

Doetsch Family III LLC

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

Seminary Suites Lodging Project



Benefit/Cost Analysis

Prepared by:

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Background:

Doetsch Family III LLC has applied for financial assistance for the development of two related properties in the Town of Delaware (Tax Map Parcels 14-5-29 and 15-2-1). The project involves the conversion of a two structures on the latter parcel into an eight-unit lodging enterprise called Seminary Suites with parking on the opposite side of Route 97. The two structures include the original Callicoon Hospital (pictured below and on cover) plus an adjoining former office building of the two doctors who served the facility.



It is estimated \$975,000 will be invested, including approximately \$600,000 in improving the property, of which an estimated \$360,000 will represent sales taxable materials costs associated with the renovation project. There will also be an estimated \$100,000 invested in furniture, fixtures and equipment that will be sales taxable. The real property improvements will, at an 95.75% equalization rate and with other adjustments, yield an estimated \$450,000 of assessed value). Doetsch Family III LLC has applied to the

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County of Sullivan Industrial Development Agency (IDA) for real property, mortgage and sales tax abatements to assist with bringing this project to completion.



Former doctors' offices

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.

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Methods and Assumptions:

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

- 1) The construction/rehabilitation aspect of the project involves an estimated \$460,000 in sales taxable material and equipment purchases, the former amounting to \$360,000 or 60% of construction and the latter being an estimated \$100,000 for furniture, fixtures and equipment (FF&E) at a projected cost of \$12,500 per room based on adjusted *HVS Survey of Hotel Development Costs* figures.

- 2) It is assumed, for purposes of this analysis, that all construction activities will occur in 2019. It is further assumed that the IDA will approve a PILOT Agreement under the IDA's [Uniform Tax Exemption Policy Tourism Industry Program](#), the PILOT to apply to the estimated costs of developing the real property times the 95.75% equalization rate for the Town of Delaware. The PILOT schedule is detailed in the table to the right.

Real Property Tax Abatement Schedule		
Year	% Abated	PILOT %
1	100.0%	0.0%
2	100.0%	0.0%
3	100.0%	0.0%
4	100.0%	0.0%
5	100.0%	0.0%
6	10.0%	90.0%
7	20.0%	80.0%
8	30.0%	70.0%
9	40.0%	60.0%
10	50.0%	50.0%
11	60.0%	40.0%
12	70.0%	30.0%
13	80.0%	20.0%
14	90.0%	10.0%
15	100.0%	0.0%

- 3) It is assumed there will be a \$450,000 mortgage to which mortgage tax abatement will apply.

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- 4) It is anticipated the Doetsch Family III LLC project will create 1.5 full-time equivalent jobs with salaries averaging \$40,000 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 \$1,694 for each new resident attracted (\$4,151 per household). This is based on an estimated county and town tax levy of \$4,300,000, divided by a Town of Delaware population of roughly 2,550 persons.

It is assumed 25% of employees or up to one person will be new to Sullivan County. Further applying an employment multiplier of 1.50 (the New York State Department of Labor estimated multiplier for leisure and hospitality businesses in New York), the project will produce less than one new household (1.5 jobs x 25% new households x 1.50), with a cost of approximately \$4,151 annually in non-educational local government services each.

It is assumed, based on the *Sullivan County Cost of Community Services Study*, that 78.1% or \$3,243 per household would be covered from taxes paid by the new residents, leaving \$908 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

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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 cost (net of state aid) of \$18,500 per student, which is the estimated average figure for the Sullivan West School District where the project is located. No more than one additional student 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 and room taxes based on 50% occupancy and a \$300 average room rate per suite (up to four bedrooms in size).

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- 8) Cash flow streams from benefits and costs are net present valued using a discount rate of 2.49% ([current interest rate on the public debt](#)). Net present value figures include actual costs of abatements and other costs for 2019 plus discounted values for 2020-2039.

Conclusion:

This project will generate costs of \$126,135 in mortgage, real property and sales tax abatements over the period of the standard PILOT agreement plus five years. Net present valued this equates to a total cost of \$114,752. There are an additional estimated \$19,473 of school costs and \$9,101 of highway and related costs over this same period (net present valued), bringing total costs to \$143,326.

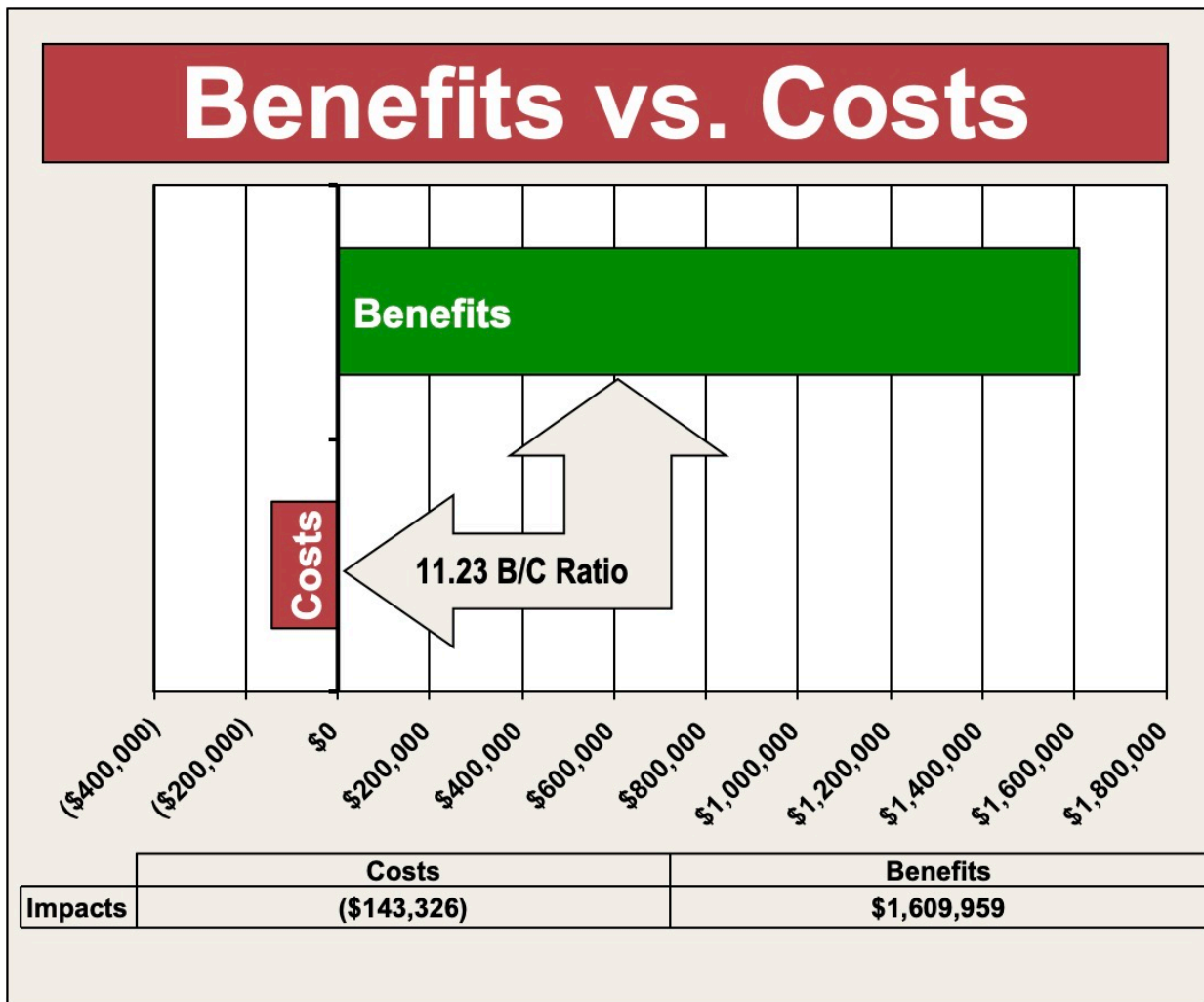
The project benefits consist of the new real property taxes that will be generated (\$135,190), the payroll gains (\$412,723), the sales taxes from those payroll gains (\$33,018), the sales taxes from operations (\$633,248) and hotel occupancy taxes (\$395,780) which, at net present value, total \$1,609,959 combined over the analysis period.

This yields a positive benefit/cost ratio of 11.23.

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Cost/Benefit Analysis	
Costs (2019-2039)	
Sales Tax Abatements (County)	\$18,400
Sales Tax Abatements (State)	\$18,400
Mortgage Tax Abatements	\$4,500
Real Property Tax Reductions Net of 485-b Benefits	\$84,835
Sub-Total (Value of All Abatements) =	\$126,135
Net Present Value of Abatements	\$114,752
Additional School Costs	\$19,473
Variable Highway & Other Municipal Costs	\$9,101
Total Costs (Net Present Value)=	\$143,326
Benefits (Net Present Value, 2019-2039)	
Real Property Taxes	\$135,190
Sales Taxes (General - From Gains in Buying Power)	
County	\$16,509
State	\$16,509
Sales Taxes (From Operations)	
County	\$316,624
State	\$316,624
Hotel Occupancy Taxes	\$395,780
Sub-Total (Taxes/Charges) =	\$1,197,236
Personal Income Gains Related to New/Retained Jobs	\$275,149
Personal Income Gains Related to Multiplier Effects	\$137,574
Sub-Total (Income Gains) =	\$412,723
Total Benefits =	\$1,609,959
Excess Benefits Over Costs =	\$1,466,633
Benefits to Costs Ratio =	11.23

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Economic Analysis of Project and Requested Tax Abatement Program												
FISCAL YEAR	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
DESCRIPTION	C1	1	2	3	4	5	6	7	8	9	10	11
Sales Tax Abatement	\$36,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mortgage Tax Abatement	\$4,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Real Property Tax Abatement	\$0	\$6,857	\$7,656	\$8,478	\$9,322	\$8,734	\$8,126	\$7,498	\$6,850	\$6,180	\$5,489	\$4,775
Highway/Other Costs	\$0	\$511	\$518	\$526	\$534	\$542	\$550	\$558	\$567	\$575	\$584	\$593
School Costs	\$0	\$1,093	\$1,109	\$1,126	\$1,143	\$1,160	\$1,177	\$1,195	\$1,213	\$1,231	\$1,250	\$1,268
Real Property Taxes	\$0	\$0	\$0	\$0	\$0	\$1,456	\$2,955	\$4,499	\$6,089	\$7,725	\$9,409	\$11,142
Personal Income - New/Retained Jobs	\$0	\$15,225	\$15,685	\$15,920	\$16,159	\$16,402	\$16,648	\$16,897	\$17,151	\$17,408	\$17,669	\$17,934
Indirect Income Benefits	\$0	\$7,613	\$7,843	\$7,960	\$8,080	\$8,201	\$8,324	\$8,449	\$8,575	\$8,704	\$8,835	\$8,967
Added Sales Tax (General)	\$0	\$1,827	\$1,882	\$1,910	\$1,939	\$1,968	\$1,998	\$2,028	\$2,058	\$2,089	\$2,120	\$2,152
Added Sales Tax (Operations)	\$0	\$35,040	\$36,099	\$36,641	\$37,190	\$37,748	\$38,314	\$38,889	\$39,472	\$40,064	\$40,665	\$41,275
Room Tax	\$0	\$21,900	\$22,562	\$22,900	\$23,244	\$23,593	\$23,946	\$24,306	\$24,670	\$25,040	\$25,416	\$25,797

Economic Analysis of Project and Requested Tax Abatement Program												
FISCAL YEAR	2031	2032	2033	2034	2035	2036	2037	2038	2039	TOTALS		
DESCRIPTION	12	13	14	15	16	17	18	19	20	21	Actual	NPV
Sales Tax Abatement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$36,800	\$36,800
Mortgage Tax Abatement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,500	\$4,500
Real Property Tax Abatement	\$3,231	\$1,640	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$84,835	\$73,452
Highway/Other Costs	\$602	\$611	\$620	\$629	\$639	\$648	\$658	\$668	\$678	\$688	\$11,810	\$9,101
School Costs	\$1,287	\$1,307	\$1,326	\$1,346	\$1,366	\$1,387	\$1,408	\$1,429	\$1,450	\$1,472	\$25,270	\$19,473
Real Property Taxes	\$12,924	\$14,758	\$16,644	\$18,893	\$17,147	\$17,404	\$17,665	\$17,930	\$18,199	\$18,472	\$192,838	\$135,190
Personal Income - New/Retained Jobs	\$18,203	\$18,476	\$18,753	\$19,035	\$19,320	\$19,610	\$19,904	\$20,203	\$20,506	\$20,813	\$357,110	\$275,149
Indirect Income Benefits	\$9,102	\$9,238	\$9,377	\$9,517	\$9,660	\$9,805	\$9,952	\$10,101	\$10,253	\$10,407	\$178,555	\$137,574
Added Sales Tax (General)	\$2,184	\$2,217	\$2,250	\$2,284	\$2,318	\$2,353	\$2,389	\$2,424	\$2,461	\$2,498	\$42,853	\$33,018
Added Sales Tax (Operations)	\$41,894	\$42,523	\$43,161	\$43,808	\$44,465	\$45,132	\$45,809	\$46,496	\$47,194	\$47,902	\$821,881	\$633,248
Room Tax	\$26,184	\$26,577	\$26,975	\$27,380	\$27,791	\$28,208	\$28,631	\$29,060	\$29,496	\$29,939	\$513,676	\$395,780