Grand Street Newburgh Property Co., LLC and FSH Newburgh Hotel, LLC

Cost-Benefit Analysis

Prepared by:

MRB group

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 Grand Street Newburgh Property Co., LLC and FSH Newburgh Hotel, LLC (the "Applicant") related to a proposed project located at 48-54-62 Grand Street in the City of Newburgh (the "Site"). The proposed project includes the development of approximately 79,072 square feet across three historic buildings into 80 renovated hotel rooms, event space, a dining facility, and a full-service spa (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 Site and the ongoing impacts associated with the anticipated employment 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.

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 67 direct, on-site construction jobs and 43 indirect jobs. Combining direct and indirect impacts, the construction phase of the Project will create 110 jobs that generate $9.6 million in wages. Upon completion of the Project, we estimate that the anticipated employment at the Site will generate 74 jobs earning $3.3 million in wages.

Summary of Economic Impacts

	Direct	Indirect	Total
Construction Jobs	67	43	110
Construction Wages	$7,268,881	$2,323,514	$9,592,396
Ongoing Jobs	61	13	74
Ongoing Wages	$2,397,000	$862,757	$3,259,757

Source: Emsi, MRB

In terms of fiscal benefits, we estimate that that County will benefit from additional, one-time sales tax revenue of $62,950, associated with the construction wages earned during the Site's renovation. Upon completion of the Project, we estimate the County will benefit from the additional sales tax revenue of $286,914 over the 12-year PILOT

[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.

term related the new wages being earned from ongoing jobs. Over the same period, a further $4.2 million of sales tax revenue will be generated for the County from retail sales occurring on the Site and $868,420 in hotel occupancy tax. Under the proposed PILOT terms, we estimate the Project will generate $3.8 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 $9.2 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 $433,416, and the cost of the mortgage recording tax exemption is $91,500.

The PILOT schedule identifies net total exemptions of $4.5 million over 12 years based on a 2% escalation rate.[2]

Summary of Fiscal Benefits, Local Government

Source	Total
Sales Tax, Construction, One-time	$62,950
Sales Tax, Operations, 12 Years	$286,914
Sales Tax, On-site Retail Sales	$4,204,654
Hotel Occupancy Tax	$868,420
Property Tax Revenue, 12 Years	$3,776,773
Total Fiscal Benefits	**$9,199,711**

Source: Emsi, Applicant, MRB

Summary of Exemptions, Local Government

	Total
Cost of Sales Tax Exemption, One-Time	$433,416
Mortgage Recording Tax Exemption	$91,500
PILOT Exemption, 12 Years	$4,510,525

Source: Emsi, 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 Grand Street Newburgh Property Co., LLC and FSH Newburgh Hotel, LLC related to a proposed project located at 48-54-62 Grand Street in the City of Newburgh. The proposed project includes the development of approximately 79,072 square feet across three historic buildings into 80 renovated hotel rooms, event space, a dining facility, and a full-service spa. 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 local jurisdictions as part of the Agency's deliberations.

MRB Group conducted an assessment of 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 Site as well as the ongoing impacts associated with the anticipated employment 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 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).
- 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 Emsi[4] economic modeling system. We used data from the Applicant and publicly available and proprietary data sources as inputs to the Emsi modeling system. Where needed, we adjusted the Emsi 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 closely approximates the City. A map of ZIP Code 12550 in relation to the City's boundaries is included in the Appendix.

[4] Emsi, 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 $21.6 million in renovations to convert the Site into the proposed facilities. We assume 80% of the Project's materials and labor will be sourced within Orange County.

Therefore, we used construction spending of $17.3 million (direct "Sales" in the second table) in Orange County as an input into the Emsi economic modeling system. This spending will create 67 direct jobs with approximately $7.3 million direct earnings according to the model. We then modeled impacts resulting from direct spending (sales), resulting in an expected 43 new jobs, $2.3 million in new earnings, and $6.8 million in new sales. Combining direct and indirect impacts, the total one-time construction-phase impacts would be 110 jobs, $9.6 million in wages, and $24.1 million in sales.

Construction Spending In County

	$ Total	% County	$ County
Materials & Labor	$21,600,000	80%	$17,280,000

Source: Applicant, MRB

Economic Impact of Construction Phase, One-Time

	Direct	Indirect	Total
Jobs	67	43	110
Earnings	$7,268,881	$2,323,514	$9,592,396
Sales	$17,280,000	$6,820,706	$24,100,706

Source: Emsi, MRB

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.)

The Applicant stated that employment at the Site will stabilize in Year 3, employing 61[5] full-time employees for professional, skilled, semi-skilled, and unskilled positions. We used salary ranges and job counts provided by the Applicant to estimate $2.4 million in annual earnings paid to the 61 employees. According to Emsi, these earnings correspond to direct sales of $8.6 million. Coupled with smaller indirect impacts, the total impact of operating the hotel would be 74 jobs, $3.3 million in earnings, and $10.7 million in sales.

Ongoing Employment at the Site

Jobs	Count	Salary Range
Professional / Managerial	9	$46,000 - $100,000
Skilled	12	$35,000 - $50,000
Semi-skilled	23	$30,000 - $40,000
Unskilled	17	$20,000 - $30,000
Total	61	

Source: Applicant

Economic Impact, Operations and Maintenance of Project

	Direct	Indirect	Total
Jobs	61	13	74
Earnings	$2,397,000	$862,757	$3,259,757
Sales	$8,575,619	$2,164,372	$10,739,991

Source: Emsi, MRB

[5] In addition to onsite employment listed above, the Applicant anticipates hiring an additional 6 part time and 6 full time independent contractors.

Fiscal Impact Analysis

The Project would also have fiscal impacts in terms of new tax revenues as described below. The table below displays the Applicant's proposed PILOT schedule.

PILOT Schedule

The Applicant has requested a 12-year PILOT term that will abate a portion of the improvement value associated with the renovation. From year 1 to year 6, 90% of the amount of improvement value will be abated. After year 6, the exempt amount will decrease by 10 points for four years, after which time the exempt amount will be 50% of the improvement value. In year 11, the exempt amount will be reduced by 17 points to 33%, followed by a 16-point reduction to 17% in year 12. In year 13, the Site will be fully taxable, generating an estimated $806,480 in property tax revenue.

PILOT Schedule per Application

Year	Current AV	Improvement Value	Proposed Exemption	Improvement Value in PILOT	Total Value Subject to PILOT	Estimated PILOT Payment
Year 1	$2,510,800	$10,289,200	90%	$1,028,920	$3,539,720	$175,853
Year 2	$2,510,800	$10,289,200	90%	$1,028,920	$3,539,720	$179,370
Year 3	$2,510,800	$10,289,200	90%	$1,028,920	$3,539,720	$182,958
Year 4	$2,510,800	$10,289,200	90%	$1,028,920	$3,539,720	$186,617
Year 5	$2,510,800	$10,289,200	90%	$1,028,920	$3,539,720	$190,349
Year 6	$2,510,800	$10,289,200	90%	$1,028,920	$3,539,720	$194,156
Year 7	$2,510,800	$10,289,200	80%	$2,057,840	$4,568,640	$255,605
Year 8	$2,510,800	$10,289,200	70%	$3,086,760	$5,597,560	$319,434
Year 9	$2,510,800	$10,289,200	60%	$4,115,680	$6,626,480	$385,714
Year 10	$2,510,800	$10,289,200	50%	$5,144,600	$7,655,400	$454,518
Year 11	$2,510,800	$10,289,200	33%	$6,859,810	$9,370,610	$567,481
Year 12	$2,510,800	$10,289,200	17%	$8,573,990	$11,084,790	$684,717
Year 13*	$2,510,800	$10,289,200	0%	$10,289,200	$12,800,000	$806,480

*First year of full taxes.

Source: Applicant

PILOT Revenue

According to the Applicant's proposed PILOT schedule, the Project will generate $3.8 million over the 12-year term.

PILOT Revenue

Year	Current AV	Improvement Value	Proposed Exemption	Estimated PILOT Revenue
Year 1	$2,510,800	$10,289,200	90%	$175,853
Year 2	$2,510,800	$10,289,200	90%	$179,370
Year 3	$2,510,800	$10,289,200	90%	$182,958
Year 4	$2,510,800	$10,289,200	90%	$186,617
Year 5	$2,510,800	$10,289,200	90%	$190,349
Year 6	$2,510,800	$10,289,200	90%	$194,156
Year 7	$2,510,800	$10,289,200	80%	$255,605
Year 8	$2,510,800	$10,289,200	70%	$319,434
Year 9	$2,510,800	$10,289,200	60%	$385,714
Year 10	$2,510,800	$10,289,200	50%	$454,518
Year 11	$2,510,800	$10,289,200	33%	$567,481
Year 12	$2,510,800	$10,289,200	17%	$684,717
	TOTAL			$3,776,773

Source: Applicant

Sales Tax Revenue, Construction Phase

As our economic impact analysis states, we anticipate approximately $9.6 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 $62,950 in County sales tax revenue over the duration of construction.

Sales Tax Revenue - Construction Phase

Line	Value
Total New Earnings	$9,592,396
% Spent in County	70%
$ Spent in County	$6,714,677
% Taxable	25%
$ Taxable	$1,678,669
County Sales Tax Rate	3.75%
$ County Sales Tax Revenue	$62,950

Source: MRB

Sales Tax Revenue, Operation Phase

We estimated $3.2 million in total new earnings occurring annually within the County during the operation phase. Using the same methodology as above, we estimate the Project will result in $21,169 in annual sales tax revenue to the County. Escalated at 2% per year for 12 years, this totals $283,921 in revenue over the term of the proposed PILOT.

Sales Tax Revenue - Operation Phase

Line	Value
Total New Earnings	$3,225,759
% Spent in County	70%
$ Spent in County	$2,258,031
% Taxable	25%
$ Taxable	$564,508
County Sales Tax Rate	3.75%
$ County Sales Tax Revenue	$21,169
Revenue Over 12 Years	$283,921

Source: MRB

Sales Tax Revenue, On-Site Retail Sales

In its application for IDA assistance, the Applicant noted that retail sales on the Site during the life of the PILOT would generate a total of $9,110,084 in sales tax revenue. This revenue is composed of County sales tax revenue (with a rate of 3.75%), state sales tax revenue (4.0%) and the Metropolitan Commuter Transportation District (MCTD) sales tax revenue (0.375%). Isolating out just County revenues from the total amount reported, we calculate $4,204,654 in County sales tax revenue.

Sales Tax Revenue

Line	Value
Sales tax revenue - On Site	$9,110,084
Local	3.750%
State	4.000%
MCTD	0.375%
County Sales Tax Revenue	$4,204,654

Source: Applicant, MRB

Hotel Occupancy Tax Revenue

In its application for IDA assistance, the Applicant estimated a total of $868,420 in hotel occupancy tax revenue during the life of the PILOT.

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 $4.5 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	Escalation Factor	Current AV	Future AV	Tax Rate	Full Taxes	Estimated PILOT Revenue	Cost of Abatement
Year 1	1.000	$10,289,200	$12,800,000	48.273	$617,898	$175,853	($442,044)
Year 2	1.020	$10,289,200	$12,800,000	49.239	$630,256	$179,370	($450,885)
Year 3	1.040	$10,289,200	$12,800,000	50.223	$642,861	$182,958	($459,903)
Year 4	1.061	$10,289,200	$12,800,000	51.228	$655,718	$186,617	($469,101)
Year 5	1.082	$10,289,200	$12,800,000	52.253	$668,832	$190,349	($478,483)
Year 6	1.104	$10,289,200	$12,800,000	53.298	$682,209	$194,156	($488,053)
Year 7	1.126	$10,289,200	$12,800,000	54.364	$695,853	$255,605	($440,248)
Year 8	1.149	$10,289,200	$12,800,000	55.451	$709,770	$319,434	($390,336)
Year 9	1.172	$10,289,200	$12,800,000	56.560	$723,966	$385,714	($338,251)
Year 10	1.195	$10,289,200	$12,800,000	57.691	$738,445	$454,518	($283,927)
Year 11	1.219	$10,289,200	$12,800,000	58.845	$753,214	$567,481	($185,733)
Year 12	1.243	$10,289,200	$12,800,000	60.022	$768,278	$684,717	($83,561)
TOTAL					$8,287,298	$3,776,773	($4,510,525)

Source: Applicant, MRB

Cost of Other Exemptions

The Applicant has requested an exemption for construction-phase sales and use tax valued at $939,067. As noted above, 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 (Local Exemption) from the total amount reported, we arrive at local cost of $433,416.

The Applicant has also requested a mortgage recording tax exemption (MRTE) of $192,150. 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 (Local Exemption) from the total amount reported, we arrive at a local cost of $91,500.

Cost of Sales Tax Exemption, County

Line	Value
Sales Tax Exemption	$939,067
Local	3.750%
State	4.000%
MCTD	0.375%
Local Exemption	$433,416

Source: Applicant, MRB

Cost of MRTE Exemption, County

Line	Value
MRTE	$192,150
Local	0.500%
State	0.500%
MCTD	0.050%
Local Exemption	$91,500

Source: Applicant, MRB

Appendix

City of Newburgh ZIP Code Approximation