

191 Washington Street, LLC Cost-Benefit Analysis - Updated

Prepared by:



Prepared For:
City of Newburgh IDA

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Executive Summary

The City of Newburgh Industrial Development Agency (the “Agency”) received an application for financial assistance from 191 Washington Street, LLC (the “Applicant”) related to a proposed project located at 191 Washington Street in the City of Newburgh (the “Site”). The proposed project includes the rehabilitation of a former school building and the construction of two new buildings into market-rate apartments, a brewery, and commercial space (the “Project”). The Agency requested an economic and fiscal impact analysis from MRB Group to assess the benefits and costs of the Project on the City of Newburgh (the “City”) and other jurisdictions as part of the Agency’s deliberations.

MRB Group conducted an assessment of the Project for both one-time construction impacts and ongoing impacts of operations. The economic impacts considered in this analysis include direct and indirect changes to jobs, wages, and sales associated with the renovation of the school building and the construction of two new buildings. There will also be ongoing economic impacts associated with the anticipated new household spending of tenants at the Site and the employment at the proposed new commercial establishments on Site. The fiscal impacts of the Project include one-time and ongoing new tax revenue as well as the presumed costs of the financial assistance under consideration by the Agency.

Using an estimate of locally-sourced labor and materials, we were able to assess the one-time economic impact.¹ The construction phase of the Project will produce approximately 41 direct, on-site construction jobs and 12 indirect jobs. Combining direct and indirect impacts, the construction phase of the Project will create 53 jobs that generate \$2.8 million in wages. Upon completion of the Project, we estimate resulting employment to be 47 jobs earning \$2.8 million in wages annually.

Summary of Economic Impacts

	Direct	Indirect	Total
Construction Jobs	41	12	53
Construction Wages	\$2,117,151	\$722,428	\$2,839,579
Ongoing Jobs	35	11	47
Ongoing Wages	\$2,007,961	\$840,072	\$2,848,033

Source: Lightcast, MRB

In terms of fiscal benefits, we estimate that that County will benefit from additional, one-time sales tax revenue of \$18,635 associated with the construction wages earned during the Site’s renovation and construction. Upon completion of the Project, we estimate the County will benefit from the additional sales tax revenue of \$456,872 over the 15-year PILOT term related the new wages being earned from

¹ Note that the direct and indirect “Construction Jobs” and “Construction Wages” shown are with respect to Orange County (the “County”), as such jobs tend to be pulled from a larger labor shed. The direct and indirect “Ongoing Jobs” and “Ongoing Wages” shown are with respect to the City.

ongoing jobs and the local spending of residential tenants. Over the same period, a further \$2.8 million of sales tax revenue will be generated for the County from retail sales occurring on the Site. Under the proposed PILOT terms, we estimate the Project will generate \$3.1 million in property tax revenue for the County, City and school district. Therefore, in total, the fiscal benefits of the proposed Project will be approximately \$6.3 million over the life of the PILOT.

In terms of costs of the Project, the Applicant has requested a sales tax exemption and a mortgage recording tax exemption. The estimated cost to the County of the sales tax exemption is \$652,015 and the cost of the mortgage recording tax exemption is \$215,393.

The proposed PILOT schedule includes net total exemptions of \$5.5 million over 15 years based on a 2% escalation rate.²

Summary of Fiscal Benefits, Local Government

Source	Total
Sales Tax, Construction, One-time	\$18,635
Sales Tax, Operations, 15 Years	\$456,872
Sales Tax, Retail Sales, 15 Years	\$2,772,156
Property Tax Revenue, 15 Years	\$3,083,555
Total Fiscal Benefits	\$6,331,219

Source: Lightcast, Applicant, MRB

Summary of Exemptions, Local Government

	Total
Cost of Sales Tax Exemption, One-Time	\$652,015
Mortgage Recording Tax Exemption	\$215,393
PILOT Exemption, 15 Years	\$5,503,968

Source: Lightcast, Applicant, MRB

² These costs are theoretical by nature as the Applicant has stated the Project will not move forward absent IDA assistance.

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Introduction

The City of Newburgh Industrial Development Agency received an application for financial assistance from 191 Washington Street, LLC related to a proposed project located at 191 Washington Street in the City of Newburgh. The proposed project includes the rehabilitation of a former school property and the construction of two new buildings into market-rate apartments, a brewery, and other commercial space. The Agency requested an economic and fiscal impact analysis from MRB Group to assess the benefits and costs of the Project on the City of Newburgh and other jurisdictions as part of the Agency's deliberations.

MRB Group conducted an assessment of the Project for both one-time construction impacts and ongoing impacts of operations. The economic impacts considered in this analysis include direct and indirect changes to jobs, wages, and sales associated with the construction of the Project. There will also be ongoing economic impacts associated with the anticipated new household spending of tenants at the Site and the employment at the brewery, commercial space, and property maintenance at the Site. The fiscal impacts of the Project include one-time and ongoing new tax revenue as well as the presumed costs of the financial assistance under consideration by the Agency.

Economic Impact Analysis

The Project would have economic impacts on the County and City in several ways. Economic impacts include one-time effects on jobs, earnings and sales during the construction phase of the Project, which we estimate for the entire County. It also includes ongoing impacts related to household spending and the operations of the Project, which we estimate for the City.³

Methodology

Both one-time, construction-phase impacts and ongoing, operation-phase impacts have “Direct” and “Indirect” components. For the construction phase:

- Direct: Jobs, wages, and sales that occur on-site related to labor and materials used in the construction of the Project.
- Indirect: Jobs, wages, and sales caused by the Direct impacts, and result from business-to-business purchases (e.g., a contractor buying a piece of equipment from a dealer) and from employees spending a portion of their wages locally.

For the operation phase:

- Direct: Jobs, wages, and sales created from the operations of the Project (e.g., on-site employment) and from new household spending occurring as a result of the Project.
- Indirect: Jobs, wages, and sales caused by the Direct impact, such as business-to-business purchases (e.g., a grocery store serving the new households buying goods from a distributor) and employees of such businesses spending a portion of their wages locally.

To estimate the Direct and Indirect impacts, MRB Group employs the Lightcast⁴ economic modeling system. We used data from the Applicant and publicly available and proprietary data sources as inputs to the Lightcast modeling system. Where needed, we adjusted the Lightcast model to best match the Project specifics. We then reported the results of the modeling.

³ By their nature, construction-related impacts tend to be somewhat more diffuse, which is why we report them as County-level impacts. City-level impacts are measured based on ZIP code 12550, which is the closest approximation available of the City. A map of ZIP Code 12550 in relation to the City’s boundaries is included in the Appendix.

⁴ Lightcast, formerly “Economic Modeling Systems, Intl.,” uses data from the US Bureau of Labor Statistics, the US Bureau of Economic Analysis, the US Census, and other public data sources to model out economic impacts.

Construction Phase

The Project will require approximately \$23.0 million in construction and renovations to construct the Site into the proposed facilities. We assume 25% of the Project’s materials and labor will be sourced within Orange County.⁵

We estimate construction spending of \$5.7 million (direct “Sales” in the second table) in Orange County as an input into the Lightcast economic modeling system. According to Lightcast, this level of local spending will yield approximately 41 direct construction jobs earning \$2.1 million direct earnings. We then modeled indirect impacts from direct sales, resulting in an expected 12 new indirect jobs, \$722,428 in new earnings, and \$2.2 million in sales. Combining direct and indirect impacts, the total one-time construction-phase impacts would be 53 jobs, \$2.8 million in wages, and \$7.9 million in sales.

Local Construction Spending

	\$ Total	% Local	\$ Local
Materials & Labor	\$22,960,664	25%	\$5,740,166

Source: Applicant, MRB

Economic Impact of Construction Phase, One-Time

	Direct	Indirect	Total
Jobs	41	12	53
Earnings	\$2,117,151	\$722,428	\$2,839,579
Sales	\$5,740,166	\$2,158,441	\$7,898,607

Source: Lightcast, MRB

⁵ The Developer has indicated a preference to source local materials and labor to the full extent possible. For purposes of being conservative, the Developer currently estimates 25% of materials and labor costs will be spent in the County.

Operation Phase

An essential distinction between construction and operation phase impacts is the geographic level at which impacts are measured. Primarily driven by ongoing employment at the Site and new household spending, operational impacts are more localized relative to the County-level construction impacts. Because of this, we consider the economic impact of the operation phase at the City level. In this case, we used ZIP code 12550 to approximate the City’s boundaries, as ZIP codes are the smallest unit of geography considered in our economic modeling system (see Appendix.)

Ongoing Employment

According to the Applicant, there will be 15 employees at the proposed brewery, and 3 full-time employees for property maintenance. The Developer also provided an estimated employment count for the commercial space included at the Site that is based on industry-standard averages of square feet-per-employee in the ‘Semi-skilled’ category. In total, an estimated 25 full-time employees will work at the Site, in professional, skilled, semi-skilled, and unskilled positions.

Ongoing Employment at the Site

Jobs	Property			Total Count
	Brewery	Maintenance	Commercial	
Professional / Managerial	2	1	0	3
Skilled	8	0	0	8
Semi-skilled	4	2	7	13
Unskilled	1	0	0	1
Total	15	3	7	25

Source: Applicant

We used salary ranges and job counts provided by the Applicant to estimate \$1.6 million in annual earnings paid to the 25 employees. According to Lightcast, these earnings correspond to direct sales of \$12.2 million. Together with indirect impacts, the total impact of the Project would be 35 jobs, \$2.3 million in earnings, and \$14.3 million in sales.

Economic Impact of Onsite Employment

	Direct	Indirect	Total
Jobs	25	10	35
Earnings	\$1,575,000	\$741,311	\$2,316,311
Sales	\$12,207,306	\$2,084,857	\$14,292,163

Source: Lightcast, MRB

New Household Spending

According to the Applicant, the Project will create 70 market-rate apartments, including six studios, thirty 1-bedroom units, twenty-five 2-bedroom units, and nine 3-bedroom units. The Developer provided estimates of the anticipated rent prices for each unit type, which ranged between \$1,400 - \$2,400 in monthly rent.

We used data from the Consumer Expenditure Survey (CEX) of the Bureau of Labor Statistics specific to the northeast region to arrive at annual spending estimates based on household income levels. We used the Developer’s estimated rent prices to identify two different income brackets that reflect the average annual spending for each unit. Households likely to occupy studio and certain 1-bedroom units will spend approximately \$29,588 each on the goods listed in the table. Residents likely to occupy the larger 1-bedroom+, 2-bedroom, 2-bedroom+, and 3-bedroom units will likely spend roughly \$35,767 annually on the goods listed. We assumed that 50% of this spending would occur in the City. Given 70 units and the spending profile and percentages shown, we estimate that a total of \$1.2 million of new household spending would occur annually in the City.

Total New Household Spending

	Annual per HH Spend	% Spent in City	Units	Total New Spending
Studio & 1-Bedroom				
Food	\$7,165	50%	24	\$85,980
Household Furnishings and Equipment	\$2,312	50%	24	\$27,744
Apparel and Services	\$1,488	50%	24	\$17,856
Transportation	\$8,931	50%	24	\$107,172
Healthcare	\$4,364	50%	24	\$52,368
Entertainment	\$1,970	50%	24	\$23,640
Education	\$972	50%	24	\$11,664
Personal Care Products and Services	\$674	50%	24	\$8,088
Miscellaneous	\$1,227	50%	24	\$14,724
Other	\$485	50%	24	\$5,820
1-Bedroom+ - 3-Bedroom	\$29,588			
Food	\$8,720	50%	46	\$200,560
Household Furnishings and Equipment	\$2,644	50%	46	\$60,812
Apparel and Services	\$1,474	50%	46	\$33,902
Transportation	\$10,495	50%	46	\$241,385
Healthcare	\$5,272	50%	46	\$121,256
Entertainment	\$3,145	50%	46	\$72,335
Education	\$1,594	50%	46	\$36,662
Personal Care Products and Services	\$802	50%	46	\$18,446
Miscellaneous	\$1,093	50%	46	\$25,139
Other	\$528	50%	46	\$12,144
	\$35,767		Total	\$1,177,697

Source: Table 3004. Selected northeastern metropolitan statistical areas: Average annual expenditures and characteristics", New York, Consumer Expenditure Survey, U.S. Bureau of Labor Statistics; MRB Group

We estimate local annual spending of \$1.2 million would yield approximately 10 direct jobs, earning \$432,961 annually. Together with the indirect impacts, the total economic impact is approximately 12 jobs, \$531,721 in earnings, and \$1.4 million in sales.

Economic Impact of New Household Spending

	Direct	Indirect	Total
Jobs	10	2	12
Earnings	\$432,961	\$98,760	\$531,721
Sales	\$1,177,697	\$271,383	\$1,449,080

Source: Lightcast, MRB

Combined Annual Impact

The table below shows the aggregate annual impact of on-site employment and the impact of new household spending. On an annual basis, the Site will generate 35 direct jobs earning \$2.0 million. The total annual economic impacts are estimated at 47 jobs, \$2.8 million in earnings, and \$15.7 million in sales. Escalated at 2% per year for 15 years, this totals \$49.3 million in earnings over the term of the proposed PILOT.

Combined Annual Economic Impact

	Direct	Indirect	Total
Jobs	35	11	47
Earnings	\$2,007,961	\$840,072	\$2,848,033
Sales	\$13,385,003	\$2,356,240	\$15,741,242
Earnings Over 15 Years		\$49,252,220	

Source: Lightcast, MRB

Fiscal Impact Analysis

The Project would also have fiscal impacts in terms of various new tax revenues as described below.

PILOT Schedule

The table to the right displays the Applicant’s proposed PILOT schedule. According to the Applicant, and confirmed by the Agency, the Site is currently assessed at \$1.0 million and the future assessed value likely be \$9.8 million upon completion of the Project⁶. The Applicant has requested a 15-year PILOT term that will abate a portion of the improvement value associated with the renovation. The proposed PILOT schedule gradually increases the portion of the improvement value that is taxed each year through year 14. In year 15, the Site would be fully taxable.

Assessed Value

Line	Value
Current AV	\$1,000,000
Improvement Value	\$8,800,000
Future AV	\$9,800,000

Source: Applicant

Proposed PILOT Schedule

Year	Current AV	Improvement Value	Proposed % of Impr. Taxable	Impr. Value in PILOT	Total Value Subject to PILOT
Year 1	\$1,000,000	\$8,800,000	0.0%	\$0	\$1,000,000
Year 2	\$1,000,000	\$8,800,000	2.0%	\$176,000	\$1,176,000
Year 3	\$1,000,000	\$8,800,000	4.0%	\$352,000	\$1,352,000
Year 4	\$1,000,000	\$8,800,000	6.0%	\$528,000	\$1,528,000
Year 5	\$1,000,000	\$8,800,000	8.0%	\$704,000	\$1,704,000
Year 6	\$1,000,000	\$8,800,000	10.0%	\$880,000	\$1,880,000
Year 7	\$1,000,000	\$8,800,000	12.0%	\$1,056,000	\$2,056,000
Year 8	\$1,000,000	\$8,800,000	15.0%	\$1,320,000	\$2,320,000
Year 9	\$1,000,000	\$8,800,000	20.0%	\$1,760,000	\$2,760,000
Year 10	\$1,000,000	\$8,800,000	25.0%	\$2,200,000	\$3,200,000
Year 11	\$1,000,000	\$8,800,000	30.0%	\$2,640,000	\$3,640,000
Year 12	\$1,000,000	\$8,800,000	40.0%	\$3,520,000	\$4,520,000
Year 13	\$1,000,000	\$8,800,000	50.0%	\$4,400,000	\$5,400,000
Year 14	\$1,000,000	\$8,800,000	75.0%	\$6,600,000	\$7,600,000
Year 15*	\$1,000,000	\$8,800,000	100.0%	\$8,800,000	\$9,800,000

*First year of full taxes.

Source: Applicant

⁶ The applicant references an estimate made by the City’s assessor.

PILOT Revenue

The Site is currently wholly tax exempt, generating no property tax revenue. Upon recent purchase of the Site, the property was reassessed at a value of \$1.0 million. Under the proposed PILOT agreement, the Applicant will pay full taxes on the current assessed value of \$1.0 million plus a portion of the improvement value as shown in the previous table. Using current tax rates and inflating them at 2% per year, the Project under the proposed PILOT would generate \$3.1 million in PILOT payments.

PILOT Revenue

Year	Total Value Subject to PILOT	Tax Rate	Estimated PILOT Revenue
Year 1	\$1,000,000	\$50.671186	\$50,671
Year 2	\$1,176,000	\$51.684609	\$60,781
Year 3	\$1,352,000	\$52.718302	\$71,275
Year 4	\$1,528,000	\$53.772668	\$82,165
Year 5	\$1,704,000	\$54.848121	\$93,461
Year 6	\$1,880,000	\$55.945083	\$105,177
Year 7	\$2,056,000	\$57.063985	\$117,324
Year 8	\$2,320,000	\$58.205265	\$135,036
Year 9	\$2,760,000	\$59.369370	\$163,859
Year 10	\$3,200,000	\$60.556757	\$193,782
Year 11	\$3,640,000	\$61.767893	\$224,835
Year 12	\$4,520,000	\$63.003250	\$284,775
Year 13	\$5,400,000	\$64.263315	\$347,022
Year 14	\$7,600,000	\$65.548582	\$498,169
Year 15	\$9,800,000	\$66.859553	\$655,224
TOTAL			\$3,083,555

Source: Applicant, MRB

Sales Tax Revenue, Construction Phase

As our economic impact analysis states, we anticipate approximately \$2.8 million in direct and indirect earnings in the County will be generated during the Project’s construction phase. We assume 70% of the newly generated earnings will be spent in Orange County. From there, we estimate that 25% of that spending amount will be subject to the sales tax. Applying the County’s sales tax rate of 3.75%, we conclude that the construction phase earnings will lead to approximately \$18,635 in County sales tax revenue over the duration of construction.

Sales Tax Revenue, Operation Phase

Using a similar methodology, we estimate the sales tax revenue generated from new household spending and the new earnings stemming from on-site employment. We estimated \$2.8 million in total new earnings occurring and \$1.2 million in new household spending will occur annually within the County during the operation phase. Given the projected earnings and spending levels, we estimate the Project will result in \$26,419 in annual sales tax revenue to the County. Escalated at 2% per year for 15 years, this totals \$456,872 in revenue over the term of the proposed PILOT.

Sales Tax Revenue - Construction Phase

Line	Value
Total New Earnings	\$2,839,579
% Spent in County	70%
\$ Spent in County	\$1,987,706
% Taxable	25%
\$ Taxable	\$496,926
County Sales Tax Rate	3.75%
\$ County Sales Tax Revenue	\$18,635

Source: MRB

Sales Tax Revenue - Operation Phase

Line	Value
Total New Earnings	\$2,848,033
Total New Household Spending	\$1,177,697
% Spent in County	70%
\$ Spent in County	\$2,818,011
% Taxable	25%
\$ Taxable	\$704,503
County Sales Tax Rate	3.75%
\$ County Sales Tax Revenue	\$26,419
Revenue Over 15 Years	\$456,872

Source: MRB

Sales Tax Revenue, On-Site Retail Sales

Using an average annual sales-per-square foot figure of \$300, and a figure of 14,429 net rentable square feet of commercial space provided by the Applicant, we estimate retail sales of \$4.3 million in Year 1 of the PILOT. We then applied the County sales tax a rate of 3.75% to arrive at \$160,301 in local sales tax revenue in Year 1. We then applied a 2% per year escalation to arrive at a 15-year sales tax yield of \$2.8 million for the County.

Sales Tax Revenue, Retail Sales, 15 Years

Line	Value
Retail Sales Onsite, Year 1	\$4,274,700
Local	3.750%
County Sales Tax Revenue, Year 1	\$160,301
Revenue Over 15 Years	\$2,772,156

Source: Applicant, MRB

Cost of Property Tax Exemption

The table below displays the difference in estimated property tax revenue under the proposed PILOT and 'Full Taxes' absent an exemption (i.e., the "Cost of Abatement"). We calculate the fiscal cost of the abatement to be approximately \$5.5 million over the life of the PILOT. However, this cost is theoretical by nature, as the Applicant has stated that the Project would not move forward absent an incentive.

Cost of Abatement - Full Taxes vs. PILOT Revenue

Year	Future AV	Tax Rate	Full Taxes	Estimated PILOT Revenue	Cost of Abatement
Year 1	\$9,800,000	50.671	\$496,578	\$50,671	(\$445,906)
Year 2	\$9,800,000	51.685	\$506,509	\$60,781	(\$445,728)
Year 3	\$9,800,000	52.718	\$516,639	\$71,275	(\$445,364)
Year 4	\$9,800,000	53.773	\$526,972	\$82,165	(\$444,808)
Year 5	\$9,800,000	54.848	\$537,512	\$93,461	(\$444,050)
Year 6	\$9,800,000	55.945	\$548,262	\$105,177	(\$443,085)
Year 7	\$9,800,000	57.064	\$559,227	\$117,324	(\$441,904)
Year 8	\$9,800,000	58.205	\$570,412	\$135,036	(\$435,375)
Year 9	\$9,800,000	59.369	\$581,820	\$163,859	(\$417,960)
Year 10	\$9,800,000	60.557	\$593,456	\$193,782	(\$399,675)
Year 11	\$9,800,000	61.768	\$605,325	\$224,835	(\$380,490)
Year 12	\$9,800,000	63.003	\$617,432	\$284,775	(\$332,657)
Year 13	\$9,800,000	64.263	\$629,780	\$347,022	(\$282,759)
Year 14	\$9,800,000	65.549	\$642,376	\$498,169	(\$144,207)
Year 15	\$9,800,000	66.860	\$655,224	\$655,224	\$0
TOTAL			\$8,587,524	\$3,083,555	(\$5,503,968)

Source: Applicant, MRB

Cost of Other Exemptions

The Applicant has requested an exemption for construction-phase sales and use tax valued at \$652,015. This is composed of County sales tax revenue (with a rate of 3.75%), state sales tax revenue (4.0%) and the MCTD sales tax revenue (0.375%). Isolating out the cost to just the County ("County Exemption") from the total amount reported, we arrive at local cost of \$300,930.

The Applicant has also requested a mortgage recording tax exemption (MRTE) valued at \$215,393. This amount is composed of a state portion (0.5%), a County portion (0.5%) and an MCTD portion (0.05%). Isolating out the cost to just the County (County Exemption) from the total amount reported, we arrive at a local cost of \$102,568.

Cost of Sales Tax Exemption, County

Line	Value
Sales Tax Exemption	\$652,015
County	3.750%
State	4.000%
MCTD	0.375%
County Exemption	\$300,930

Source: Applicant, MRB

Cost of MRTE Exemption, County

Line	Value
MRTE	\$215,393
County	0.500%
State	0.500%
MCTD	0.050%
County Exemption	\$102,568

Source: Applicant, MRB

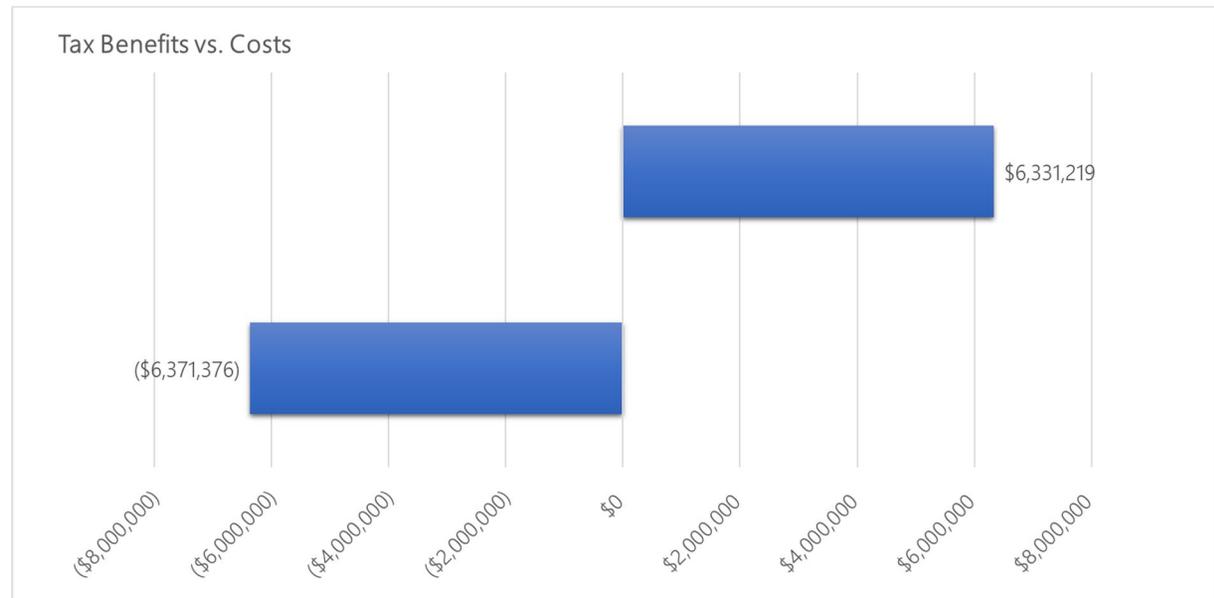
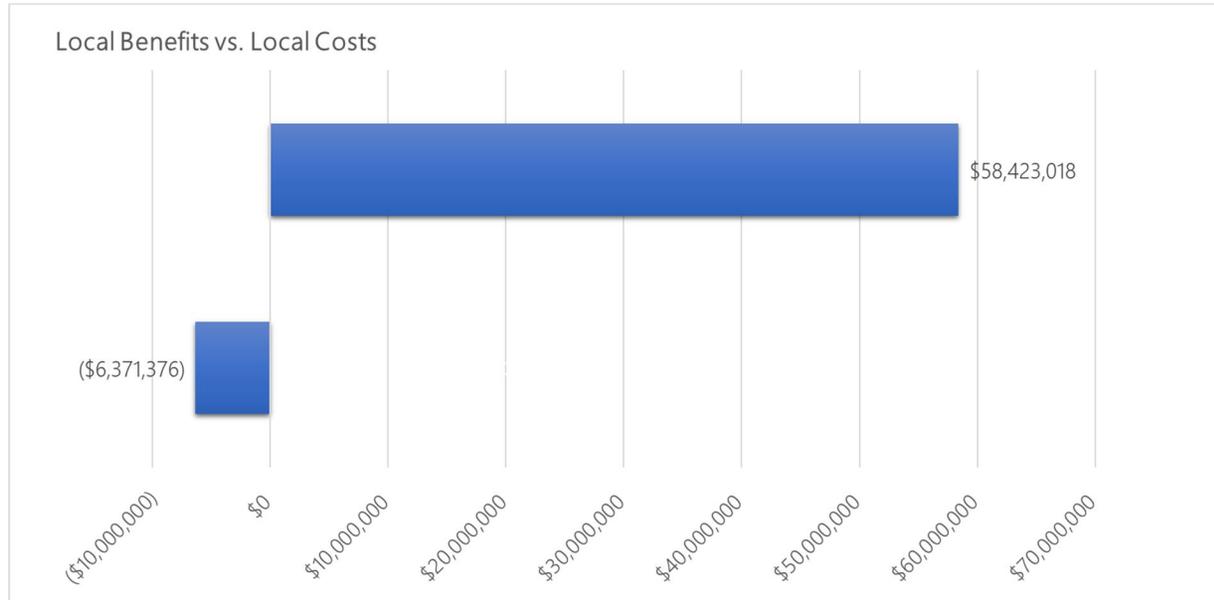
Cumulative Impact of the Project and Benefits-to-Costs Ratio

Cost/Benefit Analysis - Cumulative Local Impact

Local Costs (Construction - Year 15)	\$6,371,376
Sales Tax Exemption	\$652,015
Mortgage Tax Exemption	\$215,393
Real Property Tax Exemption	\$5,503,968
Local Benefits (Construction - Year 15)	\$58,423,018
Sales Tax, Construction, One-time	\$18,635
Sales Tax, Operations, 15 Years	\$456,872
Sales Tax, On-site Retail Sales	\$2,772,156
Property Tax Revenue, 15 Years	\$3,083,555
Sub-Total Tax Benefits	\$6,331,219
Total New Earnings - Construction	\$2,839,579
Total New Earnings - Operations	\$49,252,220
Sub-Total (New Earnings)	\$52,091,799
Benefits to Costs Ratio	9.17
Tax Benefits to Tax Costs Ratio	0.99

Source: Applicant, MRB

Benefits vs. Costs Graphs



City of Newburgh ZIP Code Approximation

