

Tompkins County Industrial Development Agency

Administration provided by 

Memorandum

To: Tompkins County IDA
From: Heather McDaniel, TCAD
Date: May 14, 2015
Re: Hilton Canopy Building Determination of Financial Need

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.”

Neil Patel, representing Ithaca Downtown Associates/Hilton Canopy Project, requested the 10-year enhanced abatement. He provided me with the construction budget and assumptions, detailed soft costs associated with the construction, investment summary, and a five-year operating pro forma that includes the assumptions used to determine total revenue, and a calculation of return on investment. I have reviewed the documentation and 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 construction budget. Total construction and soft costs are \$12,500,000. The gross square footage is 74,475. Projected costs are \$167 per square foot or \$181 per square foot with the contingency projected. The cost per room is \$101,626, which is about standard for this type of hotel in the industry. There is a 12.5% construction contingency, which is higher than recent projects, but given the increase in costs we have seen with all the downtown projects in the last two years, I think this is reasonable. Overall, the total construction costs are reasonable.

Operating Pro forma

I received and reviewed a five-year operating pro forma and requested related material detailing the assumptions. The revenue projections, which are based on an annual occupancy percentage and average daily room rate are conservative. They are based on current countywide occupancy rates and room rates. I

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think they will be a little higher when the project opens in two years and in general, occupancy and room rates at downtown hotels are higher than the countywide average. I did modify the proformas, using higher occupancy and room rates, and the return on investment was still far below the 20% cap required to receive the enhanced, ten-year abatement. The assumptions for the majority of the income and expenses are based on actual performance of the current and other properties in the Lighthouse Hotels portfolio.

Return on Investment

The applicant provided a return on investment calculation that I reviewed and determined to be accurate. The return on investment was calculated as follows: net operating income (revenue) minus projected debt service divided by equity invested.

The net operating income was determined to be reasonable based on the analysis of the operating pro forma. The debt service assumptions are reasonable based on my discussions with the applicant and recent discussion/knowledge about commercial real estate lending.

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

Return on Investment

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Return on Investment | 5.17% | 6.71% | 10.00% | 10.87% | 12.21% |