



MEMORANDUM

To: Tompkins County Industrial Development Agency
From: Heather McDaniel, President
Date: November 11, 2020
Re: Carpenter Park Medical Office 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.”

Andrew Bodewes, on behalf of PG MOB Carpenter Park, LLC, has requested the enhanced abatement and provided me with a sources and uses of funds including the construction budget, a fourteen-year operating pro forma with income and expense projections, and a calculation of the 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 the required 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. The total projected cost is \$32,290,117. The total square footage of the project is roughly 64,000 square feet. Construction costs are \$13,671,141 or 42% of total costs. The construction costs are \$213 per square foot which is largely attributable to the specialized nature of the facility. There is another \$13,470,890 in specialized equipment associated with the project. Soft costs represent approximately 5% of project costs. The total construction costs are reasonable.

Operating Pro forma

I received and reviewed a fourteen-year operating pro forma. The building will have one tenant and the rental fee has been negotiated to cover operating costs and debt service with a small return to the developer, who is not charging an up front developer fee for this project. The rent per square foot is within market rates for this type of facility. Expenses include a land lease, insurance, a 1.5% management fee and a small operating reserve.

Return on Investment

The applicant provided a cash on cash return on investment calculation consisting of net operating income 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 a twenty five year commercial mortgage at current, competitive rates.

The return on investment in each of the first five years is within the guidelines established by the CIITAP.

Return on Investment

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Equity Invested	6%	7%	7%	7%	8%