



**MEMORANDUM**

To: Tompkins County Industrial Development Agency  
From: Heather McDaniel, President  
Date: November 11, 2020  
Re: 430-444 W. State St. (Arnot Ithaca 2) Determination of Financial Need

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The City of Ithaca Community Investment Incentive Tax Abatement Program (CIITAP) allows an applicant to “request an enhanced property tax abatement that begins at 100% in year one and decreases in equal increments over ten (10) years if the applicant can demonstrate financial need as determined by a review by IDA administrative staff of the project pro forma and demonstration of an annual return on investment less than 20% in each of the first five years.”

Peter Dugo, on behalf of Arnot Ithaca 2, LLC, has requested the 10-year financial need / enhanced energy incentive for large multi- family housing incentive with an additional year of 100% abatement. The applicant provided and I reviewed a full financial package that includes a development budget, mortgage assumptions, two tax abatement scenarios, and a 10-year operating pro forma and assumptions. I have determined that:

1. The developer’s financial projections are reasonable
2. The developer’s assumptions are reasonable
3. The developer’s Return on Investment is less than 20% in each of the first five years

***It is my recommendation that the applicant has demonstrated financial need as outlined in the CIITAP guidelines and is eligible for the enhanced abatement.*** Following is a brief review of my analysis:

Development Costs

I received and reviewed a copy of the development budget. The projected hard construction cost is \$33,398,343. The total square footage of the project is roughly 132,248 square feet. Construction costs are approximately \$253 per square foot, which includes a 10% contingency. This is reasonable given the demolition and working with the façade of the existing building, but at least \$40 more a square foot than recently approved projects. The total construction costs are reasonable for a mixed used project that includes a parking structure. Soft costs are roughly 9% of total project costs. There is no developer fee.

Operating Pro forma

I received and reviewed a ten-year operating pro forma and related material detailing the assumptions. The rental rates on average are consistent with downtown market rents. The vacancy rate is projected at 5% for the residential units and 10% for the commercial space, which is typical for recent projects and provides an adequate cushion that lenders require. The projected expenses are based on actual expenses at other properties that are operated by Arnot Realty. The projected debt service is a little higher

Than current interest rates. The property tax assumptions are accurate, assuming the proposed tax incentive structure is approved.

Return on Investment

The applicant provided a cash on cash return on total investment analysis that I reviewed.

The net operating income was determined to be reasonable based on the analysis of the operating pro forma. The debt service assumptions use an interest rate that I considered extremely conservative and a little higher than current market rates. I recalculated the return on investment with an adjusted interest rate of one percentage point less.

In both cases, the return on investment is below the 20% annually required by the CIITAP demonstrate financial need.

**Applicant Provided**

<b>Return On:</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Equity Invested	3.7%	3.5%	3.5%	4.9%	4.6%

**Adjusted with lower financing cost**

<b>Return On:</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Equity Invested	4.4%	4.8%	4.8%	6.2%	6%