodging industry that, it is hoped, will be reversed with the recent approval of a new casino and more projects such as this proposed Veria Lifestyle Center. Total employment in 2013 averaged only 30,600 persons in 2013, according to the New York State Department of Labor. This was below the 31,700 employed persons average for 2000, illustrating the need for new investment. The recent economic recession, in fact, produced very high unemployment within Sullivan County, which is reflected in the chart below:



Inflation adjusted payroll data from the Census Bureau's County Business Patterns site shows the 2012 payroll related to Sullivan County workers employed in the "arts, entertainment & recreation" and "accommodations & food service" sectors that define the bulk of its tourism was less than 40% of what it was in 1998.

Moreover, the number of first quarter employees declined by 39% and the number of business establishments is still below where it was in 1998. There has been no significant pattern of tourism growth in Sullivan County of recent until the announcement of the approval of the new casino at the site of the former Concord Hotel.

Therefore, any tourism and development connected with the Veria Lifestyle Center will be extremely important to reviving this once famous part of Sullivan County's economy and would have the potential to build on the new investments surrounding the casino project.

While some $70 million will be invested in the new facility, much of this represents non-taxable costs. It is anticipated, considering equalization rates and other factors, that the Town of Thompson will assess the facilities for approximately $46.2 million when all phases are completed. It is also anticipated the facilities will involve an investment of $45.5 million in sales taxable equipment and materials (much of which is not taxable as real property). Veria Lifestyle, Inc. has applied to the County of Sullivan Industrial Development Agency (IDA) for real property, sales and mortgage tax abatements to assist with this project.

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.

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

2.0 Basic Methods and Assumptions

The following are the specific methods and the key assumptions employed in this analysis:

1) The project development cost is estimated at $70 million, of which taxable real property represents an estimated $46.2 million assessed value (at 88% equalization value) after deducting furniture, fixtures, equipment and soft costs. Furniture, fixtures, equipment combined with the sales taxable materials portion of the hard costs are estimated at $45.5 million. Labor costs are estimated at $29.75 million or 50% of total hard costs.

2) It is assumed, for purposes of this analysis, that all construction activity will occur in 2015.

3) Overall economic impacts are analyzed over a 21-year period of 2015-2035. This period is based on the construction period plus a reasonable period for assessing the net present value of long-term benefits (additional economic activity and governmental revenues generated) and long-term costs (additional governmental expenses) produced as a result of the project.

4) Construction impacts and jobs have not been calculated for purposes of this analysis as these are temporary benefits. Veria Lifestyle Center's projected, when completed and fully operational, should produce an estimated 200 direct jobs. Applying a conservative 1.50 employment multiplier suggests the project can be expected to generate a another 100 indirect and induced jobs. These indirect and induced jobs are a result of the spinoff or multiplier effects of the payroll expenditures within the region.

5) Labor income is estimated at the applicant at $50,000 per job average, which includes fringes and other extras.

6) Sales taxes attributable to the increased buying power generated by the construction and permanent payrolls the facility will produce are calculated on the assumptions that

50% of the project payroll will consist of Sullivan County residents, that 50% of such payroll will be spent on taxable items in Sullivan County.

7) The applicant is not applying for mortgage tax abatement.

8) Special district taxes are not included in the calculations of benefits and costs since IDA tax abatement applies only to ad valorem levies.

9) It is assumed Veria Lifestyle Center will make a PILOT payment equal to current real property taxes during the construction period with no impact on benefits or costs.

10) Real property tax abatement will be provided according to the Real Property Tax Abatement Schedule depicted in the table to the right. This abatement schedule is application to destination projects of the nature proposed in this instance and covers a 16-year period from beginning to end (2015-2031 in this instance), over which time, real property taxes are effectively phased in under a Payment In Lieu of Taxes (PILOT) agreement through the IDA while the property remains under its ownership, such that taxing jurisdictions receive the equivalent of real property taxes. The analysis in this case is also extended an additional five years (to 2035) to allow sufficient time to reflect certain post-PILOT benefits and costs and provide a realistic assessment of the full economic picture.

Real Property Tax General Abatement Schedule

Year	% Abated	PILOT %
1	100.00%	0.00%
2	100.00%	0.00%
3	100.00%	0.00%
4	100.00%	0.00%
5	100.00%	0.00%
6	100.00%	0.00%
7	100.00%	0.00%
8	100.00%	0.00%
9	87.50%	12.50%
10	75.00%	25.00%
11	62.50%	37.50%
12	50.00%	50.00%
13	37.50%	62.50%
14	25.00%	75.00%
15	12.50%	87.50%
16	0.00%	100.00%

11) Sewage treatment and water supply will be subject to separate municipal agreements and not be abated or represent any uncompensated added cost.

12) The additional annual costs to local government for providing highway maintenance and other non-educational services in the Town of Thompson are generally estimated at $1,197 for each new resident attracted although more specific costs are addressed in Section 6.0. This is based on an estimated Town of Thompson budget of $7.0 million (2013 levy adjusted for special district expenditures and inflation and an estimated County budget funded from within the town of $11 million similarly adjusted, divided by the Town population of 15,308 persons.

It is assumed one-half of the Sullivan County employees will be new to the county. However, the applicant should be able to hire many 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 in 2010), the project will produce 150 new households and 368 persons (assuming one new household per new Sullivan County employee), with a cost of approximately $2,993 annually in non-educational local government services.

It is assumed, based on the Sullivan County Cost of Community Services Study, that 76.9% or $2,256 per household would be covered from taxes paid by the new residents, leaving $677 per household as the net cost for Town of Thompson and Sullivan County services. This is the ratio of costs of services to tax revenues for residential development in the Town of Thompson.

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.

13) It is estimated one-fourth or 75 of the estimated new employees (300 total new direct/indirect employees are anticipated) will involve new households to Sullivan County. Assuming this and an average of 0.48 children per household (Census 2010), this would mean an additional 36 students, and increase that would still leave total enrollment well below the Monticello Central School District's enrollment of over 3,300 students just a few years ago. This is the estimated high-end number of potential new students for this district, the school system within which the project is located.

The Monticello Central School District and others in the area have, in fact, experienced roughly 10% declines in enrollment, which have caused considerable budgetary distress and forced the Monticello District to shutter classrooms. The district's most recent budget (2015-16) is $82.6 million to serve roughly 3,000 students, or $27,500 per student, approximately $10,650 of which comes from the State.

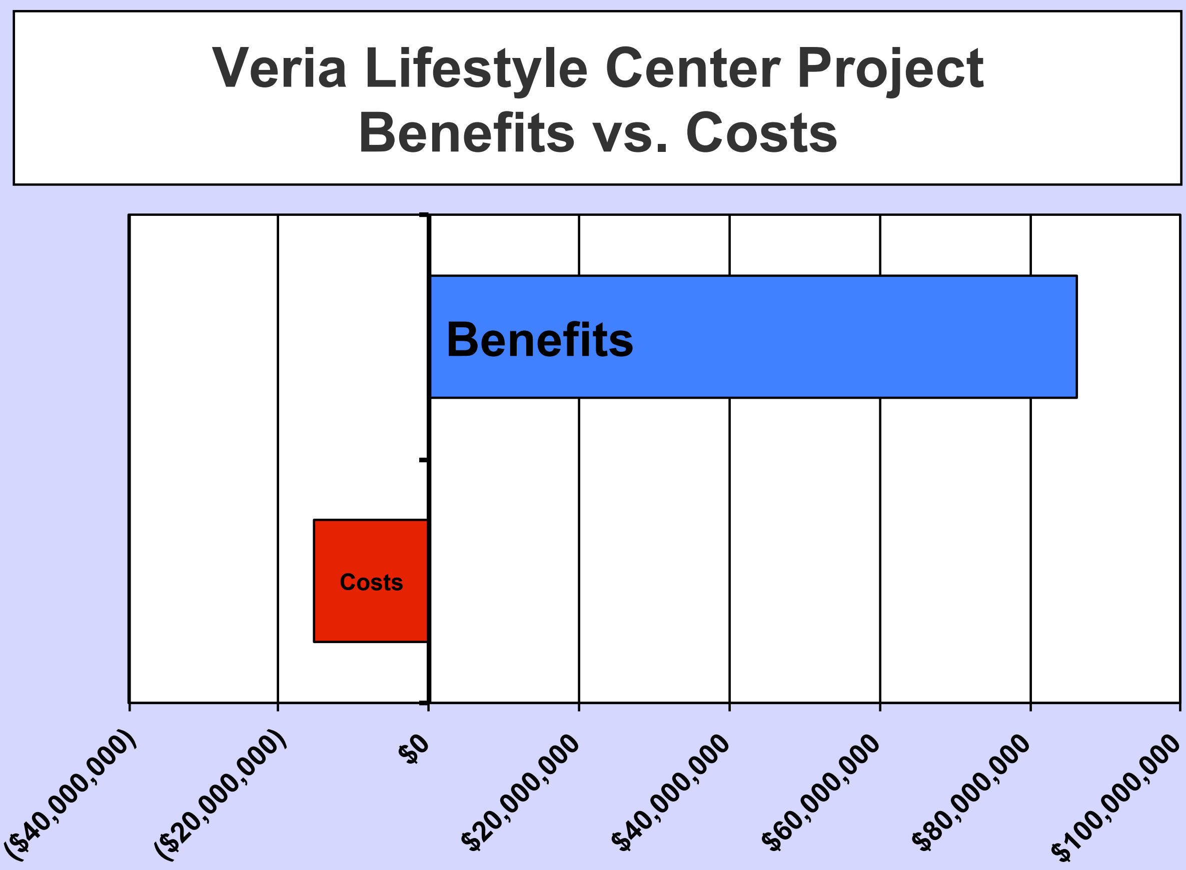
Costs per student have until this most recent year risen significantly as a consequence of having fewer students over which to spread overhead expenses and declining state aid linked to enrollment. A 1.5% per year escalation in these and other costs (as well as benefits) is assumed. It is further assumed property taxes paid by new residents will, once again, cover a minimum of 76.9% of the local share (see No. 12 above).

14) It is assumed there will ultimately be 130 rooms of lodging. It is further assumed the facility will achieve a 65% occupancy rate and average daily room rate of $150, to which a Sullivan County room tax rate of 5% will apply. It is also expected the project will generate additional sales taxable income from room rentals as well as an estimated minimum of $1 million annually in ancillary activities (e.g., dining, concessions, etc.).

15) All benefits and costs are net present valued over the full analysis period (2015-2035) using a discount rate of 2.336%, which is the average interest rate on US public debt as of June, 2015. Tax benefits and costs are those above and beyond what is already legally permitted under Section 485.b of the Real Property Law.

3.0 Conclusions

Given the preceding analyses, a detailed comparison of benefits and costs was prepared using the standard approach applied to other Sullivan County Industrial Development Agency projects. This indicates the project will generate a positive benefit/cost ratio of 5.63 for the County on a net present value basis, without counting the considerable benefits associated with construction activity in this instance. The tables and charts following provide a summary of the benefit/cost analysis and illustrate the results.



	Costs	Benefits
Impacts	($15,312,028)	$86,236,937

Veria Lifestyle Center Project Cost/Benefit Analysis

Costs (2015-2036)	
Sales Tax Abatements (County)	$1,820,000
Sales Tax Abatements (State)	$1,820,000
Mortgage Tax Abatements	$0
Real Property Tax Reductions Net of 485-b Benefits	$11,704,067
Sub-Total (Value of All Abatements) =	**$15,344,067**
Net Present Value of Abatements	$12,202,075
Additional School Costs	$2,395,911
Variable Highway & Other Municipal Costs	$714,042
Total Costs (Net Present Value)=	**$15,312,028**
Benefits (Net Present Value, 2015-2036)	
Real Property Taxes	$7,120,794
Sales Taxes (General - From Gains in Buying Power)	
County	$2,287,656
State	$2,287,656
Sales Taxes (From Operations)	
County	$3,258,535
State	$3,258,535
Room Taxes	$10,832,349
Sub-Total (Taxes/Charges) =	**$29,045,526**
Personal Income Gains Related to New/Retained Jobs	$36,197,095
Personal Income Gains Related to Multiplier Effects	$20,994,315
Sub-Total (Income Gains) =	**$57,191,411**
Total Benefits =	**$86,236,937**
Excess Benefits Over Costs =	**$70,924,909**
Benefits to Costs Ratio =	**5.63**

Economic Analysis of Veria Lifestyle Center Project and Requested Tax Abatement Program

DESCRIPTION / FISCAL YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	C1	1	2	3	4	5	6	7	8	9	10	11
Sales Tax Abatement	$3,640,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Mortgage Tax Abatement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Real Property Tax Abatement	$0	$924,691	$778,374	$855,887	$935,550	$1,017,411	$1,101,516	$1,187,917	$1,099,347	$1,007,853	$913,367	$741,654
Highway/Other Costs	$0	$50,756	$51,517	$52,290	$53,074	$53,871	$54,679	$55,499	$56,331	$57,176	$58,034	$58,904
School Costs	$0	$170,308	$172,862	$175,455	$178,087	$180,758	$183,470	$186,222	$189,015	$191,850	$194,728	$197,649
Real Property Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$177,314	$359,947	$548,020	$741,654
Personal Income - New/Retained Jobs	$0	$2,537,500	$2,614,196	$2,653,409	$2,693,210	$2,733,608	$2,774,612	$2,816,231	$2,858,475	$2,901,352	$2,944,872	$2,989,045
Indirect Income Benefits	$0	$1,471,750	$1,516,234	$1,538,977	$1,562,062	$1,585,493	$1,609,275	$1,633,414	$1,657,915	$1,682,784	$1,708,026	$1,733,646
Added Sales Tax (General)	$0	$320,740	$330,434	$335,391	$340,422	$345,528	$350,711	$355,972	$361,311	$366,731	$372,232	$377,815
Added Sales Tax (Operations)	$0	$456,862	$470,670	$477,730	$484,896	$492,170	$499,552	$507,046	$514,651	$522,371	$530,207	$538,160
Room Tax	$0	$478,607	$493,073	$500,469	$507,976	$515,596	$523,330	$531,180	$539,148	$547,235	$555,443	$563,775

Economic Analysis of Veria Lifestyle Center Project and Requested Tax Abatement Program

DESCRIPTION / FISCAL YEAR	2027	2027	2028	2029	2030	2031	2032	2033	2034	2035	TOTALS	
	12	12	13	14	15	16	17	18	19	20	Actual	NPV
Sales Tax Abatement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,640,000	$3,640,000
Mortgage Tax Abatement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Real Property Tax Abatement	$564,584	$382,035	$193,883	$0	$0	$0	$0	$0	$0	$0	$11,704,067	$8,562,075
Highway/Other Costs	$59,788	$60,685	$61,595	$62,519	$63,457	$64,409	$65,375	$66,355	$67,351	$68,361	$1,173,666	$714,042
School Costs	$200,614	$203,623	$206,677	$209,777	$212,924	$216,118	$219,360	$222,650	$225,990	$229,380	$3,938,138	$2,395,911
Real Property Taxes	$940,973	$1,146,105	$1,357,180	$1,574,329	$1,597,944	$1,621,913	$1,646,241	$1,670,935	$1,695,999	$1,721,439	$15,078,555	$7,120,794
Personal Income - New/Retained Jobs	$3,033,881	$3,079,389	$3,125,580	$3,172,464	$3,220,051	$3,268,352	$3,317,377	$3,367,138	$3,417,645	$3,468,909	$59,518,387	$36,197,095
Indirect Income Benefits	$1,759,651	$1,786,046	$1,812,836	$1,840,029	$1,867,629	$1,895,644	$1,924,079	$1,952,940	$1,982,234	$2,011,967	$34,520,665	$20,994,315
Added Sales Tax (General)	$383,483	$389,235	$395,073	$400,999	$407,014	$413,120	$419,316	$425,606	$431,990	$438,470	$7,523,124	$4,575,313
Added Sales Tax (Operations)	$546,232	$554,426	$562,742	$571,183	$579,751	$588,447	$597,274	$606,233	$615,326	$624,556	$10,715,929	$6,517,070
Room Tax	$572,232	$580,815	$589,527	$598,370	$607,346	$616,456	$625,703	$635,088	$644,615	$654,284	$11,225,986	$6,827,270