

Memorandum

To: Tompkins County Industrial Development Agency
From: Heather Filiberto
Date: February 21, 2013
Re: Hotel Ithaca 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 the first five years.”

Hotel Ithaca has requested the enhanced abatement and provided me with the development budget, a five year operating pro forma, the assumptions used to develop the pro forma, 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 Hotel Ithaca is \$32,000,000. The total square footage of the project is roughly 100,000 square feet, with development costs of \$320 per square foot. The total construction costs are not unreasonable given the size and nature of the proposed site situated on a steep slope at the gateway to the commons and adjacent to the Aurora Street bridge. The development cost per room is approximately \$201,000, which I was able to verify independently is about the average for a moderate to expensive hotel of this type.

Operating Pro forma

I received and reviewed a five-year operating pro forma and related material detailing the assumptions used to develop the pro forma. I was able to independently verify that the proposed occupancy rate, average daily room rate, and RevPAR are in line with other major competitors in the Ithaca market. This was used as the basis for calculating projected revenues. The assumptions for the majority of the income and expense line items such as food and beverage, and general administrative expenses are reasonable

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based on actual performance of other properties in the Urgo Hotels portfolio. Net operating income in year one is projected at \$2,876,679, increasing 14% in year two, 9% in year three, 2.5% in year four, and 3% in year five.

Return on Investment

The applicant provided a return on total investment analysis that I reviewed and determined to be reasonable. The return on investment was calculated with and without projected IDA incentives in two formats: net operating income (revenue) minus projected debt service divided by total project costs; and net operating income minus projected debt service divided by the total amount financed.

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 two local/regional lenders.

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

Return on Investment - With IDA Incentives

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Investment	9.1%	10.2%	11.0%	11.0%	11.1%
\$ Leveraged	9.8%	10.0%	14.8%	15%	15.2%

Return on Investment - Without IDA Incentives

Return On:	Year 1	Year 2	Year 3	Year 4	Year 5
Investment	7.2%	8.5%	9.4%	9.6%	9.8%
\$ Leveraged	4.6%	8.2%	10.6%	11.3%	12.0%