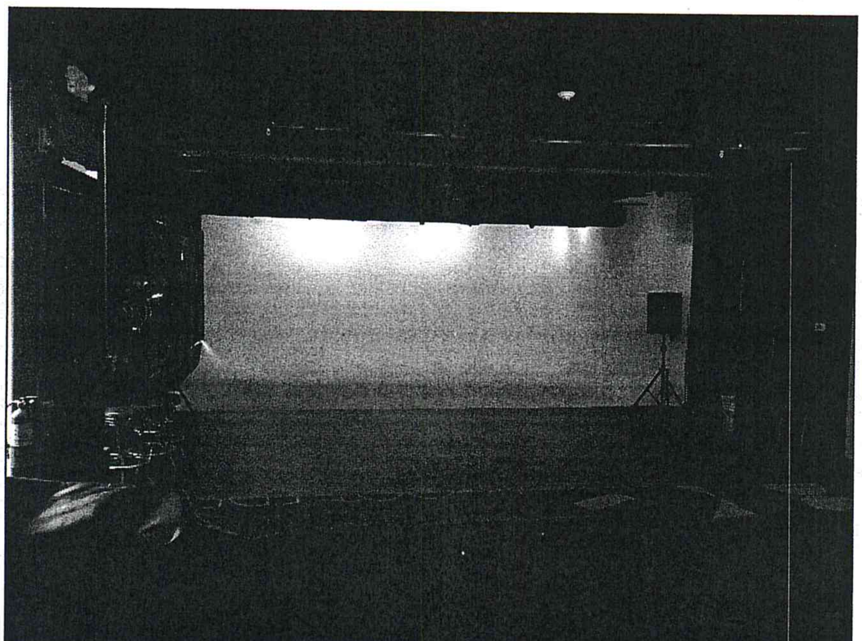
RJ Baker Corp.

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

Beaverkill Studio Project



Benefit/Cost Analysis

Prepared by:

Shepstone Management Company, Inc.
Planning & Research Consultants
100 Fourth Street Honesdale, PA 18431
(570) 251-9550 FAX 251-9551
www.shepstone.net
smc@shepstone.net

November, 2015

Beaverkill Studio Project
Benefit/Cost Analysis

Background:

RJ Baker Corp., doing business as Beaverkill Studio, has applied for financial assistance for the redevelopment/renovation of two properties in the Town of Liberty (Tax Map Parcels 7.-8-7 and a 7.-8-8). The project involves the continued renovation and equipping of the existing studio as well as the improvement and re-use of an existing adjoining restaurant as part of a unique "shoot, edit and stay" concept that combines lodging with film and media production.

The combined properties are currently assessed at a market value of $233,100, which reflects the value of renovations made to date (a $73,400 market value with respect to Parcel 7-8-7 and a $160,100 market value on Parcel 7-8-8). Additionally, it is estimated approximately $750,000 will be invested in redeveloping, renovating and equipping the properties, of which an estimated $250,000 will represent sales taxable equipment purchases and another $250,000 represents the materials costs associated with $500,000 of building renovations. RJ Baker Corp. has applied to the County of Sullivan Industrial Development Agency (IDA) for real property and sales tax abatements to assist with this project.

Beaverkill Studio Project
Benefit/Cost Analysis

New York State law governing IDAs 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.

Beaverkill Studio Project
Benefit/Cost Analysis

Methods and Assumptions:

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

1) The project involves the renovation of the existing property which will require an estimated $500,000 in sales taxable material and equipment purchases ($250,000 each for equipment and the materials share of building renovations).

2) It is assumed, for purposes of this analysis, that all activities will occur in 2016. It is further assumed the IDA will approve a standard PILOT Agreement (50% of taxes, escalating by 2.5% per year), the PILOT to apply to a combination of the assessed market value of existing improvements plus the estimated costs of proposed improvements times the 83% equalization rate for the Town of Liberty.

3) It is assumed there will be a $500,000 mortgage to which mortgage tax abatement will apply.

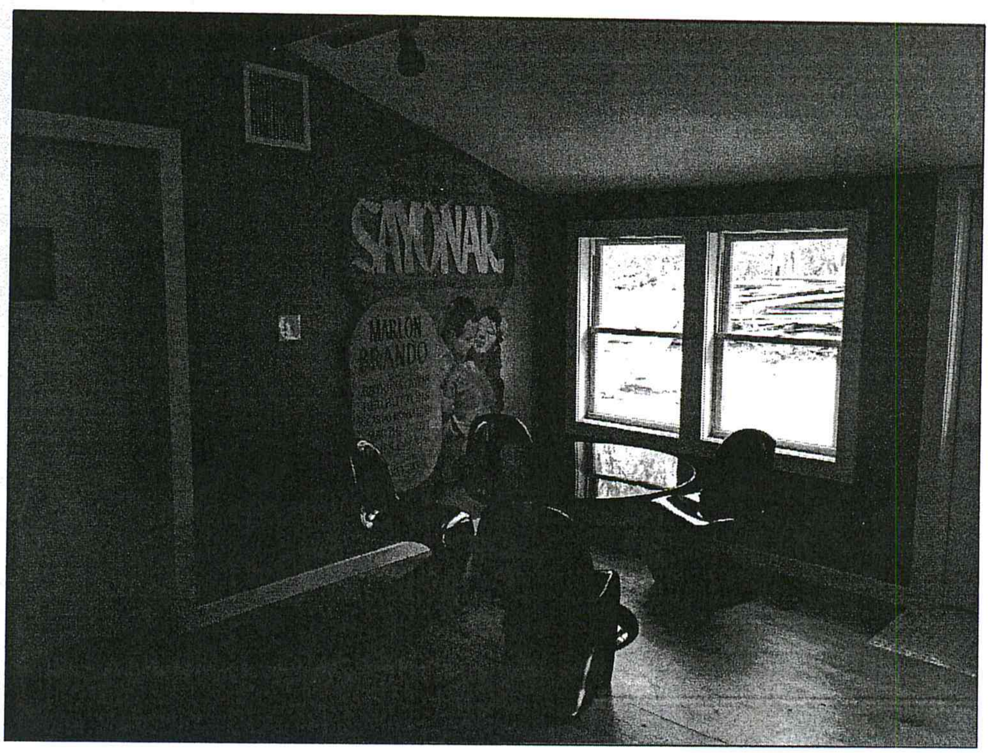
4) It is anticipated the Beaverkill Studio project will create three full-time jobs with salaries averaging $50,000 per year.

Restaurant to be incorporated into Beaverkill Studio operation

5) The additional annual costs to local government for providing highway maintenance and other non-educational services in the Town of Liberty are estimated at $2,182 for each new resident attracted ($5,345 per household). This is based on an estimated county and town tax levy of $12,000,000, divided by a Town of Liberty population of roughly 5,500 persons.

It is assumed 25% of employees or up to one person will be new to Sullivan County. Further applying an employment multiplier of 1.48 (the Department of Commerce estimated Sullivan County multiplier for performance industries), the project will produce 1-2 new households (3 jobs x 25% new households x 1.48), with a cost of approximately $5,345 annually in non-educational local government services each.

It is assumed, based on the *Sullivan County Cost of Community Services Study*, that 75.8% or $4,050 per household would be covered from taxes paid by the new residents, leaving $1,296 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 Liberty.



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.

6) School costs are based on the 0.48 children per household average for Sullivan County times a total costs (including state aid) of $25,200 per student, which is the average for the Liberty Central School District where the project is located.

7) Sales taxes attributable to the increased buying power generated by the new payroll the facility will produce are included among benefits the project will create.

8) Cash flow streams from benefits and costs are net present valued using a discount rate of 2.37% (<u>current interest rate on the public debt</u>). Net present value figures include actual costs of abatements and other costs for 2015 plus discounted values for 2016-2036.

Conclusion:

This project will generate costs of $93,687 in mortgage, real property and sales tax abatements over the period of the standard PILOT agreement or 21 years. Net present valued this equates to a total cost of $83,565. There are an additional estimated

$58,722 of school costs and $25,950 of highway and related costs over this same period (net present valued), bringing total costs to $168,237.

The project benefits consist of the new real property taxes that will be generated ($238,880), the payroll gains ($1,030,704) and the sales taxes from those payroll gains ($82,456), which are estimated to total $1,352,041 over the 21 years at net present value.

This yields a positive benefit/cost ratio of 8.04.