

# IV5 Newburgh South Logistics Center, LLC Cost-Benefit Analysis

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 IV5 Newburgh South Logistics Center, LLC (the “Applicant”) related to a proposed project located at 700 South Street in the City of Newburgh (the “Site”). The proposed project includes the construction of a 416,320 square foot speculative industrial building on 49.5 acres of land (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 assessed 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 industrial building. There will also be ongoing economic impacts associated with the anticipated employment at the proposed 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.<sup>1</sup> The construction phase of the Project will produce approximately 68 direct, on-site construction jobs and 37 indirect jobs. Combining direct and indirect impacts, the construction phase of the Project will create 105 jobs that generate \$92.2 million in wages. Using anticipated on-site employment estimates provided by the Developer, we estimate the operations of the Site will result in 254 jobs earning \$19.9 million in wages on an annual basis.

### Summary of Economic Impacts

	Direct	Indirect	Total
Construction Jobs	68	37	105
Construction Wages	\$6,891,044	\$2,317,789	\$9,208,832
Ongoing Jobs	213	42	254
Ongoing Wages	\$17,000,000	\$2,862,231	\$19,862,231

Source: Lightcast, MRB

In terms of fiscal benefits, we estimate that that County will benefit from additional, one-time sales tax revenue of \$60,433 associated with the construction wages earned during the Site’s renovation and construction. Upon completion of the Project, we estimate the

<sup>1</sup> 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.

County will benefit from the additional sales tax revenue of \$2.3 million over the 15-year PILOT term related the new wages being earned from ongoing jobs. Under the proposed PILOT terms, we estimate the Project will generate an increase of \$6.1 million in additional property tax revenue over the current taxes for the County, City, and school district. Therefore, in total, the fiscal benefits of the proposed Project will be approximately \$8.5 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 of the sales tax exemption is \$1.5 million, the local portion of which is \$695,769. The cost of the mortgage recording tax exemption is \$449,021, the local portion of which is \$213,820.

The proposed PILOT schedule includes net total exemptions of \$10.1 million over 15 years based on a 2% escalation rate.<sup>2</sup>

### Summary of Fiscal Benefits, Local Government

Source	Total
Sales Tax, Construction, One-time	\$60,433
Sales Tax, Operations, 15 Years	\$2,254,126
Increase in Property Tax Revenue, 15 Years	\$6,136,652
<b>Total Fiscal Benefits</b>	<b>\$8,451,211</b>

Source: Lightcast, Applicant, MRB

### Summary of Exemptions, Local Government

	Total
Cost of Sales Tax Exemption, One-Time	\$695,769
Mortgage Recording Tax Exemption	\$213,820
PILOT Exemption, 15 Years	\$10,144,362

Source: Lightcast, Applicant, MRB

<sup>2</sup> 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 IV5 Newburgh South Logistics Center, LLC related to a proposed project located at 700 South Street in the City of Newburgh. The proposed project includes the construction of a 416,320 square foot speculative industrial building on 49.5 acres on land. 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 assessed 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 industrial building. There will also be ongoing economic impacts associated with the anticipated employment at the proposed 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 the operations of the Project, which we estimate for the City.<sup>3</sup>

### 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).
- Indirect: Jobs, wages, and sales caused by the Direct impact, such as business-to-business purchases and employees of such businesses spending a portion of their wages locally.

To estimate the Direct and Indirect impacts, MRB Group employs the Lightcast<sup>4</sup> 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.

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<sup>3</sup> 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.

<sup>4</sup> 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 \$36.1 million to construct the Site into the proposed industrial facility.<sup>5</sup> According to the Developer, approximately 15% of the total materials and 85% of the total labor will be sourced within Orange County.<sup>6</sup>

We estimate construction spending of \$18.0 million (direct “Sales” in the second table) in Orange County as an input into the Lightcast economic modeling system. In our Lightcast model, this level of local spending will yield approximately 68 direct construction jobs earning \$6.9 million direct earnings. We then modeled indirect impacts from direct sales, resulting in an expected 37 new indirect jobs, \$2.3 million in new earnings, and \$7.1 million in sales. Combining direct and indirect impacts, the total one-time construction-phase impacts would be 105 jobs, \$9.2 million in wages, and \$25.1 million in sales.

### Local Construction Spending

	\$ Total	% Local	\$ Local
Materials	\$18,040,800	15%	\$2,706,120
Labor	\$18,040,800	85%	\$15,334,680
Total	\$36,081,600		\$18,040,800

Source: Applicant, MRB

### Economic Impact of Construction Phase, One-Time

	Direct	Indirect	Total
Jobs	68	37	105
Earnings	\$6,891,044	\$2,317,789	\$9,208,832
Sales	\$18,040,800	\$7,100,776	\$25,141,576

Source: Lightcast, MRB

<sup>5</sup> Total project costs of \$53.4 million less land acquisition, engineering, and financing costs.

<sup>6</sup> 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 15% of materials and 85% of 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, 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

Because the Project is a speculative build, the Applicant provided an estimated of anticipated employment at the Site based on industry-standard averages of square feet-per-employee for recent comparable developments. Given the size of the Project, the Applicant anticipates at least 200 full-time employees earning \$80,000 annually and 25 part-time/seasonal employees earning \$40,000 annually. In total, the 213 FTE (rounded) employees are estimated to earn an aggregate of \$17.0 million in annual wages.<sup>7</sup>

### Ongoing Employment at the Site

Jobs	Count	Average Salary	Total
Full-Time	200	\$80,000	\$16,000,000
Part-Time	25	\$40,000	\$1,000,000
<b>Total</b>	<b>212.5</b>		<b>\$17,000,000</b>

Source: Applicant

<sup>7</sup> For purposed of this analysis, we consider 1 part-time job to equal 0.5 full-time equivalent (FTE) job, rounded to the nearest job.



We used salary estimates and job counts provided by the Applicant to estimate \$17.0 million in annual earnings paid to the 213 FTE employees. Our Lightcast model estimated the total impact of the Project would be 255 jobs, \$19.9 million in earnings, and \$41.9 million in sales.

### Economic Impact of Onsite Employment

	Direct	Indirect	Total
Jobs	213	42	255
Earnings	\$17,000,000	\$2,862,231	\$19,862,231
Sales	\$34,044,610	\$7,808,163	\$41,852,773

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 below displays the Applicant’s proposed PILOT schedule. The Applicant is proposing a 15-year PILOT term with fixed-rates in the annual amounts shown below. Over 15 years, the Applicant will pay \$10.1 million in PILOT payments.

Proposed PILOT Schedule

Year	PILOT Payment
Year 1	\$250,672
Year 2	\$250,672
Year 3	\$275,641
Year 4	\$275,641
Year 5	\$275,641
Year 6	\$459,402
Year 7	\$459,402
Year 8	\$459,402
Year 9	\$918,804
Year 10	\$918,804
Year 11	\$918,804
Year 12	\$1,102,565
Year 13	\$1,102,565
Year 14	\$1,102,565
Year 15	\$1,286,326
<b>TOTAL</b>	<b>\$10,056,906</b>

Source: Applicant

### Increase in Property Tax Revenue

The table below estimates the increase in property tax revenue the Site will generate under the proposed PILOT terms compared to the current land-only taxes. Using current tax rates and inflating them at 2% per year, we estimate the Project would generate \$3.9 million in property taxes on the underdeveloped land compared to \$10.1 million under the proposed PILOT terms. Therefore, the requested PILOT abatement would generate \$6.1 million more in property tax revenue over 15 years.

#### Increase in Property Tax Revenue

Year	Tax Rate	Current Taxes	PILOT	Increase in Revenue
Year 1	39.774	\$226,691	\$250,672	\$23,981
Year 2	40.570	\$231,224	\$250,672	\$19,448
Year 3	41.381	\$235,849	\$275,641	\$39,792
Year 4	42.209	\$240,566	\$275,641	\$35,075
Year 5	43.053	\$245,377	\$275,641	\$30,264
Year 6	43.914	\$250,285	\$459,402	\$209,117
Year 7	44.792	\$255,290	\$459,402	\$204,112
Year 8	45.688	\$260,396	\$459,402	\$199,006
Year 9	46.602	\$265,604	\$918,804	\$653,200
Year 10	47.534	\$270,916	\$918,804	\$647,888
Year 11	48.485	\$276,334	\$918,804	\$642,470
Year 12	49.454	\$281,861	\$1,102,565	\$820,704
Year 13	50.443	\$287,498	\$1,102,565	\$815,067
Year 14	51.452	\$293,248	\$1,102,565	\$809,317
Year 15	52.481	\$299,113	\$1,286,326	\$987,213
<b>TOTAL</b>		<b>\$3,920,254</b>	<b>\$10,056,906</b>	<b>\$6,136,652</b>

Source: Applicant, MRB

### Sales Tax Revenue, Construction Phase

As our economic impact analysis states, we anticipate approximately \$9.2 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 \$60,433 in County sales tax revenue over the duration of construction.

### Sales Tax Revenue - Construction Phase

Line	Value
Total New Earnings	\$9,208,832
% Spent in County	70%
\$ Spent in County	\$6,446,183
% Taxable	25%
\$ Taxable	\$1,611,546
County Sales Tax Rate	3.75%
\$ County Sales Tax Revenue	\$60,433

Source: MRB

### Sales Tax Revenue, Operation Phase

Using a similar methodology, we estimate the sales tax revenue generated from the new earnings stemming from on-site employment. We estimated \$19.9 million in total new earnings occurring annually within the County during the operation phase. Given the projected earnings and spending levels, we estimate the Project will result in \$130,346 in annual sales tax revenue to the County. Escalated at 2% per year for 15 years, this totals \$2.3 million in revenue over the term of the proposed PILOT.

### Sales Tax Revenue - Operation Phase

Line	Value
Total New Earnings	\$19,862,231
% Spent in County	70%
\$ Spent in County	\$13,903,562
% Taxable	25%
\$ Taxable	\$3,475,890
County Sales Tax Rate	3.75%
\$ County Sales Tax Revenue	\$130,346
Revenue Over 15 Years	\$2,254,126

Source: 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 \$10.1 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	PILOT	Tax Rate	Future AV Post Construction	Full Taxes	Cost of Abatement
Year 1	\$250,672	39.774	-	\$226,691	\$23,981
Year 2	\$250,672	40.570	-	\$231,224	\$19,448
Year 3	\$275,641	41.381	\$32,500,000	\$1,344,885	(\$1,069,244)
Year 4	\$275,641	42.209	\$32,500,000	\$1,371,782	(\$1,096,141)
Year 5	\$275,641	43.053	\$32,500,000	\$1,399,218	(\$1,123,577)
Year 6	\$459,402	43.914	\$32,500,000	\$1,427,202	(\$967,800)
Year 7	\$459,402	44.792	\$32,500,000	\$1,455,746	(\$996,344)
Year 8	\$459,402	45.688	\$32,500,000	\$1,484,861	(\$1,025,459)
Year 9	\$918,804	46.602	\$32,500,000	\$1,514,559	(\$595,755)
Year 10	\$918,804	47.534	\$32,500,000	\$1,544,850	(\$626,046)
Year 11	\$918,804	48.485	\$32,500,000	\$1,575,747	(\$656,943)
Year 12	\$1,102,565	49.454	\$32,500,000	\$1,607,262	(\$504,697)
Year 13	\$1,102,565	50.443	\$32,500,000	\$1,639,407	(\$536,842)
Year 14	\$1,102,565	51.452	\$32,500,000	\$1,672,195	(\$569,630)
Year 15	\$1,286,326	52.481	\$32,500,000	\$1,705,639	(\$419,313)
<b>TOTAL</b>	<b>\$10,056,906</b>			<b>\$20,201,268</b>	<b>(\$10,144,362)</b>

Source: Applicant, MRB

### Cost of Other Exemptions

The Applicant has requested an exemption for construction-phase sales and use tax valued at \$1.5 million. 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 \$695,769.

The Applicant has also requested a mortgage recording tax exemption (MRTE) valued at \$449,021. 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 \$213,820.

### Cost of Sales Tax Exemption, County

Line	Value
Sales Tax Exemption	\$1,507,500
County	3.75%
State	4.00%
MCTD	0.38%
County Exemption	\$695,769

Source: Applicant, MRB

### Cost of MRTE Exemption, County

Line	Value
MRTE	\$449,021
County	0.500%
State	0.500%
MCTD	0.050%
County Exemption	\$213,820

Source: Applicant, MRB

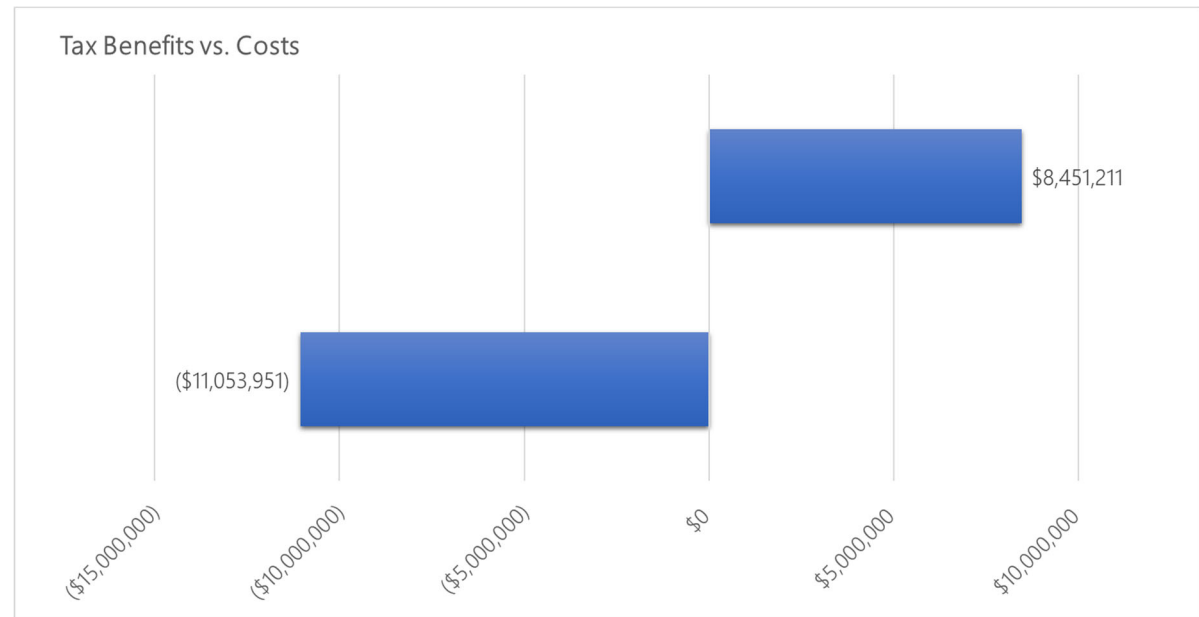
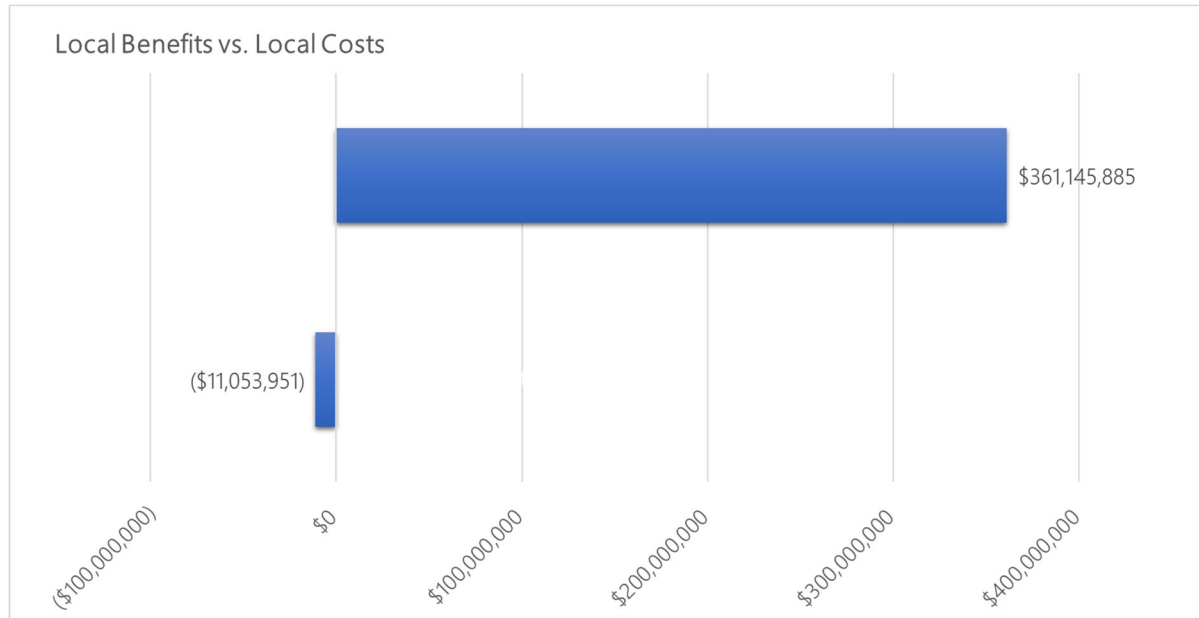
## Cumulative Impact of the Project and Benefits-to-Costs Ratio

### Cost/Benefit Analysis - Cumulative Local Impact

<b>Local Costs (Construction - Year 15)</b>	<b>\$11,053,951</b>
Sales Tax Exemption	\$695,769
Mortgage Tax Exemption	\$213,820
Real Property Tax Exemption	\$10,144,362
<b>Local Benefits (Construction - Year 15)</b>	<b>\$361,145,885</b>
Sales Tax, Construction, One-time	\$60,433
Sales Tax, Operations, 15 Years	\$2,254,126
Increase in Property Tax Revenue, 15 Years	\$6,136,652
<b>Sub-Total Tax Benefits</b>	<b>\$8,451,211</b>
Total New Earnings - Construction	\$9,208,832
Total New Earnings - Operations	\$343,485,842
<b>Sub-Total (New Earnings)</b>	<b>\$352,694,674</b>
<b>Benefits to Costs Ratio</b>	<b>32.67</b>
<b>Tax Benefits to Tax Costs Ratio</b>	<b>0.76</b>

Source: Applicant, MRB

Benefits vs. Costs Graphs





### City of Newburgh ZIP Code Approximation

