

Doetsch Family II, LLC

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

Seminary Hill Ciders Project



Benefit/Cost Analysis

Prepared by:

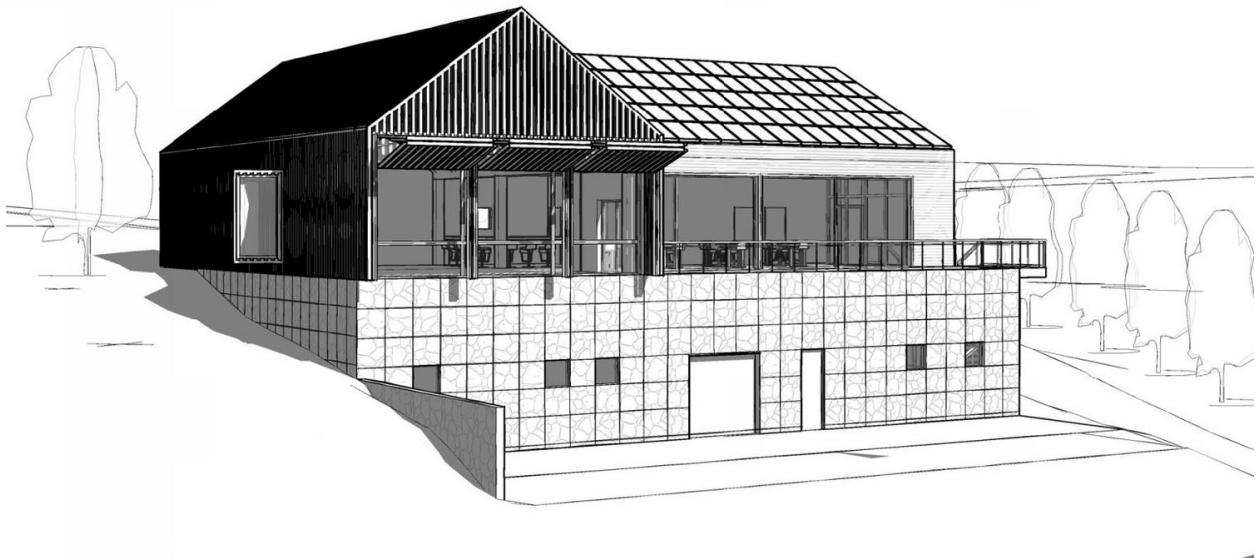
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Background:

Doetsch Family II, LLC has applied for financial assistance for the development of a nearly 60 acre property located on Wagner Lane in the Town of Delaware (Tax Map Parcel 12-1-13.5) overlooking the hamlet of Callicoon. The project involves the development of a cider mill (pictured below) and marketing facility to be known as Seminary Hill Ciders which will produce a variety of high quality craft hard ciders made from heirloom and European cider apples. The project will take advantage of legislation recently enacted by New York State to encourage development of New York's hard cider industry, as well as the increasing market for craft cider.



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Seminary Hill Cider will sell its cider primarily to retail stores and restaurants in New York City and the New York metropolitan region, as well as in New York State generally. During its first few years of production, Seminary Hill will produce 6 - 10 different hard ciders per year that will be made from apples grown on two orchard properties owned by the Doetsch family in Callicoon. Plans also include the building of a tasting room that will sell directly to tourists, weekenders and locals at its orchard location in Callicoon.

It is estimated \$2,575,000 will be invested in capital improvements will be involved, of which an estimated \$1,287,500 will represent sales taxable purchases and materials costs associated with the project. There will also be an estimated \$270,000 in furniture, fixtures and equipment. Equipment used in production (an estimated \$380,000) is assumed to be non-taxable. Real property is currently assessed at market value in the Town of Delaware, yielding a total assessed value of \$2,575,000. Doetsch Family II, LLC has applied to the County of Sullivan Industrial Development Agency (IDA) for real property, mortgage and sales tax abatements to assist with bringing this project to completion.

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.

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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 the analysis of this project:

- 1) This new construction project involves an estimated \$1,557,500 in sales taxable material and fixtures and equipment (FF&E) purchases, the former amounting to \$1,287,500 or 50% of construction and the latter being an estimated \$270,000 for as estimated by the applicant in its pro forma financials.

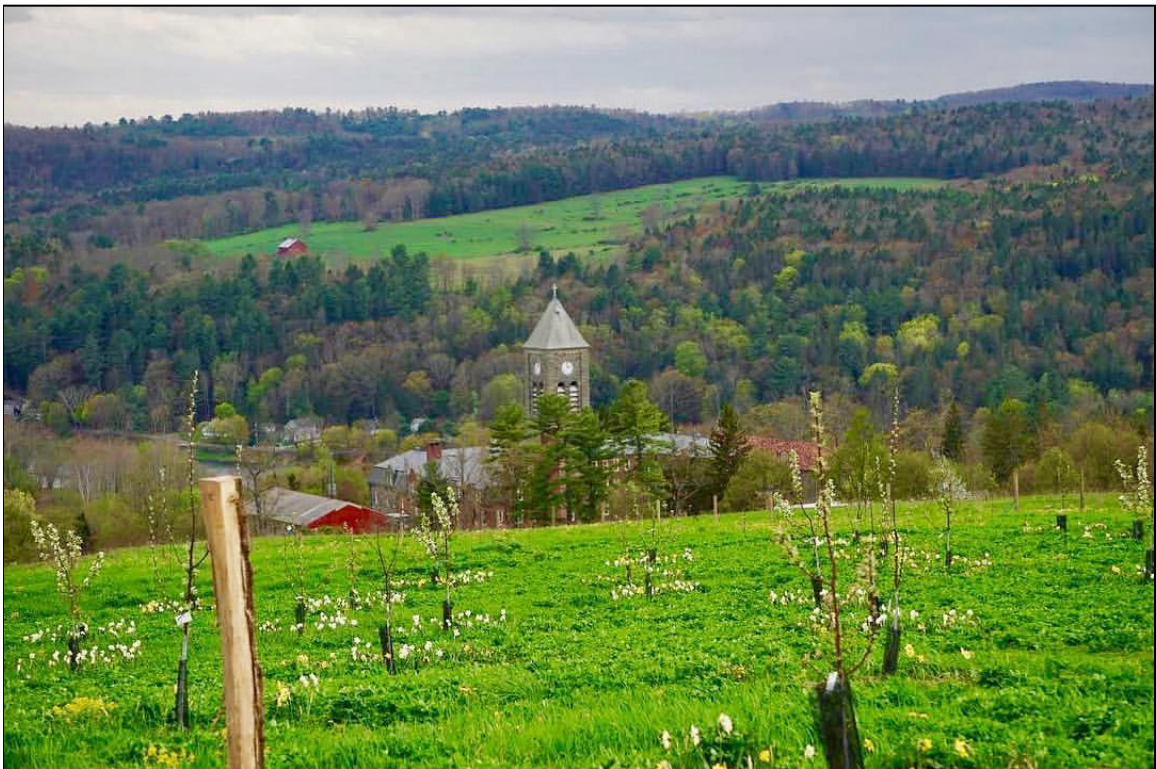
- 2) It is assumed, for purposes of this analysis, that all Seminary Hill Ciders construction activities will occur in 2018. It is further assumed the IDA will approve a PILOT Agreement under the Sullivan County IDA's [Uniform Tax Exemption Policy Agricultural Industry Program \(§301.d\)](#); the PILOT to apply to the estimated costs of developing the real property.

The applicable PILOT schedule is detailed in the table to the right.

Agricultural Industry Program 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	90.00%	10.00%
7	80.00%	20.00%
8	70.00%	30.00%
9	60.00%	40.00%
10	50.00%	50.00%
11	40.00%	60.00%
12	30.00%	70.00%
13	20.00%	80.00%
14	10.00%	90.00%
15	0.00%	100.00%

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- 3) It is assumed there will be a \$1,000,000 mortgage to which mortgage tax abatement will apply (assuming a mortgage equal to 80% of the estimated hotel construction cost).
- 4) It is anticipated the Doetsch Family II, LLC project will create four full-time equivalent jobs during the first year of operation, increasing to 12.5 jobs in the fifth year, with salaries averaging \$45,200 per year.



- 5) The additional annual costs to local government for providing highway maintenance and other non-educational services in the Town of Delaware are estimated at \$1,520 for each new resident attracted (\$3,800 per household). This is based on an estimated county and town tax levy of \$3,886,991 based on

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2015 figures plus 4.5% (some 1.5% per year since 2015), divided by a Town of Delaware population of roughly 2,557 persons.

It is assumed one-third of employees or up to four persons will be new to Sullivan County. Further applying an employment multiplier of 1.837 (the estimate output multiplier for New York State locally sourced wineries according to a [2013 University of Minnesota study](#)), the project will produce a maximum of two new households (12.5 jobs x 33% new households x 31% family households x 1.837), with a cost of approximately \$3,800 annually in non-educational local government services each.



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It is assumed, based on the *Sullivan County Cost of Community Services Study*, that 78.1% or \$2,969 per household would be covered from taxes paid by the new residents, leaving \$831 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 Delaware.

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 0.40 children per household average for Sullivan County in 2016 times a total costs (net of state aid) of an \$16,500 per student, which is the latest estimated average figure for the Sullivan West School District where the project is located (real estate levy net of state aid with adjustment for inflation divided by estimated 1,050 enrollment). A maximum of one additional students is projected.
- 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, along with sales taxes based on projected retail sales ranging from \$1.15 million to \$2.75 million over the period examined.

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- 8) Cash flow streams from benefits and costs are net present valued using a discount rate of 2.347% ([current interest rate on the public debt](#)). Net present value figures include actual costs of abatements and other costs for 2018 plus discounted values for 2019-2038.
- 9) Real property tax rates are as follows:

Town of Delaware Tax Rates		
Tax Category	Rate (Before Equalization)	% of Market Value
Medicaid	2.963607	0.30%
NYS Welfare Mandates	0.933081	0.09%
Other NYS Mandates	2.520815	0.25%
County Levy	1.692220	0.17%
County Total	8.109723	0.81%
Town to Highway	6.110703	0.61%
Town Total	6.110703	0.61%
Combined Total	14.220426	1.42%

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Conclusion:

This project will generate costs of \$673,108 in mortgage, real property and sales tax abatements over the period of the standard PILOT agreement. Net present valued this equates to a total cost of \$598,700. There are an additional estimated \$32,938 of school costs and \$224,172 of highway and related costs over this same period (net present valued), bringing total costs to \$875,810.

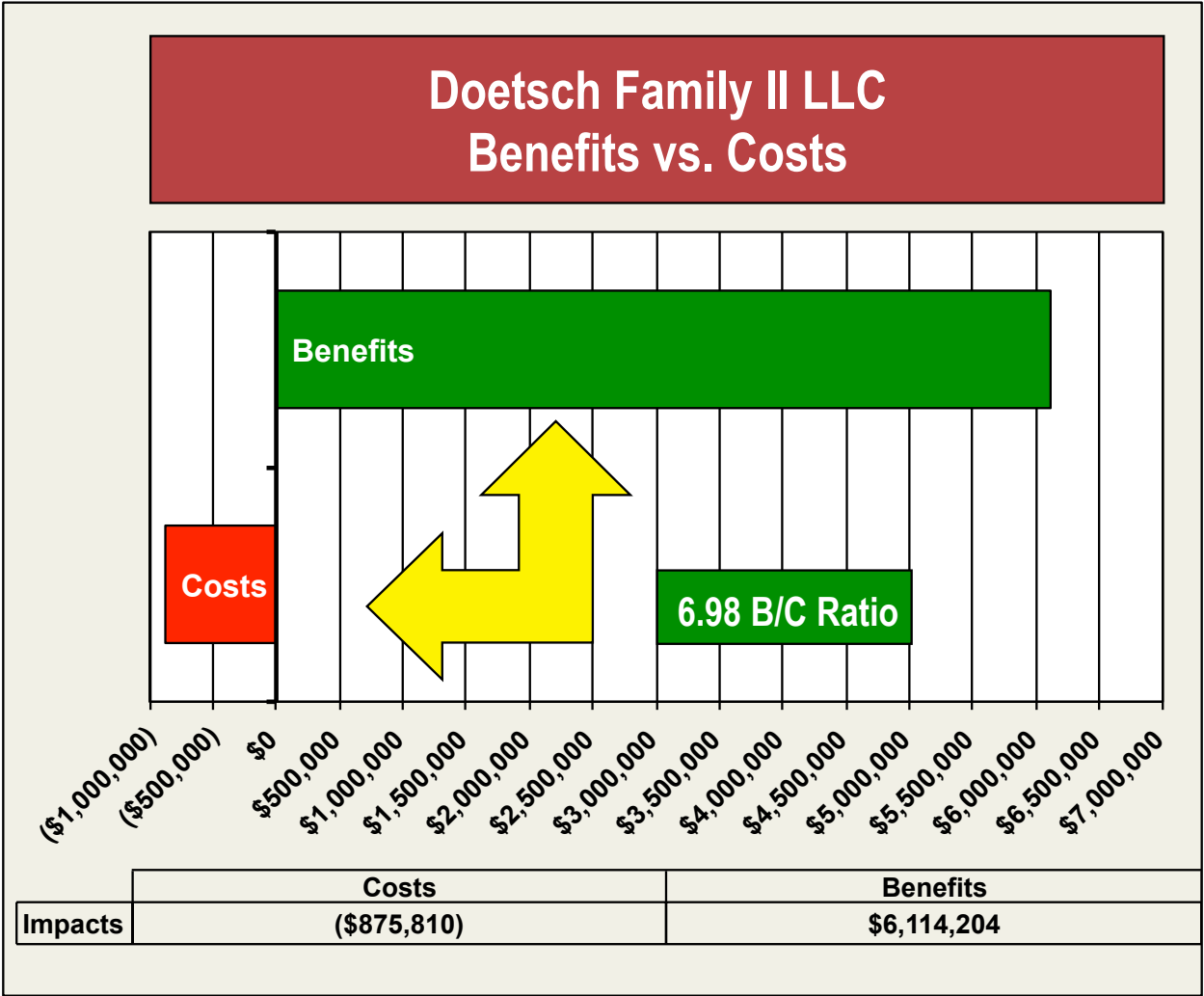
The project benefits consist of new real property taxes to be generated (\$296,827), the payroll gains (\$4,080,703), the sales taxes from those payroll gains (\$81,614) and the sales taxes from operations (\$2,033,501) which, at net present value, totals \$6,114,204 combined over the analysis period.

This yields a positive benefit/cost ratio of 6.98.

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Doetsch Family II LLC Cost/Benefit Analysis	
Costs (2018-2038)	
Sales Tax Abatements (County)	\$62,300
Sales Tax Abatements (State)	\$62,300
Mortgage Tax Abatements	\$10,000
Real Property Tax Reductions Net of 485-b Benefits	\$538,508
Sub-Total (Value of All Abatements) =	\$673,108
Net Present Value of Abatements*	\$598,700
Additional School Costs	\$32,938
Variable Highway & Other Municipal Costs	\$244,172
Total Costs (Net Present Value)=	\$875,810
Benefits (Net Present Value, 2018-2038)	
Property Taxes	\$296,827
Sales Taxes (General - From Gains in Buying Power)	
County	\$81,614
State	\$81,614
Sales Taxes (From Operations)	
County	\$786,723
State	\$786,723
Sub-Total (Taxes/Charges) =	\$2,033,501
Personal Income Gains Related to New/Retained Jobs	\$2,221,395
Personal Income Gains Related to Multiplier Effects	\$1,859,308
Sub-Total (Income Gains) =	\$4,080,703
Total Benefits =	\$6,114,204
Gross Excess Benefits Over Costs =	\$5,238,394
Net of Abatements "Costs" and Income Gains=	\$1,756,391
Benefits to Costs Ratio =	6.98

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Economic Analysis of Doetsch Family II LLC Project and Requested Tax Abatement Program												
DESCRIPTION	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Sales Tax Abatement	\$124,600	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mortgage Tax Abatement	\$10,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Real Property Tax Abatement	\$0	\$36,775	\$41,060	\$45,464	\$49,992	\$54,645	\$51,503	\$48,254	\$44,896	\$41,427	\$37,844	\$34,143
Highway/Other Costs	\$18,309	\$18,600	\$18,891	\$19,037	\$19,073	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219
School Costs	\$0	\$0	\$1,106	\$2,212	\$2,765	\$2,904	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457
Real Property Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$7,923	\$16,085	\$24,489	\$33,142	\$42,049	\$51,215
Personal Income - New/Retained Jobs	\$0	\$61,232	\$124,301	\$157,707	\$168,077	\$203,093	\$206,139	\$209,231	\$212,370	\$215,555	\$218,788	\$222,070
Indirect Income Benefits	\$0	\$51,251	\$104,040	\$132,001	\$140,680	\$169,989	\$172,538	\$175,126	\$177,753	\$180,420	\$183,126	\$185,873
Added Sales Tax (General)	\$0	\$4,499	\$9,134	\$11,588	\$12,350	\$14,923	\$15,147	\$15,374	\$15,605	\$15,839	\$16,077	\$16,318
Added Sales Tax (Operations)	\$0	\$0	\$0	\$0	\$92,000	\$124,000	\$148,000	\$172,000	\$184,000	\$192,000	\$204,000	\$207,060

Economic Analysis of Doetsch Family II LLC Project and Requested Tax Abatement Program													
DESCRIPTION	FISCAL YEAR		2030	2031	2032	2033	2034	2035	2036	2037	2038	TOTALS	
	13	14	15	16	17	18	19	20	21	Actual	NPV		
Sales Tax Abatement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$124,600	\$124,600
Mortgage Tax Abatement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,000	\$10,000
Real Property Tax Abatement	\$25,992	\$17,588	\$8,926	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$538,508	\$464,100
Highway/Other Costs	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$19,219	\$401,408	\$244,172
School Costs	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$3,457	\$60,836	\$32,938
Real Property Taxes	\$60,647	\$70,351	\$80,332	\$90,596	\$91,955	\$93,335	\$94,735	\$96,156	\$97,598	\$97,598	\$97,598	\$950,607	\$296,827
Personal Income - New/Retained Jobs	\$225,401	\$228,782	\$232,214	\$235,697	\$239,233	\$242,821	\$246,464	\$250,160	\$253,913	\$250,160	\$253,913	\$4,153,249	\$2,221,395
Indirect Income Benefits	\$188,661	\$191,491	\$194,363	\$197,279	\$200,238	\$203,241	\$206,290	\$209,384	\$212,525	\$209,384	\$212,525	\$3,476,270	\$1,859,308
Added Sales Tax (General)	\$16,562	\$16,811	\$17,063	\$17,319	\$17,579	\$17,843	\$18,110	\$18,382	\$18,658	\$18,382	\$18,658	\$305,181	\$163,228
Added Sales Tax (Operations)	\$210,166	\$213,318	\$216,518	\$219,766	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,182,828	\$1,573,446