

Memorandum

To: Tompkins County Industrial Development Agency
From: Heather McDaniel
Date: March
Re: City Centre 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.”

Frost Travis, on behalf of the The Carey Building, has requested the enhanced abatement and provided me with the construction budget and assumptions, a ten-year operating pro forma, the assumptions used to develop the pro forma including rent rolls and mortgage data, 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. The total projected cost of The Carey Building Project is \$5,077,052. The total square footage of the project is roughly 17,000 square feet of new space and 13,500 square feet of existing space. Projected are \$162 per square foot or \$203 with the contingency projected. The total construction costs are reasonable.

Operating Pro forma

I received and reviewed a ten-year operating pro forma and related material detailing the assumptions used to develop the pro forma. The rent rates are market rate and the vacancy rate projected is very low. The assumptions for the majority of the income and expenses are based on actual performance of the current and other properties in the Travis/Hyde portfolio.

Return on Investment

Tompkins County Area Development

The applicant provided a return on total investment analysis that I reviewed and determined to be reasonable. The return on investment was calculated in three formats: net operating income (revenue) minus projected debt service divided by total project costs; net operating income minus projected debt service divided by the total amount financed; and 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 my discussions with the applicant and recent discussion/knowledge about commercial real estate financing.

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

Return on Investment

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Total Investment	1.5%	1.6%	1.7%	1.9%	2.0%
\$ Leveraged	1.5%	1.7%	1.8%	1.9%	2.0%
Equity Invested	8.9%	9.5%	10.2%	11.1%	11.7%